

providing the facts



A summary of the 22 June 2010 Budget

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Income tax and allowances

No changes to the rates of income tax were announced.

For the tax year 2011/12, the personal income tax allowance for those aged under 65 will be increased by £1,000 to £7,475. The basic rate limit will be reduced, to an amount yet to be determined, so that higher rate taxpayers do not benefit from this increase. The Chancellor confirmed an intention to gradually increase the personal allowance to £10,000 by 2014/15.

National Insurance

Currently the National Insurance Upper Earnings Limit (UEL) and Upper Profits Limit (UPL) are aligned with the income tax higher rate threshold. This alignment will be maintained, following the reduction in the basic rate limit (see Income tax and allowances), by reducing the UEL and UPL accordingly.

The secondary threshold is to be increased by an extra £21 a week above indexation for the 2011/12 tax year.

Capital gains tax (CGT)

The rate of CGT remains at 18% for individuals provided the total of their taxable income and gains falls below the higher rate tax threshold. A new 28% rate will apply to gains, or part gains, above that limit. The 28% rate will also apply to trustees and personal representatives of deceased persons.

The annual personal allowance remains unchanged at £10,100.

The CGT rate for entrepreneurs' relief remains at 10%. The lifetime limit on gains qualifying for this relief is increased from £2 million to £5 million.

These changes all have effect on and after 23 June 2010.

Any gains arising in the 2010/11 tax year and before 23 June 2010 will continue to be taxable at the 18% rate.

Taxpayers will be able to deduct the annual allowance and, where applicable, any losses in the most tax efficient manner. A taxpayer with gains arising both before and after 23 June could therefore offset the annual allowance and allowable losses from the later gain (minimising tax payable at the 28% rate).

Inheritance tax

No announcements were made with regard to inheritance tax.

Corporation tax

The main rate of corporation tax, payable by companies with profits above £1.5 million a year, will reduce by 1% to 27% on and after 1 April 2011. It was also announced that this rate will reduce to 26% in 2012, 25% in 2013 and 24% in 2014.

The small profits rate, payable by companies with profits below £300,000 a year, will reduce by 1% to 20% with effect from 1 April 2011. The rate for companies with ring fenced profits will remain unchanged at 19%.

Pensions

There is no change to relief on pension contributions for 2010/11. However, the Government has expressed an intention to consult with the industry on possible changes from April 2011. In particular, the approach of Finance Act 2010 to limiting tax relief for high earners is likely to be changed. It is suggested that the present Annual Allowance (£255,000) might be reduced to as little as £30,000 to £45,000 in order to achieve the desired yield. Some other points are also to be considered.

The government has also promised to consult on the details of its expected plans to end the need to buy an annuity at age 75. As a temporary measure, the age at which an annuity has to be purchased has been increased from 75 to 77 with immediate effect.

Life assurance policyholder taxation

It was previously announced, in the March 2010 Budget, that changes would be made to the allowable deficiency relief legislation so that such relief would be extended to the additional (50%) rate of income tax. This change will not now go ahead and the deficiency relief rules will continue to only reduce tax due on income subject to the higher rate and the dividend upper rate.

Insurance Premium Tax

The rates of Insurance Premium Tax (IPT) will increase for premiums received or written by an insurer on or after 4 January 2011. The standard rate of IPT applies to most types of general insurance (including motor, buildings and medical insurances) will rise from 5% to 6%. The higher rate of IPT (applicable to travel insurance and extended warranties) will be raised from 17.5% to 20%.

Individual Savings Accounts (ISAs)

The savings limits for ISAs (currently £10,200 a year in total of which £5,100 a year can be paid into a cash ISA) are to be increased annually in line with the Retail Prices Index (RPI) from 6 April 2011. The indexed amount will be rounded to a multiple of £120. If RPI is negative, the limits will not be changed.

State benefits

A number of changes to State benefits were announced. From April 2011, tax credit eligibility will be reduced for those with a household income of £40,000 or more (further changes will also be made for 2012/13). The child element of the Child Tax Credit will increase by £150 above the Consumer Prices Index (CPI) in 2011/12 and £60 above CPI in 2012/13.

The rates of Child Benefit have been frozen at their current levels until April 2014.

Tax policy and avoidance

Over the summer, Government will be consulting interested parties on changes to tax making policy designed to bring greater predictability, simplicity and stability to the UK tax regime. The consultation will include a review of anti-avoidance strategy.