

2010 Emergency Budget Highlights

Capital Gains Tax

Fears that CGT might be increased to 40% or even 50% were allayed when the Chancellor announced that with effect from Budget day the current 18% rate would be retained for basic rate taxpayers, and that higher rate taxpayers would pay 28%.

There are also concessions for entrepreneurs, who will pay only 10% on qualifying gains up to £5m.

The annual personal exemption remains at £10,100.

Tax-efficient investments

Increased rates of CGT impact particularly on those who invest in assets such as property, which cannot be disposed of gradually using annual allowances. This may prompt a move away from bricks and mortar and into financial assets.

Unitised investments, including unitised discretionary management portfolios, are likely to be favoured and investment bonds should prove popular for investors seeking simplicity and a regular tax-efficient income.

As from 6 April 2011, the current ISA contribution limit of £10,200 will increase annually in line with the Retail Prices Index.

No changes have been made to the subscription limits for VCT and EIS schemes, but the definition of eligible shares is to be changed and the minimum holding of such shares is to be increased from 30% to 70%.

Child Trust Funds will receive reduced Government contributions after 1 August 2010, as announced in advance of the Budget, and such contributions will cease altogether on 1 January 2011.

Trust taxation

The 50% income tax rate (42.5% for dividends) applies to all trusts which accumulate income and reinforces the need for trustees to ensure the tax-efficiency of their investments.

Account should be taken of the fact that trusts pay capital gains tax at a maximum rate of 28%.

Settlors who receive repayments of tax on trust income because their personal tax rate is lower than that of the trustees are now required to pass such payments to the trustees.

However, such payments are disregarded for the purposes of inheritance tax.

Holiday lettings

Labour's plan to remove the tax concessions for furnished holiday lettings has been scrapped, which will help the many small businesses in the tourism industry, though the value of the concessions may be reduced after April 2011. Included among the expected changes is an increase in the number of days on which properties are available for letting on a commercial basis or actually let. There may also be restrictions on the use of loss relief.

Corporation tax

Corporation Tax is to be reduced by 1% each year for four years, so that by 2014 it will have reduced from 28% to 24%, the lowest rate of any major Western economy. The tax rate for small companies is also to be reduced, to 20p in the pound.

Pension contributions

The absurdly convoluted plans of the Labour administration for limiting tax relief on pension contributions after 6 April 2011 for those earning more than £150,000 p.a. are to be reviewed and may be replaced by a simple contributions cap, perhaps of the order of £30,000 to £45,000 p.a.. Meanwhile, the "anti-forestalling" restrictions applicable to the period from 22 April 2009 to 5 April 2011 will remain in place.

Ending compulsory annuitisation

The long-criticised requirement that pension savings must be "secured" by no later than age 75, either by the purchase of a pension annuity or the "Alternatively Secured" form of income drawdown, is to be abandoned with effect from April 2011.

The Government is to consult on the necessary changes, but meanwhile the age threshold is to be increased from 75 to 77 so as to enable retirees to keep their options open. The move will provide much needed certainty and flexibility and will be welcome news to many.

Tax-free pension cash

The perennial concern that the right to draw up to 25% (usually) of the value of accrued pension benefits in the form of tax-free cash (referred to in the legislation as pension commencement lump sum) has once again proved to be premature, and tax-free cash continues to be available.



Retirement age

The Government is to consult on scrapping, after April 2011, the "default retirement age" of 65, at which the current age discrimination laws permit employers to require employees to retire.

Tax avoidance

The Government is proposing to revive plans for a catch-all "super law" designed to give HM Revenue & Customs the ability to blow the whistle on tax-saving schemes which it regards as loopholes.

The General Anti-Avoidance Rule ("GAAR") threatens further to undermine the principle that tax avoidance is legal but evasion is illegal, and tax experts have commented that it could lead to a situation in which taxpayers only discover a tax liability after they have submitted their tax return.

Employer Financed Retirement Benefit Schemes (previously known as FURBS) are likely to be affected.

Groucho on Tax

"If the income tax is the price we have to pay to keep the government on its feet, alimony is the price we have to pay for sweeping a woman off hers".

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No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns.

The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

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