

2010 Budget Update

March 2010



The 2010 Budget, announced on 24 March 2009, was relatively uncontroversial, a fact which few people will be surprised by given the proximity of the forthcoming General Election. The likelihood is that whichever party forms the next government will deliver a further budget early in the next Parliament and so further public spending cuts and tax rises are to be expected.

From the Private Client perspective there were few surprises. Income tax rates, rate limits, and personal allowances for 2010/2011 have been frozen at 2009/10 levels as expected, as these plans had been set out in last year's Pre Budget Report. The income tax personal allowance will now be reduced to nil for those with income over £112,950.00 and the planned 50% rate of tax (42.5% in the case of dividends) will apply to individuals earning over £150,000.00 and to trusts. The loss of higher rate relief on pension contributions made by higher earners will proceed as previously announced so those affected may wish to undertake some last minute tax planning to mitigate this insofar as possible, subject to the anti-forestalling measures already in place.

The capital gains tax (CGT) rate remains at 18% for the time being, although most commentators agree that the disparity between the rates of CGT and income tax cannot be sustained in the long term. Any post election budget may well increase the rate of CGT to 25% or higher so early planning is advisable. Entrepreneur's relief, which applies to those disposing of business assets, has been extended so that it applies to the first £2m of gains, up from £1m. On a disposal of qualifying assets up to that limit the rate of CGT is reduced to 10%. The personal allowance for CGT remains at £10,100.00 for individuals and £5,050.00 for trusts.

The inheritance tax (IHT) 'nil rate band' has been frozen at its current level of £325,000.00 for the next 4 years.

The Stamp Duty Land Tax (SDLT) exemption of £125,000.00 was increased to £250,000.00 for first time buyers with effect from 25 March. However, a new SDLT rate of 5% will apply to purchases of residential properties over £1m with effect from 6 April 2011.

The Individual Savings Account (ISA) annual limit will rise to £10,200.00 from 6 April 2010. Up to half of this amount may be invested in cash.

Please note: The content of this article is for information purposes only and further advice should be sought from a professional advisor before any action is taken.