

2010 Summer Budget Update

June 2010



There's some cheer in alcohol duty rates being held, but little elsewhere in the Coalition Government's first budget, with a 2.5% VAT rise.

A compromise between the aspiration of the Liberal Democrats to ease the tax burden on the lower-paid and the desire of the Conservatives to cut the deficit was evident in the first budget delivered by Chancellor George Osborne.

The Chancellor recognised the Lib Dem's aspiration to raise the personal income tax allowance to £10,000 by increasing the personal allowance by £1,000 to £7,475, giving a basic rate tax payer a tax saving of £170 per year.

Other tax cuts demonstrated the Conservatives' desire to encourage business. The threshold at which employers pay National Insurance contributions on employee's salaries was raised by £21 per week and Corporation Tax is to be cut to 27% next year and by 1% each year for the following three years.

To pay for these tax cuts, VAT is to be increased to 20%. This represents an increase in the cost of goods and services of more than 2% and will obviously affect the whole nation. The increase would have been a shock had it not been expected.

As also predicted, the rate of Capital Gains Tax (CGT) is to be increased, but for higher rate tax payers only and to 28%, rather than 40%. The 18 per cent rate will continue for low and middle-income savers. The increase was possibly less than expected because some experts predicted that an increase to 40% would actually result in a short term loss of revenue for the Government, as people would be discouraged from selling investments.

And the 10 per cent CGT rate for entrepreneurs will be extended to the first £5m of qualifying gains, up from the current threshold of £2m.

The Budget also saw the introduction of a levy on banks, raising £2bn per year when fully implemented.

There are also some spending cuts. Public sector employees earning more than £21,000 will have no pay increase for the next two years; those earning less will have a flat pay rise of £250 in each of those years.

There will be an accelerated step towards an increase in the state retirement age to 66, and various benefits including child benefit, tax credits and housing benefit will be frozen, capped or reduced, but the child element of child tax credit will rise by £1560 above inflation next year.

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