

## Budget Update

March 2011



### 2011 Budget Update

Yesterday's Budget included a promise to reduce the inheritance tax rate for estates where at least one tenth of the net value is left to charity.

The IHT rate for such estates will thus be reduced from 40 to 36 per cent, starting 6 April 2012. "I want to make giving 10 per cent of your legacy to charity the norm in our country", said chancellor George Osborne.

Its details are still being worked out. These include the question of how to treat assets that are not owned outright at the time of death but which are charged to IHT anyway - such as failed potentially exempt transfers, gifts with reservation, and pre-owned assets.

Emma Chamberlain QC TEP, a leading trust and estate barrister and member of the Society of Trust & Estate Practitioners has said "While the detail remains to be seen, the proposal to apply a 36% rate for deaths occurring on or after 6 April 2012 where 10% or more of a deceased's net estate is left to charity appears to offer an exciting new opportunity for advisors to engage with their clients positively on charitable giving to the benefit of everyone.

There is also a separate suggestion that a US style income tax deduction will be given to those taxpayers who give inter vivos a work of art or historical object of national importance to the State and this could also be very helpful for both clients and the nation.

STEP will be working closely with the government to make sure that if implemented these policies are as effective as possible in achieving their stated objectives."

Though better than nothing, the measure is a somewhat disappointing response to calls for extra tax incentives to boost charitable giving. Its details are still being worked out. These include the question of how to treat assets that are not owned outright at the time of death but which are charged to IHT anyway - such as failed potentially exempt transfers, gifts with reservation, and pre-owned assets.

One of the few newly announced measures taking effect this coming tax year (i.e. April 2011) is a significant tax boost for entrepreneurial investments. Individuals will have a lifetime allowance of GBP10 million to put in Enterprise Investment Schemes (EIS) investments, which qualify for the 10 per cent rate of capital gains tax. This is double the current lifetime limit.

Also, income tax relief for EIS will increase from 20 to 30 per cent. The maximum EIS investment for 2011/12 remains at GBP500,000 (there had been rumours that this would be slashed). Venture Capital Trust (VCT) income tax relief remains at 30 per cent of all investments up to GBP200,000 in one year.

Although the main rates and thresholds for stamp duty land tax are unchanged, the budget will reduce SDLT on bulk purchases of residential properties. Instead of 5 per cent, they will be charged at 1 per cent on the average property price. This too will come into effect as soon as the 2011 Finance Bill is passed

This measure is intended to encourage large-scale buy-to-let investing. Alongside it, the Chancellor announced a consultation on easing the rules for setting up real estate investment trusts (REITs), in time for the 2012 budget. The proposal is that all residential investors - not just public listed

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companies - will be able to buy property, free of Capital Gains Tax, through a REIT, without paying the current 2 per cent entry charge

A 1 per cent cut in corporation tax also takes effect next month.

Some anti-avoidance measures with immediate effect were also announced.

Several more announcements related to changes planned for the 2012-13 or later tax years.

- From 6 April 2012, the annual amount that an individual can invest into an EIS schemes will double to GBP1 million (currently GBP500,000). The schemes will also be available to significantly larger companies than before.
- From April 2012, the capital gains tax annual exempt amount will rise in line with the consumer prices index instead of the retail prices index. This will mean it will increase more slowly.
- The 50 per cent income tax rate was confirmed as a "temporary measure", and the Chancellor has asked HMRC to calculate how much extra tax it raised in its first year.
- In 2012 the annual charge for non-doms who have lived in the UK for 12 years will rise from GBP30,000 to GBP50,000 starting April 2012, subject to consultation.

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