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2010 Emergency Budget - Potential Changes

The Budget date has been announced as 22 June 2010. However a number of the potential changes have already been included in the Coalition Government Agreement:

- ⊕ Personal allowances to be increased to help lower and middle income earners. The Coalition has agreed that there will be a substantial increase in the personal allowance from April 2011. The amount for those under 65 is currently £6,475.
- ⊕ In the long term the intention is that the personal allowance will be £10,000. This will be reached over several years.
- ⊕ The increase in the personal allowance is to take priority over cuts to Inheritance tax. The Conservatives in their manifesto stated that they wanted to increase the Inheritance Tax threshold to £1 million. The Liberal Democrats were against this, saying it would only benefit a minority.
- ⊕ The Conservative party wanted the personal allowance to be transferable between married couples. The Liberal Democrats have been given the opportunity to abstain from voting on resolutions on this matter which may arise in the Budget.
- ⊕ The increase in the Employers' National Insurance *thresholds* proposed by the Conservatives will go ahead, effectively reducing any impact of the NI rate rise for employers. But the rise in the NI rate for employees of 1% from April 2011 introduced by the Labour government is expected to remain.
- ⊕ The two parties are looking at taxing non-business capital gains at rates similar or close to income tax rates, with exemptions for entrepreneurial business activities. The current rate is 18%, so a jump to 40% is more than double and some could face CGT at the new higher rate of 50%.
- ⊕ It is not clear if these changes to the CGT rates will take effect from Budget day (22 June 2010) or from the start of the next tax year (6 April 2011). Either option is entirely possible.
- ⊕ In addition, it is rumoured that the tax-free amount for capital gains before any tax is payable may be cut from £10,100. Some articles suggest the new tax-free amount would be as low as £2,000.

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- ⊕ There is speculation that the rate of VAT will increase from 17.5% to 20% to fund the tax breaks.
- ⊕ It was said in the Agreement that the earnings link for the basic rate pension would be restored from April 2011 with a “triple guarantee” that pensions would rise by the higher of earnings, prices or 2.5%.
- ⊕ The parties agreed that reductions could be made to the Child Trust Fund and tax credits for higher earners.
- ⊕ The Conservative party said that stamp duty land tax would be scrapped indefinitely for purchases up to £250,000 by first-time buyers.
- ⊕ The home information packs are to be scrapped but energy performance certificates will still be required.
- ⊕ The Coalition has agreed to end the rules which make it compulsory to buy an annuity on reaching 75.
- ⊕ The Liberal Democrats said that they would give only basic rate relief on pension contributions. The Conservatives did not give any promises on pensions’ tax relief.
- ⊕ On corporation tax the Agreement is silent. However the Conservative manifesto states the intention to cut the main rate of corporation tax to 25p (from 28p) and the small companies’ rate to 20p (from 21p). This is to be funded by reducing complex reliefs and allowances.

So whilst the final position on many of the potential changes is still unclear, we can be certain that there will be significant changes to come on the 22 June 2010.

If you require any additional information, or any advice on how the changes might affect your own position, please do not hesitate to contact us.



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