

## **Budget Briefing March 2011:**

### **Issues affecting personal taxation**

The Budget on Wednesday 23 March 2011 contained a number of changes to personal taxation. The major changes are summarised below. If you require any advice in relation to personal taxation please feel free to contact any of the solicitors named below.

A separate briefing has been prepared on the issues affecting owner managed businesses and is available on our website; please [click here](#) to view it.

#### **Income Tax**

- As previously announced, the personal allowance will increase to £7,475 for the tax year 2011/12. The higher rate threshold will be reduced to £42,475.
- The personal allowance will increase to £8,105 for the tax year 2012/13. The higher rate threshold remains unchanged.
- The chancellor announced that there would be a consultation on whether income tax and National Insurance contributions should be merged. Nothing has yet been agreed in relation to this.
- The Chancellor further signified that he regarded the highest rate tax band (of 50%) to be temporary although, at present, it will remain.

#### ***Non Domiciled Taxpayers***

- The government has proposed to increase the £30,000 remittance basis charge to £50,000 for individuals who have been UK resident for at least twelve years. This would take effect from 6 April 2012.
- Consultation this summer will also consider removing the charge to UK tax if a non domiciled taxpayer remits their offshore income or gains to the UK in order to invest in a UK business.
- The Chancellor also announced a consultation into a statutory test for residence.

#### **Capital Gains Tax**

- The annual exemption for individuals has increased for 2011/12 to £10,600. For trustees the annual exemption rises to £5,300.

### ***Entrepreneurs' Relief for CGT***

- From 6 April 2011 an individual's lifetime limit for Entrepreneurs' Relief will increase from £5 million to £10 million.
- This applies as an additional amount and every individual will receive the increase regardless of whether they have already used some, or all, of their existing limit.
- Where gains are realised in the current tax year (2010/11) above the taxpayer's remaining lifetime limit, CGT will be chargeable at 28% on all gains above the limit of £5 million.

### **Inheritance Tax**

- A consultation will be carried out before summer 2011 regarding a proposal to reduce the rate of IHT to 36% where a testator leaves at least 10% of their net estate (i.e. after reliefs, exemptions and the nil rate band) to charity. This would apply for individuals who die on or after 6 April 2012.
- For example, where an individual leaves an estate of £1,325,000 and their residuary estate to charities and their children, after deduction of the nil rate band of £325,000, it would be necessary for at least £100,000 (10% of their net estate) to pass to charity. This would lead to an IHT reduction of £74,000 (the difference between a 40% tax charge on £900,000 and a 36% tax charge). Therefore, at a 'cost' to the testator's children of £24,000, a £100,000 legacy to charity can be given.
- The nil rate band continues to be £325,000 for the tax year 2011-12.

For more information please contact:

**Jenny Bird**

Solicitor  
020 8394 6239  
Jenny.Bird@russell-cooke.co.uk

**Kieran Bowe**

Solicitor  
020 8541 2041  
Kieran.Bowe@russell-cooke.co.uk

**Elizabeth Norton**

Solicitor  
020 8394 6229  
Elizabeth.Norton@russell-cooke.co.uk

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