

2010 Emergency Budget Overview for Private Clients

The Coalition government's first Budget on 22 June 2010 introduced a number of changes to personal taxation which we have summarised below.

Capital Gains Tax

- One of the most important changes for private clients was made to Capital Gains Tax. The Chancellor announced that, from and including 23 June 2010, higher and additional rate taxpayers would pay 28% Capital Gains Tax on their chargeable gains. This is an increase from 18%. Basic rate taxpayers will continue to pay 18% (although any chargeable gains that take them above the threshold for the higher rate will be taxed at 28%). Trustees and personal representatives will also be liable for the increased 28% rate on any gains realised by trusts. Any gains realised in the tax year 2010/11 before 23 June 2010 remain taxable at 18%.
- The lifetime limit for Entrepreneur's Relief, which effectively reduces the tax payable on qualifying assets to 10%, was increased from £2,000,000 to £5,000,000 on 23 June 2010.
- The annual exemption for 2010/11 will remain at £10,100.
- Clients who are planning to dispose of business assets should seek advice in relation to Entrepreneur's Relief. Where this applies, their tax liability may be substantially reduced. Taper Relief and Indexation which had previously helped to reduce the chargeable gain in an asset that had been held over a period of time have not been reintroduced. Clients should take advice on how to dispose of their chargeable assets in the most tax efficient way. For example, transferring a share of an asset to a basic rate taxpayer spouse. For trusts and estates, where a beneficiary is a basic rate taxpayer, it may be possible for them to reclaim some of the Capital Gains Tax paid. Trustees and personal representatives should take advice on this where appropriate.

Income Tax

- The 50% additional rate tax band for income over £150,000 remains in place.
- The personal allowance for those aged under 65 was increased by £1000 to £7475 for the tax year 2011/12. To ensure that higher and additional rate taxpayers do not benefit from this, the higher rate threshold was reduced by £2500.

Inheritance Tax

- The Nil Rate Band was frozen at £325,000 until 5 April 2015.

SDLT

- A new rate of 5% was introduced for purchases of residential property for more than £1,000,000. The other rates and thresholds remain unchanged, including the first time buyer relief introduced by the Labour government earlier this year.

VAT

- From 4 January 2011, VAT will be increased from 17.5% to 20%.

Furnished Holiday Lettings

- It was confirmed that the Furnished Holiday Lettings rules will remain in force, rather than being withdrawn as announced in the 2009 Budget.

The greatest change introduced to personal taxation in the 2010 Emergency Budget is the introduction of a new higher rate for Capital Gains Tax. Individuals who are considering disposing of assets may wish to take advice on the most tax efficient way to do so. With the continued freezing of the Inheritance Tax Nil Rate Band, clients should take advice to ensure that their estate will be disposed of in the most tax efficient way and that, in particular, they make use of the transferrable nil rate band for spouses and civil partners where appropriate. Please feel free to contact us for advice in relation to any of the changes to personal taxation introduced in the 2010 Emergency Budget.

For more information please contact:

Elizabeth Norton

Solicitor

020 8394 6229

Elizabeth.Norton@russell-cooke.co.uk

Michael Parkinson

Partner

020 8394 6232

Michael.Parkinson@russell-cooke.co.uk

Peter Gate

Solicitor

020 8394 6206

Peter.Gate@russell-cooke.co.uk

Kieran Bowe

Solicitor

020 8541 2041

Kieran.Bowe@russell-cooke.co.uk

This material does not give a full statement of the law. It is intended for guidance only and is not a substitute for professional advice. No responsibility for loss occasioned as a result of any person acting or refraining from acting can be accepted by Russell-Cooke LLP.
© Russell-Cooke LLP June 2010

www.russell-cooke.co.uk