

EMERGENCY PRIVATE CLIENT SPECIAL UPDATE



The new coalition Chancellor George Osborne delivered his first budget yesterday outlining the government's plan to substantially cut the UK's structural deficit over the next six years.

Whilst the majority of savings will be achieved through spending cuts, the budget does include a number of widely heralded tax changes, many of which will result in private clients paying more tax.

The Chancellor announced a new approach to setting tax policy. It is hoped that this will result in a more predictable and stable tax system as well as providing the opportunity for more consultation with interested parties before wide ranging changes are introduced. This is to be welcomed.

The budget also appears to mark a move towards a reliance on personal taxation with tax reductions announced for companies (see our separate corporate update).

Income tax and personal allowances

The Chancellor announced that with effect from 6 April 2011 the personal allowance for those under 65 will be increased by £1,000 to £7,475. However, there will be a reduction in the basic rate limit so that higher rate taxpayers do not benefit from the increased personal allowance.

There were no changes made to the rates of income tax, although the budget papers did include the following comment: The 50p rate of income tax

took effect from April 2010 and will remain in place for the time being.

Capital gains tax (CGT) changes

CGT rate for higher rate taxpayers

An increase in the rate of CGT will not have surprised many people. However, its magnitude and timing may. The rate of CGT for higher rate taxpayers will increase to 28% for gains arising on or after 23 June 2010. For the purposes of determining whether the new rate of CGT will apply to disposals made after Budget Day, the taxpayer's annual income is aggregated with post Budget Day gains; no account is taken of gains realised prior to 23 June 2010. Taxpayers will be able to deduct losses and the annual exemption, which remains at £10,100 (at least for 2010/11), in the way which minimises their tax liability.

The new higher rate will apply for all gains realised by trustees from 23 June 2010 onwards.

Whilst there was much discussion before the budget regarding the possibility of introducing a form of taper relief or indexation to offset the impact of inflation on capital gains there have been no such measures announced by the Chancellor.

Offshore trusts

The increase in the rate of CGT will impact on the tax cost for those who receive capital distributions from most offshore trusts. The top rate of tax for such distributions will increase from 28.8% to 44.8%. For remittance basis users these rules only apply where the capital distribution is subsequently brought to the UK.

Until draft legislation is published it remains unclear whether capital distributions received prior to Budget Day will be subject to the new higher rate. These type of distributions are taxed with reference to the tax year of receipt with no regard to the timing of the receipt in that year.

Remittance basis users

The new rate of CGT is likely to apply to remittance basis users who remit assets after Budget Day which represent past gains. In a similar way to capital distributions from offshore trusts, personal gains which are remitted to the UK are taxed with reference to the tax year in which they are remitted rather than any specific date within that tax year. The draft legislation will be needed to clarify how the new rate will apply to remitted personal gains.

Remittance basis users who pay the annual £30,000 charge will be subject to the new higher rate of CGT regardless of the level of their UK taxable income.

Entrepreneurs' relief

In line with the government's stated aim of encouraging investment in small businesses the Chancellor increased the entrepreneurs' relief lifetime allowance to £5 million with effect from 23 June 2010. Qualifying disposals will be taxed at an effective rate of 10%. Assets which qualify for entrepreneurs' relief include the whole or parts of trading businesses, assets used by a trading business in which the taxpayer has an interest or shareholdings of at least 5% in trading companies where the taxpayer is a director or employee. Most property rental businesses do not qualify for entrepreneurs' relief.

Non-domiciled individuals

Reiterating the statement previously made in the government's Coalition Agreement there will be a further review of the taxation of non-domiciled individuals. However, no changes have been announced in this budget.

VAT

Perhaps the most significant item in the Chancellor's budget is an increase in the standard rate of VAT to 20% which will take effect from 4 January 2011. This is expected to raise annual revenues of £13 billion, anti-forestalling measures have also been announced to prevent businesses charging VAT at 17.5% when it should properly be charged at 20%.

Pensions

There is to be a further consultation regarding the system of pension tax relief for the highest earners. The budget announcements suggest that higher rate relief could be reintroduced for 2011/12 onwards, subject to an annual cap on contributions of between £30,000 and £45,000.

Furnished holiday lettings

The 2009 budget announced the abolition of furnished holiday lettings. This change has been repealed and there will be a period of consultation over the summer to consider changes to the treatment of furnished holiday lettings. Any changes which result from this consultation are intended to take effect from 6 April 2011.

Capital allowances

There are more significant changes to the capital allowances regime. With effect from 6 April 2012 the rate of writing-down allowances for expenditure on plant and machinery will be reduced from 20% to 18% for expenditure on general plant and machinery, and from 10% to 8% for expenditure on long life assets and integral features of a building.

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The annual investment allowance, which currently allows small and medium sized businesses to obtain full relief for the first £100,000 of qualifying expenditure has been reduced to £25,000 from 6 April 2012.

This budget summary is provided for general information only and is not intended to constitute professional advice. Any opinions stated should not be relied upon. Readers should seek professional advice before taking any action based on this budget summary.

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