

PRIVATE CLIENT UPDATE

BUDGET 2010

Alistair Darling presented what in all probability will turn out to be his final Budget on 24 March 2010. With a general election only weeks away this Budget was not expected to introduce radical changes. However, many will have been surprised by how little it contains. There were surprisingly few changes which affect private clients, and despite much speculation, there was no change to the rate of capital gains tax. The most relevant changes are summarised below.

Income tax

The Chancellor announced that the income tax rates and allowances will remain frozen at 2009/10 levels for 2010/11. The personal allowance for those under 65 will remain at £6,475, the basic rate limit will remain at £37,400 and the 50% additional rate of tax will apply to income in excess of £150,000.

Capital Gains Tax

The Chancellor's aim of boosting investment in small and medium sized enterprises is reflected in the changes he announced to Entrepreneurs' Relief. With effect from 6 April 2010 the lifetime limit on gains qualifying for Entrepreneurs' Relief will increase to £2 million from the current limit of £1 million. The effective rate of tax which will result from gains subject to Entrepreneurs' Relief will remain at 10%. Disposals 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.

Venture Capital Schemes

The eligibility criteria for companies qualifying for investment under the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes have been relaxed. Eligible companies will now only need to have a 'permanent establishment' in the UK, rather than carrying out a trade wholly or mainly in the UK. This should increase the number of companies in which investors are able to obtain tax relief under the EIS and VCT schemes.

Inheritance tax

The Chancellor confirmed that the nil rate band for inheritance tax will remain at £325,000 until 5 April 2015. This replaces the planned increase to £350,000 from 6 April 2010 announced in the 2007 Budget.

Charitable donations

The gift aid scheme will be extended from 6 April 2010 to enable individuals to reclaim tax on donations made to charities located in the European Union, Iceland and Norway. The charities will need to be regulated by a body equivalent to the UK's Charity Commission.

ISAs

The ISA limits announced in the 2009 Budget were confirmed with the individual limit for the year ended 5 April 2011 set at £10,200. The Chancellor announced that future limits will rise with inflation.

SDLT

The Chancellor announced two important changes to the Stamp Duty Land Tax regime. A new higher rate of 5% was announced, but its introduction is deferred until 6 April 2011, and applies only to purchases of residential property for more than £1 million.

With effect from 25 March 2010 purchases of property up to £250,000 will be relieved from SDLT provided all the purchasers are first time buyers and they intend to occupy the property as their only or main home.

Employee share schemes

Companies wishing to offer share options to employees through the Enterprise Management Incentives will no longer be required to operate wholly or mainly in the UK. The company will only need to have a 'permanent establishment' in the UK to qualify for the scheme. The change will take effect from the date the Finance Act 2010 receives Royal Assent.

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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