



FEATURE ARTICLE

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Budget Summary

What did we already know?

Preannounced changes that come into force on 6th April:

- ✓ Personal Allowance for under-65's to rise from £6,475 to £7,475.
- ✓ Higher rate threshold to fall from £43,875 to £42,475. (Which will affect an estimated 750,000 workers.)
- ✓ Individual Savings Account maximum investment to increase to £10,680 of which cash can be up to £5,340.
- ✓ Employer's and employee's National Insurance rates will be increased by 1%. This means that the employee's NIC rate will be 12% above the Primary Threshold up to the upper earnings limit (UEL) and 2% thereafter. The employer's NIC rate will be increased to 13.8% on all earnings above the secondary threshold. A similar increase will apply to class 4 NIC rates for the self-employed.
- ✓ The annual allowance for pension contributions with tax relief will be reduced from £255,000 to £50,000.
- ✓ Property costing more than £1m will attract a new 5% rate of stamp duty. (A twenty five per cent increase for houses of this value.)
- ✓ The threshold for the family element (£545) of the child tax credit will drop from £50,000 to £40,000. The baby element, worth another £545 to families with a new child will be abolished.
- ✓ All benefits, tax credits and public service pensions will be up-rated in line with the CPI (Consumer Prices Index) rather than the RPI (Retail Prices Index).
- ✓ Child benefit is frozen until 2014. Payment is £20.30 for a first or only child and £13.40 for each additional child – payment is tax free. (The Government has proposed that from January 2013 the benefit will be lost for families where there is a higher rate taxpayer.)
- ✓ Inheritance Tax - The nil rate band (NRB) is frozen at the amount introduced in 2009/10, £325,000 until April 2015.
- ✓ Capital Gains Tax - The annual exempt amount for capital gains tax will increase in line with statutory indexation to £10,600, with effect from 6 April 2011.



- ✓ Alcohol Duty Rates - As first announced at Budget 2008, alcohol duty rates will increase by 2 per cent above the RPI on 28 March 2011. This will add 4 pence to the price of a pint of beer, 15 pence to the price of a bottle of wine, and 54 pence to the price of a bottle of spirits.

Go to: http://www.hm-treasury.gov.uk/d/rates_thresholds_tables.pdf

New Announcements:

- ✓ Increase the personal allowance for under 65s by £630 to £8,105 in April 2012, with an equivalent £630 reduction in the basic rate limit taking it to £34,370 to leave the higher rate threshold unchanged at £42,475. (The Chancellor stated that the personal allowance will increase from 2013-14 by at least the equivalent of the RPI, until the Coalition Government's goal of increasing the personal allowance to £10,000 is achieved.)
- ✓ Cut in Corporation Tax - From April 2011 the main rate of corporation tax will be cut from 28 to 26 per cent, falling to 23 per cent by 2014, with an increase in the bank levy from January 2012 to offset the benefit to banks.
- ✓ The Chancellor announced that the 50% top rate of tax is only temporary. Osborne said that now would not be the right time to remove the 50 per cent tax rate, but it is "sensible to see how much revenue it actually raises." The Chancellor has therefore asked HM Revenue & Customs to review the revenues raised from the top rate of income tax on the basis of self-assessment forms returned to HMRC.
- ✓ Entrepreneur's Relief - From 6 April 2011 the Government will increase to £10m the lifetime limit on capital gains qualifying for entrepreneurs' relief.
- ✓ The economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget. According to the Chancellor this mainly reflects higher-than-expected inflation this year, as a result of recent global commodity price shocks, and the weak weather-affected final quarter of 2010.) GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013.
- ✓ The Government reaffirmed the inflation target of 2 per cent for the 12-month increase in the Consumer Prices Index (CPI).
- ✓ Responding to the work of the Office of Tax Simplification (OTS), the Chancellor has abolished 43 tax reliefs including tax exemption on the first £70 of interest from National Savings Ordinary Accounts and 15p a day Luncheon Vouchers scheme. – A full list of tax reliefs abolished is on pages 66 to 68 of the "Red Book" – see link at end of this e-mail.
- ✓ The Chancellor confirmed that the Government will consult this year on the options, stages and timing for integrating the operation of income tax and National Insurance Contributions (NICs). Any new system will maintain the contributory principle and the Government will reflect this in any changes it brings forward. In addition, the Chancellor confirmed that the Government will not extend NICs to individuals above State Pension Age or to other forms of income such as pensions, savings and dividends.
- ✓ The Department of Work and Pensions (DWP) will shortly publish a Green Paper to consult on options for reform, which will include a proposal for a single tier pension, currently estimated to be worth around £140 a week.
- ✓ The Government has already decided to bring forward the increase in State Pension Age to 66 to April 2020. Given the continuing increases in life expectancy the Chancellor confirmed that the Government will bring forward proposals to manage future changes in the State Pension Age more automatically, including the option of a regular independent review of longevity changes (no specific details regarding this were provided).
- ✓ The Government has established a commission, chaired by Andrew Dilnot, to make recommendations by July for a sustainable social care system, and the Chancellor confirmed that the Government will set out its plans for reform in due course.



- ✓ Residence - The Chancellor announced that the current rules that determine tax residence for individuals are unclear and complex. The Government will therefore consult in June on the introduction of a statutory definition of residence to provide greater certainty for taxpayers.
- ✓ Approved Mileage Allowance Payments (AMAPs) - From 6 April 2011, the AMAPs rates will rise to 45 pence per mile for the first 10,000 miles and 25 pence per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5 pence per passenger per mile, will be extended to volunteers.

EIS and VCT Schemes

The Chancellor announced that to encourage investment in businesses with high growth potential, the Government will reform the rules for EIS and VCT, raising the rate of EIS income tax relief to 30 per cent from April 2011. From April 2012 the Government will increase the annual EIS investment limit for individuals to £1 million, increase the qualifying company limits to 250 employees and gross assets of £15 million (EIS and VCT), and increase the annual investment limit for qualifying companies to £10 million (EIS and VCT). The Government will consult on options to provide further support for seed investment, simplification of the EIS rules by removing some restrictions on qualifying shares and types of investor and refocusing both EIS and VCTs to ensure they are targeted at genuine risk capital investments.

Junior ISAs

The Government announced in October 2010 that it will introduce new tax-advantaged accounts for saving for children, called Junior ISAs. All UK resident children aged under 18 who do not have a Child Trust Fund will be eligible for Junior ISAs, and the accounts are expected to be available from autumn 2011. The Chancellor announced that draft regulations setting out further detail will be published in the week commencing 28 March 2011, alongside the introduction of Finance Bill 2011.

Non Domiciled Individuals

The Chancellor announced an increase in the existing £30,000 annual charge to £50,000 for non-domiciled individuals who have been UK resident for twelve or more years and who wish to retain access to the remittance basis of taxation. The £30,000 charge will be retained for those who have been resident for at least seven years but less than twelve years. The tax charge will be removed when non-domiciled individuals remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses. The Chancellor confirmed that the Government intends to implement the reforms to non-domicile taxation and the statutory definition of residence from April 2012 and there will be no other substantive changes to these rules for the remainder of this Parliament.

Charitable Giving

The Chancellor announced that the Government will encourage giving by the wealthiest by reducing the rate of inheritance tax by 10 per cent for those estates leaving 10 per cent or more to charity, from a rate of 40 per cent to 36 per cent. This will reduce the cost of giving to charity through bequests. The Red Book says that the relief is designed so that the benefit of the tax saving is reflected in the bequests received by charities and not in payments to other beneficiaries. (The new rate will apply where death occurs on or after 6 April 2012. Budget documentation confirms that the Government will be consulting on the detailed implementation of this measure and will issue a consultation document before the summer.) The Government will also increase the Gift Aid benefit limit from £500 to £2,500 from April 2011 to enable charities to give 'thank you' gifts, to recognise the generosity of significant donors; and will consult on proposals to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction. The Government will reduce bureaucracy for charities through the introduction of a new system of online filing which will bring Gift Aid into the 21st century and introduce a Gift Aid small donations scheme. This will allow charities to claim Gift Aid on up to £5,000 of small donations per year without the need for Gift Aid declarations. Finally the Government will also explore how to increase the take up of Payroll Giving, which allows individuals to give through their pay and reduce their income tax bills.



Full details of the Budget – “The Red Book”:

Available at: http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf

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