

Budget Update 2010

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The 2010 Budget announcement included a number of changes. The following is a summary of proposed changes that may affect your clients. If this is the case we recommend that you refer to the budget announcements provided by HMRC. You can access the HMRC pages on the 2010 Budget by clicking [here](#).

1. CGT

CGT – no change in main rate or allowance

The annual exempt amount for capital gains tax will be held at £10,100 for 2010-11.

CGT – Allowance for entrepreneurs to double

From 6 April 2010, Entrepreneurs' Relief will be extended from the first £1 million to the first £2 million of gains made over a lifetime.

2. ISAs

From April 2010 higher ISA limits of £10,200, up to £5,100 of which can be held in cash, will apply to all savers.

From April 2011 and over the course of the next Parliament, ISA limits will be indexed annually in line with the Retail Prices Index (RPI). The limits will be rounded each year to the nearest multiple of £120 and frozen in the event of negative RPI.

3. IHT and Trusts

IHT – allowance freeze

The inheritance tax (IHT) allowance of £325,000 is frozen until 2014-15.

Settlor trusts

With effect from 6 April 2010, where Settlers are liable to income tax on trust income at a lower rate of tax than paid by the trustees, they will be required to pay the difference to the trustees, and these resulting payments will be disregarded for inheritance tax purposes.

4. Pensions

Pension tax relief

As per the 2009 Pre-Budget Report, tax relief on pension contributions will be restricted for individuals on gross incomes of £150,000 and over (where gross income incorporates all pension contributions, including benefits provided by an employer), subject to an income floor of £130,000 (excluding employer pension contributions).

Full details on how the changes will be implemented are set out in the document '*Implementing the restriction of pensions tax relief: A summary of consultation responses*', available on the HMT website.

Lifetime and annual allowances

As announced at 2008 Pre-Budget Report, the lifetime allowance will be maintained at the 2010-11 level of £1.8 million for a further five years, up to and including 2015-16. The annual allowance will be held at £255,000 over the same period.

Pensions tax anti-forestalling

With effect from 22 April 2009, the special annual allowance was amended to provide more protection for those making pension contributions less regularly than quarterly. Where irregular contributions of more than £20,000 have been made over the last three years, the special annual allowance is the average of those contributions with an upper limit of £30,000.

Proposed Changes: Small pension pots

Budget 2008 announced changes to the tax rules to enable small occupational pension pots to be taken as a lump sum. The same flexibility was not extended to non-occupational pension schemes to minimise avoidance, however the Government remains open to proposals including proposals for couples to pool small pension pots to achieve better value by purchasing a joint life annuity. The Budget statement is unclear whether it is seeking proposals relating to further simplification of occupational pensions or whether the proposals are also intended to encompass non-occupational pensions as implied.

State Pension – lower qualifying period but higher state pension age

For those reaching State Pension Age from 6 April 2010, 30 years will be needed to qualify for a full basic State Pension instead of 44 years for men and 39 years for women.

The female State Pension Age will gradually increase to 65 from April 2010 to April 2020. The State Pension Age will gradually rise from 65 in 2024 to 68 in 2046.

5. Income tax & NI

As announced in the 2009 Pre-Budget Report, the income tax personal allowance for the under 65s; the starting limit for savings; the basic rate limit and age related allowances and limits will all be maintained at their 2009-10 levels in 2010-11.

As announced in the 2009 Pre-Budget Report a 50% additional rate of income tax will apply to individuals with incomes above £150,000, from April 2010. A gradual reduction of the personal allowance from individuals with incomes above £100,000 will also apply from April 2010. The reduction will apply at a rate of £1 for every £2 of income over £100,000 until completely withdrawn.

For full details on Income Tax rates and allowances please refer to [the HMRC website](#).

National Insurance

The effect of the 2010 Budget statement in addition to the 2009 Pre-Budget report will be to increase the employee, employer and self-employed rates of National Insurance contributions by 1% with effect from 6 April 2011.

6. Investments

Tax-advantaged venture capital schemes (VCT, EIS)

The Government has confirmed a review of certain qualifying criteria for investment into these schemes including the employee limit; the gross assets limit, and the annual investment limit.

Real Estate Investment Trusts

The Government intends to allow UK-REITs to issue optional stock dividends as an alternative to cash as part of their property income distribution requirement.

Stamp Taxes on Shares

Clearing relief rules for stamp taxes on shares will be clarified by explicitly including members of clearing houses and their nominees. These measures will be included in Finance Bill 2010.

Offshore funds

The treatment of chargeable gains for investors subject to corporation tax in some contract-based offshore funds will change to fully align the treatment with that of overseas unit trusts, with effect from 1 April 2010

Funds investing in non-reporting offshore funds

A new tax regime for funds investing in non-reporting offshore funds was introduced on 6 March 2010 for authorised investment funds investing more than 20 per cent in non-reporting offshore funds.

For full coverage of the 2010 Budget, click [here](#) to access the HM Treasury website.

Important notice This summary has been based upon our understanding of the budget information published by HM Treasury and HMRC. We have reproduced the information in good faith. While we have taken reasonable steps to ensure that the information is accurate, the information should not be relied upon as a single source for making decisions.