

Budget March 2011 Notes

Income Tax

The Chancellor George Osborne has announced there are to be no increases in personal tax rates and the personal allowance will increase from £6,475 this tax year to £7,475 from 6th April 2011 and £8,015 from 6th April 2012. However, the threshold at which higher rate income tax (40%) begins is to come down. The starting point for higher rate tax will reduce from £37,400 in the current tax year to £35,000 from 6th April 2011 and to £34,370 from 6th April 2013. These changes have the effect of reducing tax for lower earners but increasing it for those on middle to higher incomes.

It should also be remembered that those earning above £100,000 now lose £1 of personal allowance for every £2 earned. In the 2011/2012 tax year, this will create an effective tax rate of 60% on earnings between £100,000 and £114,950. A pension contribution may be an effective way for those earning above £100,000 to reduce or eliminate this tax liability and will reduce tax liability on most other levels of income.

The 50% top rate of income tax will remain above £150,000, but the government will review how much revenue it actually raises from this source.

Direct tax (Income Tax) allowances will be indexed against the CPI (Consumer Price Index) from April 2012.

The government has said that it is to consult on the merger of income tax and national insurance. The consultation could take over a year due to the complexities involved.

Capital Gains Tax (CGT)

Entrepreneurs' relief will double to £10m from 6th April 2011 resulting in many fewer business owners facing CGT when they sell their businesses. The governments' aim is to encourage "serial" entrepreneurs to grow their business and reinvest gains made.

Inheritance tax

The nil rate band (NRB) for the tax year ending 5 April 2012 will remain at £325,000 and is currently set to remain at that level until April 2015. Inheritance tax (IHT) is payable at a rate of 40% on transfers of value in excess of the NRB, while some lifetime gifts can attract a 20% IHT charge. The Chancellor announced in the Budget that, from April 2012, the rate of IHT will be reduced to 36% for estates leaving 10% or more to charity.

Individual Savings Accounts (ISAs)

For the tax year 2011/12 the subscription limit will be £10,680, of which up to £5,340 can be saved in cash.

Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCTs)

Chancellor George Osborne is to raise the tax relief on EISs from 20% to 30% and relax the investment rules for both EISs and VCTs



The total amount that can be invested by a VCT or EIS into an individual company will be increased to £10 million from £1 million.

The Treasury will also double the maximum annual investment in EIS schemes to £1 million from £500,000, estimating that the new rules will cost £450 million in lost tax revenue.

However, both schemes will be prevented from investing in solar and renewable energy firms.

The government will introduce new rules in the Finance Bill 2012 which will increase the threshold for qualifying companies which have up to 250 employees and no more than £15 million of gross assets.

Existing rules only allow VCT managers to invest in companies with no more than 50 employees with assets less than £7 million.

Corporation Tax Relief

Corporation Tax will be cut by 2% from 6th April 2011 instead of the 1% originally planned. This will be followed by a cut of 1% in each of the next 3 tax years, bringing the rate down to 23% by 2014/15.

Non-Doms

New measures announced in the Budget will change the tax regime for those non-UK domiciled individuals who benefit from the remittance basis rules.

The Chancellor announced that an increased rate of £50,000 will be payable for those individuals who have enjoyed UK residence for 12 years or more. However, in addition, proposals were also announced to review the tax charges that arise where non-domiciled individuals bring their foreign income (or capital gains) into the UK, with a view to removing these charges where foreign funds are subsequently invested in UK businesses. There will be a consultation period in June 2011 with the intention of introducing these reforms from April 2012.

Pension Changes

Changes to the Annual Allowance from 6th April 2011 and the Lifetime Allowance from 6th April 2012 had already been previously announced.

The annual allowance will decrease from £255,000 to £50,000 but carry forward of the previous 3 years unused allowance will be available. The "Anti Forestalling rules" will also disappear.

The Lifetime Allowance (the value of the pension pot that an individual can build up) will also be reduced from £1.8 million to £1.5 million from April 2012. Individuals approaching this new limit now should take advice on the options available to them, and the possible consequences of these, before making any further contributions.

The removal of the overly complex set of rules introduced by the previous Government can only be welcomed. However the reduction in the lifetime limit to £1.5 million could restrict the ability to buy an annuity which is sufficient to provide an adequate annual income on retirement. This may mean that other plans will have to be put in place if individuals want to maintain their standard of living during retirement.



State Pension

The Government will seek a “more automatic mechanism” for increasing state pension ages by linking it to changes in longevity.

Policymakers are considering undertaking a “regular independent review” of longevity changes to ensure costs are spread “fairly” between generations. The Government has already decided to bring forward the increase in the state pension age to 66 to April 2020.

In addition, George Osborne has confirmed speculation that the Government will introduce a single tier state pension at roughly £140, adding that it will be 'cost neutral'.

Current pensioners and those claiming their state benefits before the new rules are introduced won't be affected by the changes, which are now expected to be phased in gradually.

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