



EMERGENCY BUDGET

22 JUNE 2010

George Osborne's first Budget as Chancellor within the new coalition government was always going to be a tough one.

He opened his speech by declaring that his announcements would make this an 'enterprise led' Budget which would 'raise from the ruins, a balanced economy.'

There was a 77/23 split between public spending cuts and tax rises, with most of the drastic measures being levied upon the public sector.

These measures came in the form of pay freezes and the proposed sale of assets to the private sector, together with a cut in benefits and a freeze on increases to Child Benefit.

A massive review of welfare has led to most benefits being cut, and an emphasis being placed on incentivising those who can work to do so.

However, it was inevitable that there would also be tax rises, and an increase in VAT from 17.5% to 20% will affect each and every consumer and business within the UK.

Many will argue that the Budget fell into line with Conservative ideology. However, it is arguable that most of the announcements, especially with regards to spending cuts, were necessary in order to deal with the UK's huge budget deficit.

1 UK economy

- George Osborne announced that growth would be lower during 2010/11 than predicted in the Spring Budget at 1.2 %;
- Growth is predicted at 2.3% in 2011, 2.8% in 2012, 2.9% in 2013 and 2.7% in both 2014 and in 2015;
- Unemployment is forecast to peak this year at 8.1%. It is then expected to fall for each of the following four years, to be 6.1% by 2015;
- The Budget put forward public borrowing of £149bn this year, £116bn next year, £89bn in 2012-13 and £60bn in 2013-14;
- The Chancellor anticipates that by 2014-15 borrowing would reach £37bn, falling to £20bn in 2015-16. This is severely more austere than that provided by the last government, which aimed to halve the deficit over a 4 year period.

2 Corporation Tax

- As predicted, the Budget took steps to simplify and reduce Corporation Tax;
- The main rate of Corporation Tax charged on profits in excess of £1,500,000, will reduce from 28% to 27% with effect from 1 April 2011;
- It is anticipated that the main rate will reduce by another 1% per annum until 2014/15, when it will settle at 24%;
- The Small Companies Rate, for profits to £300,000, will also be reduced by 1% from 1 April 2011, to 20%. There are no indications that this will drop further, as the main rate of Corporation Tax is gradually reduced.

3 Capital Allowances

- George Osborne announced a reduction in the rates of writing down allowances businesses can use when calculating their capital allowances;
- From April 2011, allowances for the main rate pool will be reduced from 20% to 18%. Expenditure on the special rate pool (integral features), will be reduced from 10% to 8%.
- This Budget reverses the increase in the Annual Investment Allowance made by the last government. From April 2012, rather than increasing the allowance for new expenditure to £100,000, businesses will receive only £25,000, with no additional first year allowances.
- The exception to this are enhanced capital allowances, From April 2011, for a five year period, there will also be the introduction of a 100% first-year allowance for the purchase of new and unused zero-emission goods vehicles.

4 VAT

- One of the main headlines of this Budget was the increase of VAT from 17.5% to 20% from 1 January 2011;
- The Chancellor made it clear that expenditure on items such as food and children's clothes will remain zero rated or exempt.

5 Capital Gains Tax

- It was widely predicted that Capital Gains Tax on non-business assets would rise in line with income tax. It was also mooted that the Annual Exemption amount would be reduced;
- Instead, the Chancellor today announced an increase in Capital Gains Tax for higher rate tax payers from 18% to 28% with effect from midnight on 23 June 2010;
- The Annual Exemption will remain at £10,100;

- Whilst this is a tax rise, it is actually less than anticipated, which was anywhere in the region of 40% to 50%. Where an individual is within the higher rate tax bracket, holding an asset personally, or as capital can still be more tax efficient;
- The maximum lifetime amount of gains an individual can make in terms of business assets will rise from £2,000,000 to £5,000,000 from 23 June 2010. Gains up to this level will still be taxable at 10%.

6 Pensions

- As anticipated, the Budget announced that it will end the effective requirement to use a pension fund to buy an annuity by age 75 by the year ended 5 April 2011;
- As an interim measure, whilst the new rules are finalised, the age by which an annuity must be purchased will be increased to 77 from 23 June 2010.
- This is a temporary measure, as steps are taken to abolish the requirement completely.

7 Individuals and National Insurance Contributions

- The coalition document made much of a '£10,000 personal allowance'. The actual rise for the next tax year takes the standard personal allowance, which is free of tax, to £7,475 from April 2011.
- However, the basic rate band will be adjusted, so that higher earners cannot benefit from the £1,000 increase.
- In terms of National Insurance, from April 2011, the threshold at which employers start to pay contributions will rise by £21 per week, above indexation.

8 Bank Levy

- A bank levy will be introduced, which will apply to the balance sheets of UK banks and building societies and the UK operations of foreign banks from January 2011.

9 Regional Growth Fund and new businesses

- In order to promote and sustain growth outside of the South East of England, a growth fund has been established to help capital projects in the UK regions;
- New businesses outside of the South East of England will receive a £5,000 National Insurance Contribution exemption for their first 10 employees.

10 General measures and tax credits

- The threshold for the reduction of tax credits will be dropped. Currently, the credits are phased out for families earning over £50,000 per annum. From April 2011, this will include families earning over £40,000 per annum.
- Fuel, tobacco and alcohol duty will not be addressed until the Autumn review. However, the Chancellor has reversed the previous governments tax increase on cider;
- The rate of indexation for fiscal matters, and rises in benefits will be linked to the consumer price index, rather than the retail price index, which is usually higher.
- The state pension and pension credits will remain unaffected by this. The state pension will become earnings linked again, meaning that it will rise in line with the higher of earnings, prices or 2.5%
- The autumn spending review will take place on 20 October 2010.

Further information....

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