



# TAX UPDATE

## MAY 2010

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In the aftermath of the election, and as part of the formation of the new coalition government, it was inevitable that the UK's huge deficit would need to be urgently addressed.

Following on from unrest in Greece and the Euro zone in general, UK markets are seeking clarity and stability from the new government. As a consequence, the Emergency Budget, which was often referred to during the election campaign will be going ahead on 22 June 2010.

George Osborne has already announced a number of measures to cut the £156 billion deficit, with the main target being the curbing of public spending.

However there will be some changes to the tax system. Although we will not be sure until after the Budget in June, we have set out below some details of the anticipated changes, and how they might affect you.

### 1 Capital Gains Tax

- In 2008, Alistair Darling took the dramatic step of bringing in a flat rate of CGT of 18% for **all assets**.
- Prior to this, all gains were chargeable at an individual's **highest rate of tax** (up to 40%).
- This significantly changed the taxation of non business assets such as second homes, which prior to 2008 could have been taxed at 40%. After the changes, these are now charged to tax at a **flat rate of 18%**;
- However, businesses **lost out** as the 10% effective rate of CGT on a qualifying business asset which had been held for two or more years was **removed completely**;
- **Pressure from Commerce and Industry** led to the introduction of **Entrepreneurs Relief** for the first **£1,000,000** of gains made on the disposal of qualifying business assets. The effect of the relief means gains to this level are taxable at 10%. The lifetime limit was increased to **£2,000,000** during the Spring Budget in 2010;
- It is proposed that the rate of CGT on non-business assets will **increase** in line with an individual's highest rate of tax. For some individuals, this would effectively mean gains would be **taxable at 50%**.
- This would **affect the owners** of assets such as **non-qualifying shares, second homes and buy to let properties**;
- It is arguable that this would have been a move made by any new government, given that following the announcement to reduce the rate to a flat rate of 18%, planning was undertaken to **convert** assets to **capital** to lock in the rate;

- At this stage it is **unclear** how any proposed changes to CGT will take effect. The changes could be **backdated to 6 April 2010**, although this would be a highly **unpopular** move by a new government in its earliest days of power. It is more likely that we will see a rise from **6 April 2011**;
- Any plans to **lock in the 18% rate** should be considered **now**. It is worth remembering that for any gains made **during 2010/11**, the tax due will not be **payable** until **31 January 2012**.

## 2 Corporation Tax reforms

- On a more positive note for the entrepreneur, George Osborne has made **clear statements** towards a complete **overhaul** of the current **Corporation Tax** system;
- Speaking at the CBI annual dinner in May 2010, the Chancellor expressed a wish to **reduce** the rates of **Corporation Tax**, and to also simplify the current system;
- It is hoped that any changes to the current system will make the **UK more competitive** for non-UK businesses, and will **incentivise new businesses**.

## 3 Personal allowances

- The proposed rise to the **Personal Allowance** looks likely to be going ahead, with the long term aim being to reach **£10,000** over a number of years;
- Any increase to the Personal Allowance will clearly **benefit** individuals as well as businesses operating PAYE.
- At £10,000, individuals receiving the minimum wage will pay little, if any tax at all.

## 4 High earners

- David Cameron has indicated that the **50p tax rate** could be scrapped, if it can be shown that it does not actually have a big effect on the UK finances;
- However, the proposed rise to the Inheritance Tax threshold from **£325,000 to £1,000,000** has been scrapped.

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### Further information....

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