emergency budget 2010 commentary.

This document is provides an initial analysis of the Chancellor's budget delivered on 22 June 2010 with an emphasis on personal and employment tax related issues.

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budget overview.

The Chancellor described his announcement as the "unavoidable budget". The need to reduce the budget deficit will be delivered by a formulated approach with 80 per cent of savings coming from lower spending with the other 20 per cent from higher taxes.

The strategy now employed contrasts sharply with that of the previous government, rather than using public spending to increase economic activity it is anticipated that changes to corporation tax and national insurance will encourage the private sector to support economic recovery.

The Chancellor stated he would reveal all the changes in his speech, the detail would not be contained within the supporting budget notes which has often been the case with previous budget announcements.

There was a theme of simplification in relation to the changes to capital gains tax where it had been anticipated that an increase in capital gains tax rates would also bring additional complexity with some form of taper relief or indexation. Only higher rate taxpayers are to be affected with a new rate of 28 per cent.

Restrictions to pension tax relief intended to take effect from April 2011 will now be reviewed. The projected tax revenues have been retained in government forecasts but the format of the changes will now be reconsidered in a bid to remove some of the complexity.

It is proposed that the annual allowance for pension contributions will be reduced to a level between £30,000 and £45,000 rather than applying a detailed set of rules and restrictions to those with a gross income of £130,000 or more. The government is to engage with employers, pension schemes, experts and other interested parties to determine the best design for the regime.

The most significant tax raising measure is to VAT, an increase from 17.5 per cent to 20 per cent effective from 4 January 2011.

budget summary.

Income tax rates, bands and allowances

The headline rates of income tax remain unchanged, 20 per cent for basic rate taxpayers, 40 per cent for higher rate taxpayers and an additional rate of 50 per cent applied to income of £150,000 or more.

The personal allowance will increase by £1,000 to £7,475 from April 2011. This will benefit basic rate taxpayers only with the basic rate tax limit being reduced so that higher rate taxpayers do not gain.

National Insurance

As previously announced the 1 per cent April 2011 increase to employers' national insurance contributions will no longer apply. The 1 per cent increase will however still apply to employee contributions from April 2011.

Capital gains tax

As widely anticipated capital gains tax increases immediately to 28 per cent from 18 per cent but this change will affect higher rate tax payers only. Basic rate taxpayers will continue to be taxed at 18 per cent.

In practice the addition of capital gains may mean that the basic rate tax limit, currently £37,400 is exceeded resulting in some of the capital gain being taxed at 18 per cent with the reminder at 28 per cent.

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Tax credits and child benefit

The government will reduce tax credit eligibility for families with household incomes above £40,000 from April 2011.

The rate of child benefit will remain at current levels until April 2014.

Employee benefits

There were no new developments affecting employee benefits.

Employee savings:

Individual savings accounts (ISA's)

As previously announced the ISA limit will be increased in line with the retail prices index (RPI) on an annual basis. The limit will be rounded to a convenient multiple of 120 so that individuals who save monthly will be able to calculate their monthly savings more easily.

The cash ISA limit will continue to be half the value of the stocks and shares ISA limit.

Pensions

Further reform is to be made to the changes to pension tax relief intended to take affect from April 2011.

The government is proposing a reduced annual allowance instead of the more complex regime set out by the previous government. It will now consult relevant parties.

The 'anti-forestalling' rules designed to restrict one off and increased contributions in the current tax year remain with a commitment to monitor compliance with the rules and so protect tax revenues.

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