



Budget – Highlights & Analysis

Briefing Note

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Introduction

The Chancellor, George Osborne, delivered his second Budget speech to the House of Commons at lunchtime today.

It was positioned as a fiscally neutral Budget with a focus on reforming the economy for growth and helping hard pressed families. It was intended to be a "Budget for growth".

Many of the announcements were leaked, or at least heavily trailed, ahead of the speech itself, but Osborne managed to hold back a few surprise announcements in respect of corporation tax, inheritance tax and fuel duty.

Some of the headlines today included a reduction in the main rate of Corporation Tax by 2% (rather than the planned 1% cut), increasing the income tax relief for Enterprise Investment Scheme (EIS) investment from 20% to 30%, reducing the rate of inheritance tax where at least 10% of the estate is left to charity and cutting the rate of fuel duty by 1p per litre.

Small business owners will have been happy to hear about the doubling of the Capital Gains Tax Entrepreneur's Relief to £10m and a moratorium on new domestic regulation for three years from 1st April 2011.

There were also plans announced to consult on how income tax and National Insurance contributions might be merged in the future, although it was recognised that this will be a complex consultation and take a long time to complete.

Within this briefing note we have described the main Budget announcements as they relate to personal financial planning, along with our commentary on each measure.



Over the coming weeks and months we will be working with our clients to update their Financial Plans, looking for any legitimate planning opportunities and ensuring they understand the real implications of the Budget.

Do call us on 01483 274566, email hello@icl-ifa.co.uk, visit our website at www.icl-ifa.co.uk or follow us on Twitter @informedchoice if you would like to discuss your own investment, pension or Financial Planning as a result of the Budget or any of the comments within this document.

We would also welcome conversations with other professional advisers who would like to understand the planning opportunities for their own clients.

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Income Taxes

The Budget contained little in the way of new measures when it comes to Income Taxes.

It had already been announced that the income tax personal allowance will be increased by £1,000 to £7,475 on 6th April 2011.

It was announced today that the personal allowance will rise by a further £600 to £8,015 on 6th April 2012. This is part of the coalition government plan to eventually increase the personal allowance to £10,000.

The Office of Tax Simplification had previously recommended that income tax and National Insurance Contributions were merged in their operation and a planned consultation on this move was announced today.

In announcing the consultation, Osborne stated that pensioners would be no worse off as a result and recognised it would be a long and complex consultation with lots of things to carefully consider.

The highest rate of income tax at 50% will remain in place for now but it was restated today that this is not considered to be a permanent rate of income tax, so we could see this reduced back to 40% once the budget deficit and national debts are brought back under control.

There were proposals today to change the indexation of personal allowances from the Retail Prices Index (RPI) measure of price inflation to the usually lower Consumer Prices Index (CPI) measure from April 2012, and this could result in more people paying income tax as salaries rise in the future.

This Budget is set to remove 43 different tax reliefs and over 100 pages of rules from the tax code. We are yet to see the detail of these measures and expect to see consultation start within a few months.

Inheritance Tax

George Osborne revealed a new inheritance tax discount for estates where at least 10% of the value of the estate has been left to a registered charity.

This discount is 10% off the 40% inheritance tax rate, so a reduced rate of 36% applied to the remainder of the estate. The charitable gift itself is and will remain tax-free.

Because inheritance tax is applied after the deduction of a nil rate band, which remains at £325,000 for the 2011/12 tax year, this discount is unlikely to represent a significant cost saving which will motivate people to give away 10% of their estate for tax planning purposes.

The discount will be welcome news for people who have already included gifts to charity within their wills and could prompt others to consider their plans for charitable giving on death.

Businesses

One surprise announcement in the Budget today was that the main rate of corporation tax will be cut by 2% in April 2011, rather than the planned 1% cut. This means that the main rate of corporation tax will be 26% for 2011/12.

There are then further plans to cut the rate of corporation tax to 23% by April 2014, effectively promising a cut of 1% a year for the next three years.

The Bank Levy is being adjusted to offset this corporation tax cut, so the banks will not benefit from lower rates of corporation tax.

Small businesses, with fewer than 10 employees, and start-up businesses will also benefit from a three year moratorium from 1st April 2011, exempting them from new domestic regulation.

The Budget establishes 21 new Enterprise Zones. Ten urban areas were announced for these today, with one area in London to be selected by the Mayor of London and then a further ten areas announced in the summer.

Businesses who move into these Enterprise Zones will benefit from a range of benefits, including a 100% business rate discount for five years and access to superfast broadband.

Savings & Investments

The Budget included news of “sweeping changes” to the terms of Enterprise Investment Schemes (EIS) in order to boost the flow of investment into small businesses.

The income tax relief available for new investments into an EIS is being increased from 20% to 30% from 6th April 2011. This brings the level of tax relief into line with that available for new investments into a Venture Capital Trust (VCT); a recommendation previously made by the Office of Tax Simplification.

From 6th April 2012, the annual EIS investment limit for individuals will be doubled from £500,000 to £1m.

The qualifying company limits are being increased to 250 employees and gross assets of £15m for both EIS and VCT investment. The annual investment limit into qualifying companies is being increased to £10m for both EIS and VCT investment, so the rules will be fully aligned from next April.

The annual Individual Savings Account (ISA) allowance is being increased from £10,200 to £10,680 on 6th April 2011, in line with the RPI inflation increase for the year to September 2010.

Savers will be pleased to hear that National Savings & Investments are due to reintroduce their index-linked savings certificates “in due course”. These were withdrawn from sale last summer due to high volumes of sales and insufficient financing to provide these accounts.

Pensions

The Government has accepted the recommendations made by Lord Hutton on public sector pension reform and will use these as the basis for consultation with the unions. This is likely to mean a move to new scheme benefits calculated based on career average earnings rather than final salary by 2015.

The discount rate on unfunded public sector pension schemes is being lowered which will result in members having to contribute an additional 3% towards funding their benefits.

Plans for a single-tier State Pension worth £140 a week for new pensioners were also confirmed in the Budget. Details of this, including how the benefit will escalate and eligibility requirements, are still to be published.

We expect to see the ability to contract-out of the State Second Pension with a Defined Benefit pension scheme abolished in due course, to follow current plans to abolish contracting-out for Defined Contribution schemes.

The State Pension age is due to be automatically linked with improved longevity, so we should all expect to see the State Pension age rise higher than the proposed age 68 in the future as we all continue to live for longer.

Miscellaneous

- There will be no additional duties levied on alcohol sales, although tobacco duties will rise by 2% above inflation from 6pm today.
- A series of changes to fuel duty were announced in the Budget, with the planned inflationary rise in fuel duty postponed until April 2012 and the annual 1p above inflation 'fuel duty escalator' rise delayed until 2015. Fuel duty is being cut by 1p per litre from 6pm today.
- It was confirmed that council tax has been frozen or reduced for every English council this year.
- The rise in air passenger duty has been frozen this year and new passenger duty for users of private jets was introduced.
- Non-domiciled UK residents will see their annual levy increase from £30,000 to £50,000 once they have been resident in the UK for 12 years.
- A new shared equity scheme called "First Buy" was funded in the Budget with £250m and this is likely to help 10,000 people get onto the housing ladder.
- £100m is being made available for councils to spend on repairing potholes caused by the cold winter.

Please note that this briefing note is not an exhaustive description of every measure described in the Budget and you should seek professional independent financial, tax or legal advice where necessary.

About Informed Choice

Informed Choice is a leading firm of Chartered Financial Planners, working with individuals, trustees and business owners to help them to build, manage and protect their wealth.

We were named **IFA of the Year** at the Money Marketing Financial Services Awards 2010 and we are four times winners of the **Gold Standard for Independent Financial Advice**. We were named **Best IFA Firm** at the Unbiased Media IFA of the Year Awards 2011 and **Best Retirement Adviser** at the Moneyfacts Good Advice Awards 2010.

We are a firm of Chartered Financial Planners. This means that we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

Our briefing notes provide commentary on key financial planning issues, to enable our clients and professional connections to understand the implications. We welcome conversations with individuals and professional advisers on any of the issues raised in this briefing note.

To find out more about our advisory and planning services, please visit www.icl-ifa.co.uk or call us on 01483 274566 to arrange a first meeting which is at our expense and with no obligation.