



Pre-Budget Report Summary

Alistair Darling delivered his Pre-Budget Report on 9 December 2009. This document provides a summary of the measures announced, including clarification of any implications that there may be for you. With regards to planning, the key is to use all reliefs, allowances and exemptions while they are available.

Retirement planning

The main changes announced in the Pre-Budget Report that affect pensions are:

1. The anti-forestalling measures announced in this year's Budget have been extended to apply to individuals with total income of £130,000 or more in this tax year or the previous two tax years.

Contributions of up to £20,000 will continue to receive higher rate tax relief and there will be no adverse tax implications for those individuals with income between £130,000 and £150,000 who made ad-hoc pension contributions or who made/increased monthly contribution arrangements established before 9 December, even if the £20,000 threshold is exceeded.

2. Draft legislation for the reduction in tax relief on pension contributions that will apply to high-earning individuals from 6 April 2011 has been released, along with a Consultation Paper to allow further consideration of unclear areas such as how the taper will work for those with total income between £150,000 and £180,000.
3. The introduction of Personal Accounts has been delayed until 2013. This scheme had been planned to provide those without a company pension the opportunity to secure a pension income on retirement in addition to the state pension.

None of these announcements reduce the need for individuals to save for their retirement. As we are all living longer and state support is reducing, setting aside funds for retirement is a critical need for all. While individuals with total income of less than £130,000 remain unaffected by these changes, it is important to maximise all tax reliefs while they remain.



Personal tax

Bank Payroll Tax

Legislation will be introduced as part of the Finance Bill 2010 to levy a 50% tax on any discretionary bonus paid in excess of £25,000 to those working within the banking and finance industry. This tax will be paid by the employer and not the employee receiving the discretionary bonus. In addition, any payment received by an employee will, as usual, be subject to income tax and national insurance.

The bank payroll tax will be applicable on all discretionary bonuses paid between the period 9 December 2009 and 5 April 2010.

Personal allowances and tax rates

Income tax rates, allowances and thresholds for the next tax year have been frozen at their existing levels, save for the introduction of the 50% tax rate on income over £150,000 as announced in April's Budget.

Main Income Tax Rates for 2010/11 tax year	
Starting rate tax ¹	10%
Basic rate tax	20%
Higher rate tax	40%
Highest rate tax	50%

Dividend Income Tax Rates for 2010/11 tax year	
Basic rate tax	10%
Higher rate tax	32.5%
Highest rate tax	42.5%

¹ The 10% starting rate for savings income is only available when an individual's non-savings income (ie earnings, pensions, trading profits and property income) does not exceed the starting rate limit.



Allowances & Limits for 2010/11 tax year	
Personal allowance	£6,475
Personal allowance (age 65 - 74)	£9,490
Personal allowance (age 75 and over)	£9,640
Married couple's allowance (age 75 and over)	£6,965
Aged income limit	£22,900
Blind person's allowance	£1,890
Starting rate limit for savings income	£2,440
Basic rate limit	£37,400
Adjusted net income above which personal allowances are tapered ²	£100,000
Higher rate limit	£150,000

² The personal allowance will reduce by £1 for every £2 earned above £100,000 from 6 April 2010. This means we know there will be an effective tax rate of 60% on earnings between £100,000 and £112,950.

An individual will pay 40% tax, only when their income exceeds £43,875.

Of note is that the Chancellor used this Pre-Budget Report to announce that the point at which an individual starts to pay higher rate tax of 40% will be frozen at 2011/12 levels for the tax year starting 6 April 2012.

National Insurance Contributions (NICs)

For the next tax year, with two small exceptions, all NICs rates and thresholds remain unchanged from their current 2009/10 levels. However for the tax year starting 6 April 2011, NICs will increase by 1% for employers, employees and the self-employed. Those with earnings under £20,000 per annum will pay less.

Inheritance Tax (IHT)

The Inheritance Tax threshold will be frozen at its current level of £325,000 for the 2010/2011 and remains transferable between spouses and civil partners.

The Chancellor also announced a series of targeted anti-avoidance measures aimed at a number of specific arrangements. These do not have any impact on any St. James's Place Trust & Estate Planning Solution.



Capital Gains Tax (CGT)

No change was announced to the rates of Capital Gains Tax, which will continue to be applied at 18% of any taxable gain above the exempt amount.

The prevailing exempt thresholds are:

Individuals - £10,100

Trustees - £5,050*

**This threshold will reduce where more than one trust is created by the same person.*

Individual Savings Accounts (ISAs)

ISAs retain their tax-privileged status.

Investors aged 50 and over before the end of the tax year on 5 April 2010 can now invest up to £10,200 in an ISA. Younger investors will benefit from this increased allowance from the start of the new tax year on 6 April, but can currently save up to £7,200.

Business tax

Corporation Tax rates

The Small Companies' Rate will remain at 21% for the financial year commencing 1 April 2010, and will not be increased to 22% as previously announced. The main rate stays at 29%.

VAT

The standard rate of VAT will increase as previously specified in the 2008 Pre-Budget Report to 17.5% with effect from 1 January 2010.

Summary

While many suggest that this years Pre-Budget Report was something of a 'non-event' due to the lack of decisive and immediate action taken by the Chancellor, the fact remains that many of these measures - and those previously announced - significantly attack higher earners and the wealthy. Individuals should seek expert advice now to take advantage of all appropriate tax planning opportunities while they remain.