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What's in the Budget for Me?

Well after all the hype, supposition and rumour the new Chancellor has finally given us some real facts to chew over. We all knew he was going to try to 'balance the books' - the question was how quickly and at what financial cost to us.

So now we know, here is a brief summary of the changes likely to affect our clients.

Income Tax

- The basic personal allowance will rise to £7,475 in April 2011 with the long-term aim of raising it to £10,000.
- The higher rate threshold will be frozen up to and including 2013/2014.
- The basic rate limit will reduce by £2,500 based on current estimates of the Retail Prices Index (RPI) - exact figures will be confirmed when September's RPI is known.
- Decisions on other allowances are to be announced later.

Capital Gains Tax

- No change for basic rate taxpayers, it remains at 18%, higher and additional rate taxpayers will pay 28% on and after 23 June.
- No change to nil rate allowance and it remains at £10,100 for 2010/2011 tax year.
- Rise in entrepreneurs' relief to the first £5 million, which will continue to be taxed at 10%.
- No changes at present to CGT on trusts.

Pensions

- The Government have proposed that, subject to consultation, they will abolish the compulsory purchase of annuities at age 75 from April 2011.
- An interim measure has extended the maximum compulsory age to 77 years old from 75.
- The state pension will increase by the higher of 2.5% or earnings from 2011.
- The Government is to consult the industry on pension income tax relief to consider the alternatives.

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Savings

- The starting tax rate of 10% will apply to the first £2,440 from 2011.
- Taxable savings income over the starting rate will be taxed at 20% up to the £37,400
- Limit and 40% over that level.
- UK dividend income will be taxed at 10% on basic rate and 32.5% for higher rate.
- Gains on investment bonds will be taxed at 20% on basic rate and 40% on higher rates.
- The Government have confirmed that ISA allowances will increase in line with RPI from 2011.

VAT

We all know VAT will rise to 20% from 4th January 2011 and there will be no changes to reduced or zero rate products.

However some areas not so widely reported are that Insurance Premium Tax (IPT) will also increase from 17.5% to 20% at the higher rate and 5%-6% at the standard rate, so shop around for your insurance.

Summary

We all knew we would have to pay and the increases to VAT and IPT mean that the cost of living for all of us will rise.

CGT increases weren't as bad as many predicted and the increase in personal the allowances will be welcomed by all. However the freezing of the upper band will see the real benefit of the increased allowance reduce over time.

As ever using your tax-free allowances such as ISA's should be a major consideration and also shopping around for insurance may offset the increase in IPT.

There are a lot of proposed changes to pensions legislation both during your working life and at retirement, we will of course let you know as and when they come through.

Finally the Chancellor didn't increase the duty of alcohol so those of you so minded might wish to raise a glass, it could have been worse!

As always, please do not hesitate to contact us to discuss any aspect of your financial planning.

The above is based on our understanding of current & proposed legislation & tax rates.

The levels & bases of taxation are subject to change & their value depends on individual circumstances.