

CHANCERY MANAGEMENT NEWS UPDATE

Issue 04

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On This Day In Previous years

1748 The ruins of Pompeii were found.

1918 The Royal Flying Corps was replaced by the Royal Air Force.

1927 The first automatic record changer was introduced by His Masters Voice (HMV).

1946 Weight Watchers was formed.

1971 The United Kingdom lifts all restrictions on gold ownership.

Budget Highlights

Inheritance Tax nil rate band of £325,000 was frozen from 6 April 2010 to 5 April 2015.

The ISA allowance was confirmed at a total rate of £10,200 for 2010-2011 and it is to be indexed thereafter.

The capital gains tax in respect of entrepreneurs relief was doubled to £2 million per person for disposals from 6 April 2010.

The annual allowance for investment in plant and machinery was doubled to £100,000 per year from 6 April 2010.

The small companies rate of corporation tax was confirmed to remain at 21% for 2010 to 2011.

The stamp duty for the purchase of residential property is to rise from 4% to 5% on all properties over £1 million commencing in 2011-2012.

The threshold for stamp duty land tax was raised to £250,000 for first time buyers from 25 March 2010.

The minimum amount a VCT must invest in eligible shares is to be substantially increased.

The revised restrictions on pension tax relief effective from 2011-2012 was confirmed.

A penalty of up to 200% will apply to tax evasion where there is an offshore element.

Budget Introduction

The General Election is on May 6 2010. The Budget announced on Wednesday 24 March 2010

was very much a political exercise rather than a Budget in the interest of the country.

Parliament will end on 12 April for a General Election on 6 May therefore it is highly unlikely that the majority of the Budget will become law with the exception of the frozen personal allowances effective 6 April 2010 and the 50% tax band and certain other items announced in November 2009 but not mentioned in the Budget.

There will probably be a short and non-controversial Finance Act rapidly enacted before the forthcoming General Election as happened in 2005.

A more detailed and more contentious Bill will then be announced and introduced to the new Parliament.

The Conservatives are committed to introducing another Budget within 50 days if they win the General Election.

Personal And Trust Taxation, Income Tax, Allowances, Reliefs And Tax Credits

Type	2010-2011	2009-2010
Personal Allowance (basic)	£6,475	£6,475
Personal Allowance reduced by 50% of income over	£100,000	N/A
Personal (Age 65-74)	£9,490	£9,470
Personal (Age 75 and over)	£9,640	£9,640
Married Couples/civil partners (minimum) at 10% if at least one partner was born before 6 April 1935	£2,670	£2,670
Married Couples/civil partners (age 75 and over) at 10%	£6,965	£6,965
Age Related relief reduced by 50% of income over	£22,900	£22,900
Child Tax Credit (CTC):		
Family Element	£545	£545
Family Element baby addition	£545	£545
Child Tax Credit (CTC) usually reduced by 6.67% of joint income over	£50,000	£50,000
Childcare and childcare vouchers (weekly tax free limit)	£55	£55
Blind Persons Allowance	£1,890	£1,890
Rent A Room tax free income	£4,250	£4,250
Venture Capital Trust (VCT) at 30%	£200,000	£200,000
Enterprise Investment Scheme (EIS) at 20%	£500,000	£500,000
Enterprise Investment Scheme (EIS) eligible for capital gains tax re-investment relief	No limit	No limit
Registered Pension Scheme		
Annual Allowance	£255,000	£245,000
Lifetime Allowance	£1,800,000	£1,750,000
Special Annual Allowance Charge applies where relevant income is £130,000 or more. Minimum	20,000	20,000
“ “ “ Maximum	£30,000	£30,000
Special Annual Allowance Charge	20% - 30%	20%
Income Tax Rates		
Starting Rate Tax Band of 10% on savings income up to	£2,440	£2,440
Basic Rate of 20% on income up to	£37,400	£37,400
Higher Rate of 40% on income	£37,401- £150,000	£37,401 and over
Additional Rate of 50% on income over	£150,000	N/A
Dividends for Basic Rate taxpayers	10%	10%
Dividends for Higher Rate taxpayers	32.5%	32.5%
Dividends Additional Rate taxpayers	42.5%	32.5%
Trusts Standard Rate Band generally	£1,000	£1,000
Dividends Rate applicable to trusts and business dividends	42.5%	32.5%
Other Income Rate applicable to trusts	50%	40%

The main tax allowances, the starting rate savings band and the basic rate tax bands are broadly the same for 2010-2011 as they were for 2009-2010. However, as enacted in the Finance Act 2009, from 6 April 2010-2011:

- The 50% additional tax rate will apply to taxable income over £150,000.

- The corresponding rate for dividends will be 42.5%.
- The basic personal allowance will gradually be reduced to nil for individuals with total income over £100,000. The result of this change is that individuals with total income of £112,000 will not receive any personal allowance at all.

Individual Savings Accounts (ISAs)

From 6 April 2011 and over the course of the next Parliament, the annual ISA limits will increase each year in line with the Retail Price Index (RPI). The new annual limits will be rounded to the nearest multiple of £120, with the revised amounts published no less than four months prior to the forthcoming tax year. The limit in aggregate for the tax year 2010-2011 is £10,200 of which a maximum in the sum of £5,100 can be saved in cash.

Real Estate Investment Trust (REITs) are not detailed in this News Update.

Life Assurance Policy Deficiency Relief which can arise when a loss occurs under a life assurance policy will be available to reduce the new additional rates of 50% and 42.5% for dividends. Such relief will be limited for arrangements that were made after 21 April 2009 and policy surrenders after 5 April 2010. We are unable to provide advice on this.

Pensions Tax Relief

From 2011-2012 tax relief on pension contributions will be restricted for:

- Employees with total annual income of £130,000 or over, before deduction or relief for pension contributions and charitable donations and whose income before such deductions or relief together with the value of any employer pension contributions is £150,000 or over and
- Other individuals with total income of £150,000 or more before deduction or relief for pension contributions and charitable donations.

A taper will apply for those with incomes between £150,000 and £180,000, which will gradually reduce relief on pension contributions until it is restricted to basic rate only. The new restrictions will replace the special annual salary allowance charge.

Pension Schemes Lifetime and Annual Allowance

There was confirmation that the lifetime allowance will be frozen at £1.8 million and the annual allowance will be frozen at £255,000 from 2011-2012 to 2015-2016.

Company Cars and Vans

Cars and vans that cannot produce CO2 emissions such as electric vehicles will not be subject to a scale charge. For cars with CO2 emissions of 75g/km or less, the percentage scale charge will be 5% for petrol cars and 8% for diesel cars. Both rates will apply for five years from 2010.

Compulsory Retirement Saving Schemes Effective 2012

Effective 2012 it will be a legal requirement for every employer to automatically enroll every employee into a pension scheme.

The scheme must be a defined contribution pension scheme or the National Employment Savings Trust (Nest).

Large companies employing between 1,250-120,000 employees must have a scheme in place between October 2012 and September 2013.

Medium companies employing between 50-1,249 employees must have a scheme in place between October 2013 and July 2014.

Small companies employing less than 50 employees must have a scheme in place between August 2014-February 2016.

New companies must have a scheme in place between March 2016-September 2016.

During the first transition period of October 2012 to September 2016 total contributions must be at least two per cent of qualifying earnings of which the employer must contribute one per cent.

During the second transition period of October 2016 to September 2017 total contributions must be at least five per cent of qualifying earnings of which the employer must contribute at least two per cent.

Finally there will be what is called a steady rate period from October 2017 at which time the minimum total contributions must be eight per cent of which the employer must contribute three per cent.

Apart from the additional cost, this scheme is likely to cause problems for all employers, but especially small employers.

There is a potential legal problem to overcome because it is compulsory for employers to ensure employees are in a pension scheme, but employees have the right to opt out. However, employers must not encourage any employee to opt out and employers are not legally allowed to provide financial advice of any kind about the scheme.

Therefore every employer will have to work out how to provide information to their employees without giving any financial advice whatsoever.

If an employee does choose to opt out it is the responsibility of the employer to ensure that every employee is invited to join the scheme on a triennial basis and the employee does have the right to opt out again.

Quotations for the Month

When your dreams turn to dust, vacuum.

No one is perfect, that is why pencils have erasers.

The optimist invents the aeroplane and the pessimist the parachute.

We learn from history that we do not learn from history.

It is easy to make a pound. It is a lot tougher to make a difference.

Go the extra mile it is never crowded.

Love all, trust a few and do wrong to none.

When you stretch the truth watch out for the snapback.

What we see is mainly what we mainly look for.

Source: The CML Collection

Statistics of the Month

There are currently 61,175 EU students in British universities, accounting for 5% of the student total. The fastest growing group of foreign students is from Lithuania. Source: Daily Mail/The Week.

12% of all websites feature pornography; 25% of all searches are for porn and 35% of all downloads are pornographic. Source: The Independent on Sunday/The Week.

School truancy has reached a record high and increased by 44% since Labour came to power. Around ten million schooldays were missed without permission last year by around six million pupils. Source: The Guardian/The Week.

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