

March 2012 Budget Report

We have summarised below the key announcements from the March 2012 Budget. Should you have any queries or wish to discuss how you will be affected, please get in touch.

Pensions

There was much speculation before the budget that pensions would once again be a casualty of the budget, falling prey to the Chancellor's cuts. Our view was that this was unlikely, since the Coalition abolished rules introduced by Labour to restrict pension contributions to basic rate relief. Although nothing can be ruled out until the Chancellor's speech has been delivered, we are pleased to report that cuts to pension tax relief have been spared.

However, it should be noted that high earners who are in the 50p tax rate will only have one more tax year remaining to enjoy 50% relief on their pension contributions; from 6th April 2013 the top rate of tax will be reduced to 45p. We would therefore suggest that high earners consider using their available contribution allowance, including any carried forward allowance, to maximise the tax relief available in the 2012/2013 tax year.

The Chancellor announced that he would introduce measures to end so called "Family Pensions", whereby some employers have been contributing to pensions on behalf of employees' family members. Some firms of accountants have been promoting these "too good to be true" type of arrangements, although we are not aware of any clients currently using these types of schemes.

MAIN POINTS

- No major announcements regarding pension tax reliefs, despite widespread rumours
- Those caught by the 50% tax rate should consider making the most of receiving tax relief at 50% in the 2012/2013 tax year, after which tax relief will be a maximum of 45%

State Benefits and Tax Credits

Child Benefit

The Chancellor took the opportunity in the budget to amend the previously announced rules surrounding loss of Child Benefit for higher rate taxpayers. There has been much criticism of these plans in the media, and it seems George Osborne was listening. The new rules will be as follows:

- Those earning less than £50,000pa will not be affected
- In an attempt to avoid a "cliff-edge" effect, the benefit will be gradually clawed back by removing 1% of the benefit for each £100 earned in excess of the £50,000pa limit
- Those earning £60,000pa and over will not receive any Child Benefit
- These changes will take effect from 7th January 2013
- Income is referred to as "Adjusted Net Income". This means careful pensions planning, salary/bonus sacrifice or charitable donations could be used to avoid the loss of Child Benefit

MAIN POINTS

- Those earning between £50,000 and £60,000pa will be affected. Anyone earning over £60,000 will not receive any Child Benefit
- Careful pensions planning could enable those who are affected to retain their Child Benefit
- Charitable donations and salary/bonus exchange have a similar effect

Changes to State Pension Age

Although full details are not yet available, it was announced that the State Pension Age will in future rise in line with increases in longevity statistics. Further details are expected in the summer of 2012. In the meantime, keep an eye on the direct.gov website which has a useful state pension age calculator, based upon current legislation.

Basic State Pension

Again, more details will be available later this year, but it is expected that the current two-tier system of a Basic State Pension and State Second Pension (S2P) will be replaced with a single tier system of around £140 per week. It is anticipated that the changes will be implemented early in the next Parliament.

In the meantime, the Basic State Pension is to increase to £5,587.40pa for a single pensioner and £8,936.20pa for a pensioner couple.

Other Changes

Some other changes were announced to Pension Credit, Child Tax Credit, Working Tax Credit and National Minimum Wage. We do not anticipate that many of our clients will be affected, however if any of the above are of concern to you please contact us for details.

MAIN POINTS

- The seemingly endless increase in state pension age looks set to continue. Make sure you know when your state pension is due, and bear in mind when considering retirement planning that this isn't set in stone
- If you haven't done so recently, it may be worth requesting a state pension projection using form BR19. Please contact us if you would like us to arrange this for you

Income Tax and Personal Allowances

Additional Rate Tax

Again, this was a subject of considerable debate and speculation prior to the budget, with the Chancellor in a real quandary about whether he could justify cutting the 50% tax rate in a time of austerity, but also being aware that such a high rate of tax could hurt future economic growth.

George Osborne ended this speculation by announcing that the 50p tax rate would be reduced to 45p with effect from April 2013. No doubt additional rate taxpayers will be delighted, but be sure to maximise pension contributions by 5th April 2013 to benefit from 50% tax relief before it disappears.

Personal Allowance

The Personal Allowance will increase to £8,105pa from April 2012. This is good news for lower earners, because it means they can now earn more before they begin to pay tax. Even better news is that the allowance will increase by a further £1,100pa to £9,205 from April 2013. However, the Personal Allowance will still be gradually reduced once earnings exceed £100,000. For the 2012/2013 tax year, this means an effective tax rate of 60% for earnings between £100,000 and £116,210. It therefore remains vitally important for those caught in this Personal Allowance Trap to plan carefully; please contact us if you are affected by this.

Higher Rate Threshold

The threshold for Higher Rate Tax will remain frozen for the 2012/2013 tax year at £42,475. Above this level, earnings will be taxed at 40%. However, from April 2013 a sharp reduction to £41,450 will bring even more people into the higher rate bracket. Careful planning using pensions and charitable donations is essential if you are affected by this.

Removal of Age Related Allowances – the “Granny Tax”

At present, those aged over 65 benefit from an enhanced Personal Allowance provided their income doesn't exceed a certain level. These additional allowances are known as the Age Allowance. It has been announced that these allowances shall be frozen until the total allowances for those aged over 65 are equalised with the standard Personal Allowance. The over 65's and over 75s Age Allowance will only be available to those born before 6th April 1948 and 6th April 1938 respectively.

MAIN POINTS

- Additional rate (50%) taxpayers have a one year window to maximise the availability of 50% relief on pension contributions. It may be worth considering Carry Forward to maximise the contributions in 2012/2013 before this relief is reduced
- Careful planning remains vital for those earning in excess of £100,000, to avoid the loss of the Personal Allowance and an effective 60% tax rate
- Those who have been hovering around the basic rate tax limit will need to watch carefully to avoid the 40p tax rate as the threshold reduces

Capital Gains Tax

No significant changes were announced, and the annual Capital Gains Tax Allowance remains at £10,600. The tax rates remain at 18% for gains falling within the basic rate band, 28% for gains falling into the higher rate band. For trusts, the rate remains unchanged at 28%.

MAIN POINTS

- Although there were no major changes, it will be important to consider the impact of the lowering higher rate tax threshold on the CGT rate applicable on gains
- Don't forget to consider using your annual CGT allowance; use it or lose it

Tax Advantaged Investments

Individual Savings Accounts (ISAs)

The annual ISA allowance has increased to £11,280 (of which up to £5,640 may be invested in a Cash ISA). This is good news for those wishing to shelter income and growth on savings from the taxman. Don't forget to use your 2011/2012 allowance by Midnight on the 5th April if you haven't already done so!

Junior ISAs and Child Trust Funds

The limit for these two types of accounts remains at £3,600pa, and this can be spread in any proportion between cash and investments.

Pensions

The annual allowance remains at £50,000 for pension contributions, however you may carry forward unused allowances from recent years if you wish to make a larger contribution.

Seed Enterprise Investment Scheme (SEIS)

This new tax-advantaged scheme launches in April 2012 with the aim of attracting investment into new start-up companies by offering generous tax incentives. The contribution limit is £100,000pa with 50% tax relief.

MAIN POINTS

- Don't forget to maximise your annual ISA allowances; use it or lose it! ISAs are an ideal way of building up a flexible and tax efficient fund for the future. For example, you can use your ISA to generate a tax free income at any time
- If you have already maximised your ISA allowances, consider funding a Junior ISA or CTF for your Children or Grandchildren. These accounts are tax efficient and an ideal way to fund for university fees or a deposit for a first house
- Generous tax reliefs make the SEIS, EIS and VCT look very attractive, but make sure you are comfortable with the complexity and higher risks

Inheritance Tax

No major announcements were made concerning IHT. We already know that the current Nil Rate Band will remain frozen at £325,000 until the end of the current Parliament. However, budding philanthropists will no doubt be delighted to hear that a reduced IHT rate of 36% will apply from 6th April where 10% of the estate is left to charity.

The government will also consult on the simplification of the tax regime for Relevant Property Trusts, and will introduce legislation from 21st March 2012 to prevent UK-domiciled individuals acquiring an interest in an Excluded Property Trust.

MAIN POINTS

- As asset values continue to recover, be aware that your estate may become increasingly affected by IHT as the Nil Rate Band remains frozen
- If you are interested in leaving a sizeable gift to charity, now would seem like a good time to revisit your will

Stamp Duty Land Tax

With immediate effect, a higher rate of 7% will apply to the purchase of property where the value exceeds £2m. A range of anti-avoidance measures were also announced.

Corporation Tax

A 2% cut to 24% was announced for the main rate of CT, with further reductions resulting in a rate of 22% by 1st April 2014. The small profit rate remains at 20%.

Disclaimer

This document is designed to cover the main aspects of the budget which we feel will be of most relevance and interest to our clients. It is not designed as an exhaustive explanation of the changes announced, and therefore you should seek advice with regards to your particular circumstances to determine whether you are affected in other ways. Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given. This information is based on announcements made in the March 2012 Budget which may change before becoming law.