

Budget 22 June 2010:

Pensions, Savings, Trusts and Charities

This overview highlights announcements made by the Chancellor about pensions, savings, trusts, charities and inheritance tax.

There are separate documents summarising announcements which affect employers and pension providers and of enforcement and compliance measures.

Main Announcements

Capital Gains Tax - Rates and Entrepreneurs' Relief

From 23 June 2010 there will be two main rates of capital gains tax (CGT), 18 per cent and 28 per cent, in place of the single rate of 18 per cent for all gains. The rate paid by individuals will depend upon the amount of their total taxable income. Gains qualifying for entrepreneurs' relief will be taxed at a rate of 10 per cent, and the lifetime limit of gains qualifying for entrepreneurs' relief will be raised to £5 million (from the previous figure of £2 million). Gains of trustees or personal representatives of deceased persons will be charged at 28 per cent.

Pensions - Annual Allowance

The Government has today (22 June 2010) announced it is considering restricting pensions tax relief from 6 April 2011, by reforming the existing pension savings allowances, principally by significantly reducing the annual allowance. The Government will discuss the changes with interested parties but provisional analysis has suggested that the level of a reformed annual allowance may be in the region of £30,000 to £45,000.

The reformed allowances would replace the high income excess relief charge, which currently is due to come into force on 6 April 2011. Legislation will be brought in to allow the high income excess relief charge legislation to be repealed.

Child Trust Fund - Restriction of government contributions

The Government announced on 24 May 2010 that it intends to reduce and then stop all government contributions to Child Trust Funds. Subject to legislation, the Government intends to reduce government contributions at birth, and to stop government contributions at age 7, from August 2010. The Government also intends for HMRC to stop issuing new Child Trust Fund vouchers from 1 January 2011. There is no immediate effect on Child Trust Funds. Legislation is required to implement the Government's intentions and until that legislation is in place Child Trust Funds will continue as usual.

Saving Gateway

The Government has announced that the Saving Gateway is not affordable given the need to reduce the deficit. It will, therefore, not be introduced in July 2010.

Other Announcements

Enterprise Management Incentives - Changes to meet State aids rules

The Government have announced that there will be changes to the rules for Enterprise Management Incentives (EMI) to ensure that the scheme complies with EU State aids rules.

EMI are a tax-advantaged share option scheme to help smaller, higher risk companies. EMI rules will be amended to remove the requirement that there is a qualifying trade carried on wholly or mainly in the UK. This will be replaced with a requirement that the company has a permanent establishment in the UK. Alternatively, at least one company in the group that is carrying on a "qualifying trade" within the meaning of the legislation must have a "permanent establishment" in the UK.

Pensions – National Employment Savings Trust

Legislation will be introduced to enable the National Employment Savings Trust (NEST) to register with HM Revenue & Customs for tax purposes and therefore to be subject to the same tax rules as other tax registered pension schemes.

Tax changes for certain trusts compensating asbestos victims

Legislation will be introduced to exempt trustees of certain trusts from capital gains tax, inheritance tax and income tax. The trusts that will benefit are those set up on or before 23 March 2010 as part of an arrangement made by a company with its creditors and specifically to pay compensation to, or in respect of, individuals with asbestos related conditions. These changes apply from 6 April 2006.

Individual Savings Accounts (ISAs) - Increasing limits in line with Retail Price Index

From 6 April 2011 the Individual Savings Account (ISA) limits will increase annually in line with the Retail Prices Index (RPI). The new annual limits will be rounded to the nearest multiple of 120, so that individuals who save monthly will be able to calculate their monthly savings more easily.

The new limits will be calculated by reference to RPI for the September before the start of the new tax year. HMRC will announce the new limits as soon as possible after the RPI figure is published, and at least four months before the start of the tax year in which they will apply. So, for example, the 2011-12 ISA limits will be indexed to the published September 2010 RPI figure, rounded to the nearest multiple of 120 and announced no later than 5 December 2010.

In the event that RPI is negative, the ISA limits would be unchanged.

As is the case now, following indexation, the cash ISA limit will be half the value of the stocks and shares ISA limit.

Income Tax Adjustments between settlors and trustees

Legislation will be introduced to amend the Income Tax adjustment mechanism for those individuals who are taxed on the income arising to a trust they have set up (settlor-interested trusts).

Where the person who sets up a trust (the settlor) may benefit from its property or income, the income is treated as the settlor's and taxed accordingly. However, tax is first collected from the trustees. The adjustment mechanism ensures that the same income is not taxed twice and that the settlor neither gains nor suffers a loss. In relation to the trust income, the settlor is entitled to recover from the trustees the amount of any extra tax he need pay and must pay over to them any repayment received in respect of an "allowance or relief" above that which he could otherwise have obtained. This will be extended to all repayments of tax obtained by a settlor in relation to trust income; for example, where he is liable to income tax at a lower rate (say 40 per cent) than the trustees (50 per cent).

Pensions - Transitional deferral of effective requirement to buy an annuity to age 77

The Government has announced that it will end the effective requirement for members of registered pension schemes to purchase an annuity by age 75 with effect from 2011-2012.

As an interim measure members of registered pension schemes, who reach age 75 on or after 22 June 2010, won't have to buy an annuity or otherwise secure a pension income until they reach age 77. This will enable all such members to defer their decision on what to do with their pension savings until the new rules are finalised next year.

Gift Aid Reform

The Government has announced that the consultation aimed at improving the Gift Aid system is to continue with charity sector representatives by way of the ongoing Gift Aid forum.

Life Insurance - Deficiency relief

The Government has confirmed that it does not believe it is appropriate to extend life insurance deficiency relief to the additional rates of income tax from 6 April 2010, as was announced on 24 March 2010. Instead the deficiency relief rules will continue as at present and will reduce tax due on income subject to the higher rate and dividend upper rate of tax only.