

## JUNE 2010 UK BUDGET

Chancellor of the Exchequer Mr. George Osborne delivered his first Budget less than three months after the final Budget of the last parliament on 22 June 2010.

### Summary of key proposals

- Tax-free personal allowance increased by £1,000 to £7,475. Higher-rate threshold frozen until 2013/14.
- VAT to increase to 20 per cent on 4 January 2011. No increases in tobacco, alcohol or fuel duty.
- Capital Gains Tax increased to 28 per cent for higher-rate taxpayers from midnight of Budget day. Rate unchanged for lower-rate taxpayers and 10 per cent rate for entrepreneurs extended to first £5million of gains.
- Corporation Tax reduced to 24 per cent for large firms and 20 per cent for small firms. Annual Investment Allowance reduced from £100,000 to £25,000.
- £5,000 National Insurance cut for new firms creating jobs outside London and the South-East.
- Bank levy from January 2011 to raise £2billion per year.
- Planned Landline Duty dropped.
- Government to work with local authorities to freeze Council Tax.
- State pension to be linked to average earnings and always increased in line with earnings, inflation or 2.5 per cent (whichever is greater).
- Other benefits to be linked to Consumer Prices Index, instead of Retail Prices Index.
- Two-year pay freeze for workers in public sector.

### Setting the scene

Mr. Osborne stated that the Budget would be 'tough but fair' with everyone in the country needing to do their bit to make savings. He said that the previous government had 'no credible plan' for reducing the deficit and it was vital to take action to reassure the financial markets, who he said had already reacted positively to cuts announced in the early days of the new government.

He said that if everything went according to plan, the Budget would be balanced by 2015/16. He abolished Gordon Brown's 'golden rule' about balancing the Budget over the lifetime of the economic cycle (which he announced the UK had missed by £485billion) and will instead adopt a 'forward-looking' approach to balancing the Budget with a fixed target for debt, overseen by the new Office for Budget Responsibility (OBR).

Borrowing for 2010/11 would be £149billion, Mr. Osborne said – lower than the previous government's initial prediction. This should fall to £116billion next year and £89billion in 2012/13. Growth was forecast to be 1.2 per cent this year – down from 1.3 per cent predicted by the OBR once the Budget measures were taken into account. This is set to rise to 2.3 per cent this year and 2.8 per cent in 2012.

He reiterated his pledge that the 'bulk' of the deficit reduction would come from spending cuts, not tax rises – the exact split being 77:23. Spending by government departments will fall by £17billion by 2014/15, with more details set to be announced in October's spending review. Public sector workers are set to see their pay frozen for two years, although the lowest-paid will get a flat £250 rise each year. There will be no further cuts to capital expenditure, although some state assets, including the Student Loan book, will be sold.

## **VAT and duty**

VAT will rise to 20 per cent from 4 January 2011, generating £13billion per year by the end of the current parliament.

There were no further increases in fuel, tobacco or alcohol duty. The higher rate of Insurance Duty was increased to 20 per cent, in line with the VAT rise, while the Chancellor announced he would report back later in the year on the possibility of changing Air Passenger Duty to a 'per-plane' charge.

## **Income tax**

The tax-free personal allowance on Income Tax will be increased by £1,000 in April, to £7,475, as a first step towards the Liberal Democrat policy of a £10,000 personal allowance. The Chancellor said this move would give 23million workers an extra £170 per year and take 880,000 out of the tax system completely.

The higher rate (40 per cent) Income Tax threshold will be frozen until 2013/14, and the new top rate of 50 per cent will remain in place 'for the time being'.

## **National Insurance**

The previous government's plans to increase National Insurance by one per cent for employees and employers will go ahead in 2011, but the impact of the employers' rise will be lessened by a £21 per week increase in the NI threshold.

## **Business and enterprise**

The Corporation Tax rate will be cut to 24 per cent for large firms over the next four years and 20 per cent for small firms from next year, while the employers' National Insurance threshold will rise by £21 per week. However, the Annual Investment Allowance will fall from £100,000 to £25,000 and planned tax relief for the video games industry will be axed.

New businesses will be offered a £5,000 National Insurance break for each of the first ten jobs they create outside London and the South-East.

From midnight of Budget day, Capital Gains Tax was increased to 28 per cent for higher-rate taxpayers. The rate remained at 18 per cent for lower-rate taxpayers, while the 10 per cent rate for entrepreneurs will be extended to the first £5million of gains. A reintroduction of taper relief, for assets which were held for longer periods, was ruled out as too expensive.

A bank levy, based on the size of banks' balance sheets relative to the deposits and capital they hold, will be introduced from January 2011, and is expected to generate around £2billion per year. This will outweigh any benefit banks would otherwise have received from the Corporation Tax and is set to be introduced jointly by Germany, France and the UK.

The Enterprise Finance Guarantee Scheme, which supports lending to small businesses, has been retained with an additional £200million of funding this year.

The planned Landline Duty, announced by the last government to fund the roll-out of high-speed broadband networks, has been abolished.

### **Housing and mortgages**

The Chancellor announced that the government would work with local authorities to keep Council Tax frozen, saving the average family £35.

Stamp Duty rates remained unchanged.

### **Benefits and working families**

Mr. Osborne announced a series of changes to benefit payments, which are designed to save a total of £11billion by 2014/15.

All benefits, apart from the pension and pension credit will, in future, be linked to the Consumer Prices Index rather than the Retail Prices Index, which is expected to result in lower increases in benefits in future years, saving £6billion over the course of the parliament.

Child Benefit will be frozen for three years, while tax credits will be reduced for families earning over £40,000 per year. The child element in the tax credit system will rise by £150 above inflation. A maximum limit of £400 per week will be set on the total amount of Housing Benefit that can be claimed by individual families, while new medical tests will apply to Disability Living Allowance claims from 2013.

### **Pensions and retirement**

From April 2011 the state pension will be linked to earnings, not inflation, and will always rise by earnings, inflation or 2.5 per cent, whichever is greater.

The already-planned increase in the state retirement age to 66 is set to be accelerated.

The annual ISA limit will remain at £10,200 and there was no change to the Inheritance Tax threshold of £325,000.

### **Company cars**

As previously announced, the Company Car Tax rate will be amended from April 2012, so that the minimum 10 per cent band will only apply to cars that emit 99g of CO<sub>2</sub> or less per km, compared to the current limit of 120g. The tax rate will increase by 1 per cent for every 5g of CO<sub>2</sub> after that point.

## The environment

The Chancellor confirmed that the government would 'bring forward' plans for a green investment bank, although no further details were given.

The government will explore changes to the aviation tax system, such as switching from a per-passenger to a per-plane levy for Air Passenger Duty. Any changes will be subject to consultation and will be announced later in the year.

## Official Budget Documents

The Budget documents are available from Her Majesty's Treasury web site link below:

[http://www.hm-treasury.gov.uk/junebudget\\_documents.htm](http://www.hm-treasury.gov.uk/junebudget_documents.htm)

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