

## Private Client

**Budget Summary 2009 22 April 2009**

### **Summary of Changes Affecting Private Individuals**

Here, we are concentrating primarily on those changes announced in the budget which may affect clients adversely if action is not taken promptly.

### **Benefits**

The main changes are that the winter fuel allowances are being maintained at £250 for those over 60 and £400 for those over 80 – for another year. It is also confirmed that the proposed 2.5 per cent increase in the basic state pension will be met despite the fact that consumer price inflation is expected to be negative this year.

In addition, grandparents of working age with child-minding responsibilities will be able to claim for the time spent looking after their grandchildren at home to be counted towards their pension contribution records.

### **Income Tax**

In view of the state of the public finances, the only real surprise in the announcements regarding income tax was that the 50 per cent rate is not being introduced until 2010. The rate at which tax relief is given on pension contributions is to be restricted for 'big earners' (at least those who pay their contributions themselves – there appears to be no restriction on those whose pension contributions are paid for them by their employers). This change will be introduced in 2011. The insurance industry can expect a bumper year in 2009/10 as high earners top up their pension schemes while they can. However, where high earners change their pattern of pension contributions, anti-avoidance legislation may well catch them if their contributions exceed £20,000 per year.

In addition, the personal allowance will be reduced 'gradually' to nil for persons with 'adjusted net incomes' of more than £100,000.

A new 'tax' on the amount of compensation received under the Financial Services Compensation Scheme (where a financial institution fails) will apply to the extent that such compensation represents a payment for interest lost. This applies from 6 October 2008, so may affect tax returns for the tax year ending 5 April 2009. HM Revenue and Customs (HMRC) advise us that this should be shown in the box marked 'other income' on your tax return.

## **Trusts**

Unmentioned in the Chancellor's speech was the proposal to 'increase the trust rate and dividend trust rate to match those for income tax', which means that the taxes on trust income and on dividend income for higher earners will rise from 2010/11 by 10 per cent.

## **Non Residents**

Persons who are not resident in the UK but who claim a UK personal allowance for Income Tax purposes because they are Commonwealth citizens will lose the right to claim UK personal allowances against their UK income in 2010. This change will affect mainly citizens of the Bahamas; Cameroon; Cook Islands; Dominica; Maldives; Mozambique; Nauru; Niue; St Lucia; St Vincent & the Grenadines; Samoa; Tanzania; Tonga; and Vanuatu.

## **Tax Refunds**

The present law relating to tax refunds is being 'simplified', which means that the time limits for claiming repayments are being reduced to four years commencing on 1 April 2010.

## **Inheritance Tax**

Following adverse comment in the European Court, IHT relief for agricultural property and woodlands held in the European Economic Area is now being made available. Hold-over relief for CGT will also apply. IHT paid on such properties since April 2003 can be reclaimed.

## **Motoring**

The inelegantly named 'car scrappage' scheme will mean that a £2,000 grant will be paid to the owner when a car more than 10 years old is traded in for a new car. This will do much for the resale values of 'old bangers', but how much of an incentive it will be to buy a new car remains to be seen – £2,000 is less than the value of a year's depreciation on an average-priced car. The scheme is to last until March 2010.

## **Property**

The extension of Stamp Duty Land Tax reliefs to registered providers of social housing which operate on a profit-making basis in supplying shared-ownership residential property should help to make low-cost housing easier to obtain.

In addition, the continuation of the temporary Stamp Duty threshold increase until 31 December 2009 will benefit all buyers of properties with a value of less than £175,000. Investments and Savings.

The annual tax-free allowance for ISAs is being increased to £10,200 for those over 50 and half of the total can be held in cash. Although interest rates on ISAs are currently low, this change should produce benefits when the economy recovers. The increase will be extended to those under 50 from 2011.

Measures have been introduced to allow Enterprise Incentive Schemes and Venture Capital Trusts to be more flexible – mainly by allowing them to retain investor funds without making investments for a longer period of time than previously permitted. This will allow them to take more time to make investments without compromising their tax advantages.

### **Tax Powers Generally**

Taxpayers unwise enough to understate their liabilities by £25,000 or more who get caught will, unless they make an unprompted disclosure or full prompted disclosure, be publicly named and shamed by HMRC.

The information contained in this bulletin is intended for general guidance only. It provides useful information in a concise form and is not a substitute for obtaining professional advice.

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