



The June Budget

This briefing summarises those announcements in the June Budget, which are likely to be of particular interest to our private clients.

Capital Gains Tax

For gains realised on or after 23 June 2010, the rate of capital gains tax (CGT) will increase to 28 per cent for higher and additional rate taxpayers; basic rate taxpayers will continue to pay CGT at 18 per cent. The annual exempt amount (AEA) will remain at £10,100 for the tax year 2010 - 2011.

To determine the applicable rate of CGT, individual taxpayers will have to aggregate capital gains realised between 23 June 2010 and 5 April 2011 (net of reliefs and allowances) with taxable income; any excess over the upper limit of the basic rate income band, which is currently £37,400, will be taxable at the higher CGT rate, namely, 28 per cent. All gains realised from 6 April to 22 June 2010 will be taxed at the flat rate of 18 per cent and they will not be taken into account when calculating total income and gains for the purposes of determining the applicable rate of CGT for post 22 June 2010 gains. For trustees and personal representatives, the rate of CGT for all post-22 June 2010 gains will be 28 per cent.

The notes issued by the Revenue state that taxpayers will be able to deduct losses and allocate the AEA in the way which minimises the tax due. For higher rate taxpayers, trustees and personal representatives, it will clearly be advantageous to set any available losses and the AEA against post-22 June gains, in preference to pre-23 June gains.

Entrepreneurs' relief

Gains on disposals that qualify for Entrepreneurs' relief will continue to be taxed at 10 per cent. The amount of an individual's (or trustees') gains that can qualify for Entrepreneurs' relief is subject to a lifetime limit; this lifetime limit will be raised from £2 million to £5 million, with effect from 23 June 2010.

Where individuals or trustees make qualifying gains above the previous £2 million limit before 23 June 2010 (£1 million limit before 6 April 2010), no additional relief will be allowed for the excess above the old limit. But if they make further qualifying gains on or after 23 June 2010, they will be able to claim relief on up to a further £3 million of those additional gains (or up to £4 million where the earlier £1 million limit applied), giving relief on accumulated qualifying gains up to the new limit of £5 million.

Corporation tax

The main rate of corporation tax will be reduced from 28 per cent to 27 per cent for the year commencing 1 April 2011. There will be further reductions year by year, culminating in a rate of 24 per cent for the year beginning 1 April 2014.

Companies with profits below the lower limit, £300,000, pay corporation tax at the small profits rate (SPR). For the year commencing 1 April 2011, the SPR will be 20 per cent.

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Trusts

Settlors of settlor-interested trusts who receive repayments of tax on trust income will be required to pay the sums received to the trustees. This is an extension of the existing provision, which requires settlors to pay over repayments of tax in respect of an allowance or relief in relation to trust income. The payments by settlors to trustees will be disregarded for inheritance tax purposes. The rule will apply to repayments relating to trust income arising on or after 6 April 2010.

Furnished holiday lettings

The proposal to withdraw the furnished holiday lettings (FHL) rules, which was announced in the 2009 Budget and confirmed in the March 2010 Budget, has been abandoned. The existing rules on FHL will continue to apply to holiday lettings situated in the UK and elsewhere in the European Economic Area for the tax year 2010 – 2011. The government will consult over proposals to change the taxation of FHL; any such changes will take effect from April 2011.

Inheritance tax

There were no changes to inheritance tax (IHT) announced in the Budget. The IHT nil rate band will remain frozen at £325,000 until 5 April 2015.

Residence & domicile

The government has confirmed that it will review the taxation of non-UK domiciled individuals; there is no indication in the Budget Report as to whether a time scale has been set for any such review.

Stamp Duty Land Tax

The Budget confirmed that the new SDLT rate of 5 per cent for residential property over £1 million will take effect from 6 April 2011. The government has said that it will review the first time buyer relief, which was announced in the March Budget. This relief is aimed at first time buyers of residential property where the consideration does not exceed £250,000; it effectively doubles the nil rate threshold. The Finance Act 2010 provides that the relief will be available where the effective date is on or after 25 March 2010 and before 25 March 2012.

Tax avoidance

The government has announced that it is considering the introduction of a general anti-avoidance rule, as part of its consultation on tax policy. The aim of such a rule is to obviate the need for frequent changes in tax legislation in order to close loopholes.

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