

New government, new taxes?

We now have a coalition government between the Conservative and Liberal Democrat parties, which is expected to adopt tax policies from both constituent parties. The coalition agreement statement contains a brief note on tax issues. So what changes can we expect to see?

Income Tax There will be a 'substantial increase' in the personal allowance from April 2011, with the Lib Dem target of £10,000 being a 'longer term policy objective'. It is possible that the income threshold above which personal allowances are phased out (currently £100,000) will be reduced.

The 50% tax rate looks likely to remain in place until the budget deficit has been significantly reduced. The tax position of all 'non-doms' will be renewed. There has been some suggestion that the flat rate remittance basis charge (currently £30,000) might extend to all non-doms.

The Conservatives want to recognise 'marriage in the tax system' by allowing up to £750 of unused personal allowance to be transferred between spouses and civil partners if the recipient is a basic rate taxpayer. This would have a maximum value of £150. The Lib Dems will abstain from voting on this policy under the coalition agreement.

The restrictions on pension contribution tax relief for high earners will be unchanged. The Lib Dems want to simplify this incredibly complex legislation and limit tax relief on all pension contributions to the basic rate. Their manifesto also proposed making tax relief on gift aid donations a flat 23%.

National Insurance (NI) The 1% increase in rates will take effect from 2011/12. However, the threshold at which employer's NI becomes due will rise to about £7,000, which will save employers about £150 per employee. The employee's NI thresholds will not rise, a reversal from the Conservatives' original proposals.

Capital Gains Tax Non-business capital gains will be taxed 'at rates similar or close to those applied to income', but there will be 'generous exemptions' for entrepreneurs. The annual capital gains exemption (£10,100 for 2010/11), may be cut back, perhaps to £2,000.

Inheritance Tax The Conservative policy to increase the inheritance tax nil rate band to £1 million, has been shelved for now. The nil rate band has already been frozen at £325,000 until 2015, although this tax-exempt band can be transferred to the surviving spouse or civil partner.

Tax Credits Both parties want to remove the £545 family and baby elements of tax credits for those earning £50,000 or more. The Lib Dems' manifesto proposed fixing the tax credit award for six month periods, to prevent the claw-back of accidental overpayments.

VAT There is no mention of VAT in the government's coalition agreement, but most economists believe that there will have to be an increase to deal with the deficit.

Stamp duty land tax The two year £250,000 threshold for stamp duty land tax introduced for first time buyers in the March Budget will be reviewed for its 'effectiveness'. Rules to prevent the avoidance of stamp duty land tax by using offshore trusts may be introduced.

Other taxes The parties have agreed to change Air Passenger Duty to a charge per plane, ensuring the charge will apply to cargo flights as well as to commercial and private passenger flights. The climate change levy may also be reformed.

The date of the emergency summer Budget has been announced for 22 June.