
Highlights of the Emergency Budget 2010

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Although it was a harsh Budget, overall some of the measures weren't as bad as many were predicting. There's also a significant emphasis on cut back in the public sector being propped up by concessions made to the private sector, especially entrepreneurial businesses.

Here's our summary of the highlights. If you fancy a bit of bed time reading, [click here](#) to find an easy to read version of the full Budget Report.

Spending

- From January 2011 VAT will increase from 17.5% to 20%. *Will this jeopardise the recovery do you think?*
- Council tax will be frozen from April 2011.

Public Sector Pay

- If you work in the public sector and earn over £21,000, your earnings will be frozen for 2 years. If you earn less, your pay will rise by £250 a year.
- A commission has been set up to look into public sector pensions. We think it's likely that future benefits accrued will either be reduced or employees will have to pay more for the same benefits.

Taxes

- The personal allowance will increase from £6,475 to £7,475 from 6 April 2011, which means that you'll be able to earn an extra £1,000 a year before paying income tax. This is in line with the Lib Dems objective to gradually increase the allowance to £10,000.
- The personal allowance for higher rate taxpayers will be frozen until 2013/14, which means that more earnings will fall into the higher rate tax bracket in the future.

National Insurance

- The higher rate threshold for National Insurance will be reduced so that income tax and national insurance limits are aligned.

Capital Gains Tax

- Capital gains tax (the profit you make on the sale of an asset) will increase from 18% to 28% for higher rate taxpayers. The rate for basic rate taxpayers remains unchanged at 18%. This was far better than predicted, but basic rate taxpayers with second homes for instance may be affected if the profit from the sale (above the free allowance of £10,100) pushes them into the higher rate tax bracket for the year in which they sell it. *Are you someone who's chosen to invest in property instead of a pension? If so, let us have your comments on this.*

State Benefits

- Child benefit to be frozen for 3 years. This was a change from the speculation that this was going to be means tested in future.
- Tax credits to be restricted to households earnings less than £40,000 a year.
- Lone parents will be encouraged to seek employment once their youngest child reaches the age of 5.
- The Health in Pregnancy grant and the baby element of the Child Tax Credit will be scrapped in April 2011, although the child element of the Child Tax Credit will increase in April by £150 above inflation. And the Sure Start maternity grant (worth £500) will be restricted to the first child only.
- Medical checks will be put in place to reduce the number of claimants of disability living allowance. And Housing Benefits will be reformed.
- State benefits (apart from the State pension and pension credit) will increase at the lower rate of CPI, rather than RPI in the future.

Financial literacy

- Plans were unveiled to introduce an annual family financial health check from Spring 2011 as part of the role of the new Consumer Financial Education Body (responsible for helping consumers understand financial matters and manage their finances better). We're very excited by this.

Pensions

- State pensions to increase each year, from April 2011, by the greater of prices, earnings or 2.5%.
- The rules that require you to an annuity (a guaranteed income for life) from a personal pension fund by the age of 75 will thankfully be abolished from April 2011 creating more flexibility with your pension's savings.
- The government will consult on abolishing the default retirement age from April 2011 and the previous government's planned changes to tax relief on pensions

Businesses

- Corporation tax for small businesses will be cut from 21% to 20%
- Corporation tax rates for large business will be reduced gradually from 28% to 24% over the next 4 years, which will help businesses, although the reduction wasn't as much as people hoped.
- The threshold at which employers pay national insurance (NI) will rise by £21 per week above indexation and new businesses creating jobs outside the south of England will receive some NI reductions for the first 10 employees hired.
- Banks will be subject to a new bank Levy.
- From June 2010, business owners can qualify for a 10% tax rate on more of the profit of their business when they come to sell it. It will apply to up to £5 million of any lifetime gains, a significant increase from £2 million.

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