NEWSLETTER

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Dear Colleague

TAX, PENSIONS AND BENEFIT CHANGES FOR 2011-12

The Chancellor delivered his Budget proposals on 23 March 2011 and confirmed many of the changes which he had previously announced. The following items will be of particular interest to pensioners.

Value Added Tax rose from 17.5% **to 20%** from 04 January 2011

The Standard Rate of **Insurance Premium Tax** rose from 5% **to 6%** on 04 January 2011. The Higher rate rose from 17.5% **to 20%.**

From 11 April 2011, the Basic State Retirement Pension will rise from £97.65 **to £102.15** per week for a single pensioner and from £156.15 **to £163.35** for a couple.

From 11 April 2011 **Additional Pensions** will increase in line with the CPI.

The **age addition** for the over 80's will remain at **25 pence** per week.

From 11 April 2011, the **Pension Credit Guarantee** will increase from £132.60 **to £137.35** per week for a single pensioner and from £202.40 **to £209.70** per week for a couple. The capital disregard **will remain at £10,000.** The Saving Credit threshold will rise from £98.40 **to £103.15** for a single pensioner and from £157.25 **to £164.55** for a couple.

The Government has said that it will "protect" the **Winter Fuel Payment**. However, we have good reason to believe that the Government intends to revert from £250 **to £200** for households with someone at or over the female State Pension Age and from £400 **to £300** for households with someone aged 80 or over. **Some "protection".**

There has been no announcement about the **Christmas Bonus**, so we assume that it will remain at **£10**.

From 06 April 2011 the basic **personal allowance** for Income Tax will rise from £6,475 **to £7,475**. The personal allowance for someone aged 65 to 74 will rise from £9,490 to **£9,940** and for someone aged 75 or more will rise from £9,640 to **£10,090**. The maximum income a pensioner can have and still get the age-related allowances will rise from £22,900 to **£24,000** (but there will be further restrictions for those with incomes above £100,000).

The **married couple's allowance** (for those aged 75 and over), will rise from £6,965 to **£7,295**. The allowance will be subject to an **income limit of £24,000** but there will be minimum allowance of **£2,800**. The married couple's allowance is given at the rate of 10%.

The **blind person's allowance** will rise from £1,890 to **£1,980.**

From 11 April 201, **Disability benefits** will rise in line with the CPI.

The 10% starting rate of Income Tax for savings income will to apply to savings income between £0 and **£2,560**. If an individual's taxable non-savings income is **above £2,560**, then the 10% savings rate will not be available for savings income. The basic Income Tax rate of 20% will apply to the **first £35,000** (after the personal allowance) of taxable earned income and pensions. The 40% Income Tax rate will apply to such income **above £35,000**. The 50% rate will apply to income **above £150,000**.

The **Inheritance Tax allowance** will remain at **£325,000** for individuals and at **£650,000** for married couples and civil partners until 2014/15.

The **ISA** annual investment limit will rise from the current overall limit of £10,200 to **£10,680** and the cash limit will rise from £5,100 to **£5,340**.

The standard rate of **Capital Gains Tax** will remain at **18%** but from 23 June 2010 there has been **a new higher rate of 28%**. The higher rate is applicable to higher rate taxpayers. Disposals before 23 June 2010 will remain liable to the 18% standard rate. The exemption limit will rise from £10,100 to £10,600

The proposed **Landline Duty** will be scrapped.

For those still in employment, from 06 April 2011 the **Employee National Insurance** standard rate contributions will rise from 11% **to 12%** and the higher earnings rate will rise from 1% to 2%.

Future changes outlined in the budget were:-

Integration of Income Tax and National Insurance Contributions:

- "The Government will consult in 2011 on the options, stages and timing of reforms to integrate the operation of income tax and NICs."

- **However, "It will maintain the contributory principle and will reflect this in any changes it brings forward. In addition, the Government will not extend NICs to individuals above State Pension Age or to other forms of income such as pensions, savings and dividends."**

Change in Indexation:

- The Government announced that "from April 2012 the default indexation assumption for all direct taxes including income tax, NICs, inheritance tax, capital gains tax and ISAs will move from the RPI to the CPI. The change will apply for each year from 2012-13 except where there are specific policy commitments to increase these by a different amount."

- "For the duration of this Parliament the annual increases in the employer NICs threshold, and the age related allowance and other thresholds for older people (including the starting rate limit for savings income, income tax age-related allowances, age-related income limits, married couples allowances and blind persons allowance), **will be over-indexed compared to the CPI, and will increase by the equivalent of the RPI."**

State Pension Reform:

- The DWP will shortly publish a Green Paper consulting on proposals for moving to a single tier pension. **But the change is not to apply to existing pensioners.**

- The Government will shortly bring forward proposals to for the management of future changes in the State Pension age, including the option of a regular independent review of longevity changes

Income Tax Allowances:

- "The Chancellor announced that there from April 2012 there would be an increase of £630 (to £8,105) in the basic personal allowance but **there was no mention of any similar increase to the personal allowances for those aged 65 or over.**

Public Sector Pensions:

- **The Government accepts Lord Hutton's recommendations** from the Independent Public Service Pensions Commission as a basis for consultation with public sector workers, trades unions and others: "The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer."

- Following a full public consultation by the Treasury "the Government has decided that the appropriate discount rate for calculating unfunded public service pension contribution rates should be based on the long term expectation of Gross Domestic Product (GDP) growth. This will ensure that employment decisions made today take into account the costs passed to future taxpayers on a fair and sustainable basis. The latest OBR forecast for long-term GDP growth is 2.2 per cent above the assumed GDP deflator, equivalent to a discount rate of 2.9 per cent above the Consumer Prices Index (CPI). Given the range of uncertainties inherent in these calculations, the Government believes that a rounded figure should be used. A discount rate of 3 per cent above CPI will therefore be adopted under this methodology for future valuations. The Government proposes to review the level of discount rate every five years, and the methodology every ten years. The Government has confirmed that this change in the discount rate will not lead to an increase in member contribution rates beyond those already announced at Spending Review 2010."

Comment

All of the tax and benefit changes for this year had been previously announced. The assurances that income tax allowances and thresholds will be increased in line with the RPI for the duration of this Parliament and that the proposed integrated National Insurance and Income Tax will **not** apply to pensions and savings income are to be welcomed. But the other moves to CPI indexation further entrench the Government's position. The re-affirmation that the proposed single tier pension is not intended to apply to existing pensioners is to be deplored. We will campaign to ensure that existing pensioners benefit from any improvements for future pensioners. We will seek clarification about the age-related allowances for next year.

Yours sincerely

John Amos
Deputy General Secretary