

Budget Summary 22nd June 2010

George Osborne opened his very own Pandora's Box today. We now have a clearer idea of his public expenditure cuts and tax changes. This update provides an initial summary of some of the tax changes. We will provide more detail as it becomes available.

The update is split into two parts: changes affecting personal taxpayers and changes affecting businesses – which include companies, partnerships and sole traders.

[PERSONAL TAX ISSUES](#)

[BUSINESS TAX ISSUES](#)

PERSONAL TAX ISSUES

Personal Tax Allowance

The personal allowance for 2010-11 remains at £6,475. In line with the Lib Dems' manifesto promise – as confirmed in the Coalition agreement, the basic personal allowance will rise to £7,475 from April 2011 with a commitment to further increases towards the promised £10,000 target by the end of the present parliament.

Tax bands

The income figure above which higher rate tax becomes payable will be reduced from April 2011 so that higher rate taxpayers will not benefit from the increase in personal allowances.

National Insurance Contributions (NICs)

As previously announced there is to be no increase in employer's NICs although employees' NICs will increase by 1% from April 2011. The threshold before NICs become payable is to be increased (by an unspecified amount) so that lower paid workers will be better off.

Because the upper limit is being reduced to allow 40% income tax to be paid sooner (see above) and the upper earnings limit for NI purposes is linked to this, the upper earnings limit will be reduced. Whether this means that higher paid employees will pay less NI remains to be seen but any benefit is likely to be wiped out by extra income tax at 40%.

State Pension

From April 2011 State Pension benefits will be increased each year by at least 2.5%. Under a 'triple lock' pensions will rise by a minimum of 2.5pc or in line with earnings or prices, whichever is the greater.

Pension contributions

The annual allowance (the maximum allowable contributions in any year), currently £255,000, is to be reduced from April 2011 as part of a simplification of the previous proposals intended to limit higher rate tax relief for contributions. The Government will discuss the changes with interested parties but anticipates that a reformed annual allowance may be in the region of £30,000 to £45,000.

Child Benefits

Are to be frozen for three years.

Child and Working Tax Credits

The Child Tax Credit will increase by £150 above the Consumer Price Index in April 2011.

The baby element of the Child Tax Credit will be removed from April 2011.

The following changes will also apply from April 2011:

1. Reduced eligibility for families with household income above £40,000.
2. Both withdrawal rates to increase to 41%.
3. Reduction in the income disregard from £25,000 to £10,000.

And from April 2012, the facility to register and claim tax credits from an earlier date is to be reduced from the present 93 days (3 months) to just one month.

Alcohol duties

Previous increases in the duty on cider products have been reversed. All other duties are unchanged.

Landline Duty

Due to be effective from 1 October 2010 this duty will no longer be implemented.

Capital Gains Tax

All of the changes noted below apply to chargeable gains made on or after 23 June 2010.

In a widely expected change to the present flat rate of 18%, a new 28% rate is to be introduced. This will be applied to individuals whose total gains and income are more than the upper limit of the basic rate band of income tax.

The 28% rate will apply to taxable gains, or any part of those gains, that are above that limit. Gains under the limit will still be taxed at 18%.

The rate for trustees and personal representatives of deceased persons is increased to 28%.

Good news for business owners contemplating a sale of their business. The rate of CGT for gains qualifying for entrepreneurs' relief remains at an effective rate of 10% and the lifetime limit on gains qualifying for entrepreneurs' relief is increased from £2 million to £5 million. The current system of a 4/9th's reduction in the gain which is then taxed at 18% is abolished in favour of an actual 10% rate so that the annual exemption will now save tax at 10% rather than at 18% as previously.

Finally the annual exempt amount for 2010-11 is unchanged at £10,100.

Individual Savings Accounts (ISAs)

From 6 April 2011 ISA limits will in future be increased in line with the Retail Price Index (RPI).

Deferring pension annuity decision

The obligation to buy an annuity using your pension fund by the time you reach the age of 75 is changing. As from June 23rd 2010 anyone who has yet to reach age 75 will be able to defer a decision to purchase an annuity until age 77.

This is a stop gap measure as the intention is to abolish the requirement to purchase an annuity as from April 2011.

Furnished Holiday Lettings (FHL)

The withdrawal of the furnished holiday letting rules on 6 April 2010 has been cancelled! For the tax year 2010-11 the legislation continues as before with all its tax advantages intact.

However, the Government is to publish a consultation document over the summer about plans to change the tax treatment of furnished holiday let property from April 2011. The consultation will look at issues that:

- ensure the FHL rules apply equally to properties wherever they are in the EEA;

- increase the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- change the way in which FHL loss relief is given.

The last point in particular may merit attention as current legislation allows all furnished holiday lets losses to be set off against other income of the same year. We will advise as and when more information is released after the summer consultation.

BUSINESS TAX ISSUES

Corporation Tax

The present 28% corporation tax rate for larger companies is to be reduced by 1% per annum from 1 April 2011 as follows:

1 April 2011 - 27%
 1 April 2012 - 26%
 1 April 2013 - 25%
 1 April 2014 - 24%

For smaller companies, those with taxable profits below £300,000, the small companies rate of corporation tax will reduce from the present 21% to 20% on 1 April 2011.

National Insurance Contributions

The 1% increase in employers' contributions will go ahead from April 2011. However, the threshold before contributions become payable will increase by £21 pw more than indexation. This means that contributions for lower paid workers will be lower overall.

The Government also promised a three-year scheme to exempt new businesses in targeted regions from up to £5,000 of class 1 employer NIC payments, for each of their first 10 employees hired in their first year of business. Subject to meeting the necessary legal requirements, the Government aims to have the scheme up and running by September, but any qualifying new business set up from 22 June 2010 will also benefit.

Capital Allowances

As you are probably aware, depreciation charged in your accounts is not an allowable deduction for tax purposes. Instead HMRC allow you to claim capital allowances at fixed rates that vary dependent on the nature of the assets.

Partly to offset the reductions in corporation tax rates most rates of capital allowances are to be reduced - from 1 April 2012 (for limited companies) and from 6 April 2012 (for unincorporated businesses).

The proposed reductions are:

1. Writing down allowances will be reduced from 20% to 18% on the cost of qualifying plant and machinery. This will also affect any unrelieved expenditure in the main rate pool;
2. Writing down allowances on long life assets, integral features and specified cars will be reduced from 10% to 8%. This will also affect any unrelieved expenditure in the special rate pool;
3. The annual 100% investment allowance available for qualifying capital expenditure upto £100,000 will be reduced to £25,000.

A new 100% first year allowance is to be introduced giving full relief for expenditure incurred on new zero-emission goods vehicles. The relief is back dated to April 2010 as it was originally announced by the previous Government.

Enterprise Management Incentives (EMIs)

From the date the June Budget receives Royal Assent the following change to the present EMI rules will be made:

The requirement that a company granting qualifying EMI options to its employees must operate "wholly or mainly" in the

UK is to be replaced by a requirement that it be required to have a "permanent establishment" in the UK.

VAT - Increase in standard rate

From 4 January 2011 the standard rate of VAT will increase from 17.5% to 20%. The reduced rate of VAT stays at 5%.

If you want to find the amount of standard rate VAT in a VAT inclusive price from 4 January 2011, simply divide the total cost including VAT by 6.

VAT - Users of Flat Rate Scheme

Due to the increase in the standard rate to 20% from 4 January 2011 the Flat Rate Scheme rates will change from the same date. If you currently use this scheme or have previously considered the decision to be marginal, you will want to reconsider its attractiveness by reference to the new rates.

Insurance Premium Tax (IPT)

From 4 January 2011 the standard rate of IPT will increase from 5% to 6%. The higher rate will also increase from 17.5% to 20%.

Research and development (R&D) tax relief

The Government are introducing a relieving measure that was originally announced in the last Pre-Budget Report. Qualifying expenditure incurred by SMEs on or after 9 December 2009 will now qualify for the relief even if the intellectual property derived from the R&D is not owned by the company making the claim.

Tax Avoidance

The coalition government seems as committed as their predecessors to further reducing the attractions of overt tax avoidance schemes.

Schemes using trusts to reward employees and to assist in the avoidance, deferral or reduction in income tax or NIC including avoiding the new pensions tax relief restrictions, will be legislated against with effect from April 2011. The Chancellor has confirmed that Employer Funded Retirement Benefit Schemes (EFRBS) are within these measures. The government is also consulting on the introduction of a General Anti-Avoidance Rule. Other specific anti-avoidance measures have also been introduced to counter specific schemes.

Other Business Tax Measures

Various other specific business tax announcements were made including clarifications on the treatment of UK companies receiving capital distributions, changes to the "worldwide debt cap" rules for large groups of companies, amendments to the rules for companies claiming consortium relief and harmonising of the interest rules for late payments and repayments of corporation tax.

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