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budget report 2010

Alistair Darling presented his third Budget on Wednesday 24 March 2010.

Some of the measures will take effect immediately, whilst others will be enacted by a Finance Bill 'as soon as possible' in the next Parliament, so the timing of the changes needs to be carefully watched.

Our summary focuses on the issues likely to affect you, your family and your business. If you have any questions please do not hesitate to contact Ian, Steve or Melvin for advice.

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MAIN BUDGET PROPOSALS

- The Entrepreneurs' Relief limit will be doubled to £2 million for disposals on or after 6 April 2010. Gains qualifying for the relief are charged at an effective capital gains tax rate of 10%.
- Most businesses are able to claim an Annual Investment Allowance on the first £50,000 spent on plant and machinery. This provides immediate 100% tax relief on qualifying expenditure. The allowance is to increase to £100,000 from April 2010.
- Inheritance tax nil rate band is currently £325,000 and this band will be frozen until 2014/15.
- SDLT relief is introduced for first time home buyers where the consideration is not more than £250,000 and will be paid for by increasing SDLT on homes above £1 million.

Previous announcements

Some of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- the small companies rate is currently 21% and an increase to 22% is planned to take effect from 1 April 2011
- introduction of a 50% top rate of tax for those with income over £150,000 and the phased reduction of personal allowances for those with income over £100,000
- removal of higher rate relief for pension contributions from 6 April 2011 for those with high income.

PERSONAL TAX

Tax rates

As previously announced the government proposes significant changes to the system of personal allowances and tax rates for 2010/11. These mainly affect those with higher levels of income. The changes are set out below.

Allowances and rates

The 2010/11 personal allowance will remain at the current level of £6,475. The basic rate limit will also be maintained at £37,400. Therefore an individual will start to be taxed at higher rates when their total income exceeds £43,875.

Changes for 2010/11

The government had previously announced that the personal allowance would be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of adjusted net income above this limit. The personal allowance will therefore be reduced to nil when adjusted net income exceeds £112,950.

Adjusted net income for these purposes is broadly all income after adjustment for pension payments, charitable giving and relief for losses.

A new rate of income tax of 50% will be introduced from 6 April 2010. This will apply to taxable income above £150,000. Dividend income is currently taxed at 10% where it falls within the basic rate band and at 32.5% where liable at the higher rate of tax. A new rate of 42.5% will be introduced for dividends which fall above the £150,000 threshold.

National Insurance Contributions (NIC)

The NIC rates and limits are broadly frozen for 2010/11 at the 2009/10 figures. There are two exceptions to this in that the lower earnings limit will increase from £95 to £97 per week. All other rates will be held at the 2009/10 levels.

An increase in the rates of NIC is proposed from April 2011. A further 1% will apply to the rates applicable to employers, employees and the self-employed.

In order to protect those at the lower end of the earnings scale the government has announced that the primary threshold and lower profits annual limits will be increased by £570. Those paying the standard employee rate and earning below £20,000 will pay less NIC overall as a result of the change.

Pension contributions

Measures were introduced in 2009 to change the rules relating to pension contributions relief for higher earners, ie individuals who have relevant income above £130,000. Further detail has been provided on the plan to remove higher rate tax relief on the pension contributions of those with income in excess of £150,000.

These rules are extremely complex so please contact us if you require further advice.

Individual Savings Accounts (ISAs)

As previously announced, the 2010/11 ISA limits will be £10,200 of which £5,100 can be held in cash.
From April 2011 and over the course of the next Parliament the ISA limits will be increased in line with the Retail Prices Index (RPI) measure of inflation on an annual basis. In the event that the RPI is negative the ISA limits will remain unchanged.

Venture Capital Trusts and Enterprise Investment Schemes

The government intends to legislate in the Finance Bill to introduce four changes to the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes as agreed with the European Commission as a condition for their approval as State aids.

These changes are extremely complex so please contact us if you require further advice.

BUSINESS TAX

Corporation tax rates

The small companies corporation tax rate which applies to companies with up to £300,000 of profits is currently 21%. An increase to 22% is planned to take effect from 1 April 2011.

The main rate of corporation tax which applies to companies with profits of more than £1.5 million has already been set at 28% for the year commencing 1 April 2010. The same rate is to apply for the year commencing 1 April 2011.

The effective marginal corporation tax rate for profits between £300,000 and £1.5 million is 29.75%.

Associated companies for corporation tax rates

The upper and lower limits for corporate tax rates are divided equally between a company and its 'associated' companies. A company is associated with another company if one of them has control of the other or if both are under the control of the same company or person(s).

The shares of direct relatives, business partners and some trustees can be attributed to the person for the control test. So even if a husband owns no shares in a company, he may be deemed to own the company via his spouse's shareholding. This can have a significant effect on tax liabilities.

There are proposals to relax these rules and more information will be provided at a later date.

Capital allowances on plant and machinery

Most businesses are able to claim an Annual Investment Allowance (AIA) on the first £50,000 spent on most plant and machinery. This provides immediate 100% tax relief on qualifying expenditure.

The allowance is to increase to £100,000 from 1 April 2010 for a business within the charge to corporation tax and from 6 April 2010 for a business within the charge to income tax.

Zero-emission goods vehicles

A proposal to introduce a new 100% first year allowance (FYA) for capital expenditure on new and unused zero-emission goods vehicles has been announced for inclusion in a Finance Bill in the next Parliament. The new allowance is to be available on qualifying vehicle purchases but will not apply to such assets acquired for leasing.

The allowance is to apply to expenditure incurred from 1 April 2010 until 31 March 2015 inclusive for companies and from 6 April 2010 until 5 April 2015 inclusive for unincorporated businesses.

Review of green technology lists

Businesses purchasing designated plant and machinery which is energy saving, reduces water use or improves the quality of water are eligible for 100% capital allowances.
The qualifying technologies are reviewed annually and the current lists are available on the internet at www.eca.gov.uk.

False self-employment in construction

The Budget Report has confirmed that the government wants to develop a legislative approach which will deem workers within the construction industry to be in receipt of employment income unless certain criteria are met. The government consulted on this issue in 2009 and responses to the government's proposals have recently been published.

As a result of the consultation the government has decided:

- more work will be done to refine and develop the deeming test outlined in the consultation
- the test developed as a result of this further work with stakeholders will take effect when the industry is in a stronger position.

EMPLOYMENT ISSUES

Company cars and vans

Employees who are provided with a company car for their private use, which is propelled wholly by electricity, currently pay tax on the benefit which is based on 9% of the list price of the car. From 6 April 2010 this percentage will be reduced to 0% therefore reducing the benefit calculation and tax liability to nil.

The definition of a qualifying car will however be amended to remove the reference to 'wholly electrically propelled cars' to 'cars which cannot produce CO2 engine emissions under any circumstances when driven'.

In a similar vein, employees who are provided with a qualifying company van will have a nil benefit charge. The definition of a qualifying van will be as for a qualifying car.

A new 5% band will be introduced from 6 April 2010 for a company car which has an approved CO2 engine emission figure of 75gm/km or less.

All the measures will apply for five years.

Employer-supported childcare

Changes have been proposed but they will only affect individuals joining a scheme from April 2011.

CAPITAL TAXES

Capital gains tax (CGT)

The annual exemption for 2010/11 is frozen at £10,100. For most trusts the exempt limit remains at £5,050.

Despite speculation, the current rate for individuals and trustees capital gains remains unchanged at 18%.

Entrepreneurs' Relief

The amount of an individual's gains that can qualify for Entrepreneurs' Relief are currently subject to a lifetime limit of £1 million. For trustees, the £1 million limit is that of the beneficiary of the settlement who meets the conditions for the trustees to claim the relief. Gains qualifying for the relief are charged at an effective rate of 10%.

In an unexpected but welcome announcement, this limit will be increased to £2 million for disposals on or after 6 April 2010.

Inheritance tax (IHT) nil rate band

As previously announced, the nil rate band for 2010/11 will be frozen at the current level of £325,000. This will now be extended to cover the tax years 2011/12 to 2014/15.

VAT

VAT thresholds

The VAT registration limits increase with effect from 1 April 2010 as follows:

- the threshold for compulsory registration is £70,000
- the threshold for voluntary deregistration is £68,000.

Fuel scale charges

Businesses which recover input tax on fuel used for private motoring have to use VAT fuel scale charges to tax the private use of road fuel. New scale charges have been introduced for VAT periods starting on or after 1 May 2010.

OTHER MATTERS

Small business rate relief

Funds will be provided for a temporary increase in the level of small business rate relief in England. Eligible small businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from October 2010. Small businesses occupying properties with rateable values up to £12,000 that benefit from taper relief will receive significant reductions.

Offshore tax evasion

Legislation will be introduced in Finance Bill 2010 to provide for larger penalties for taxpayers who fail to provide a full account of their income tax or capital gains tax liabilities, where the failure is linked to an offshore matter.

There may be penalties of up to 200% of tax for deliberate and concealed evasion.

It is expected that the new penalty framework will apply to tax periods commencing on or after 1 April 2011.

Late filing of returns and payment of tax

A measure will complete the reform of the penalty regimes for late filing of tax returns and late payment of tax and other taxes including VAT, landfill tax and duties are now included.

The government intends to legislate this measure as soon as possible in the next Parliament.

Time to Pay

HMRC will continue to offer Time to Pay as part of its support for all viable businesses having difficulty in meeting their tax obligations.

If you need to take advantage of this support, you should contact HMRC (Tel: 0845 302 1435) as soon as you are aware that you will be unable to pay the tax and, ideally, before the payment becomes overdue. You will need to have the following information available:

- your tax reference number(UTR)
- details of the tax that you are or will have trouble paying
- when you expect to be able to pay the tax

In addition, to ensure that all requests continue to be assessed on a consistent basis, businesses that need to use the service more than once will be directed to a specialist team.

Further details of the Chancellor's Pre-Budget Report, including press releases, can be obtained from H M Treasury website at www.hm-treasury.gov.uk and H M Revenue & Customs website at www.hmrc.gov.uk.

Remember to check out our website at www.shapcotts-accountants.co.uk

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