

A Budget for Growth, Darling?

The Chancellor's Budget, 2010



In Budget 2010, the Chancellor has now set out his fiscal stall prior to the expected general election in May. This report focuses on some of the tax changes we can now expect for individuals and businesses. We will also have further changes to deal with after the election.

Let Capitax Financial help you consider the impact on you and your business.

Stay ahead

Personal Tax Announcements

Income Tax

As previously announced the basic rate (20%) limit will remain at £37,400 and the higher rate 40%. The additional rate of 50% on income over £150,000 is introduced from 6 April 2010. The higher rate of tax on dividends will be increased to 42.5%. As before, dividend income is treated as the 'top slice' of income. The limit for the 10% savings rate remains at £2,440. Personal allowances will remain at their existing levels.

From 6 April 2010 the value of personal allowances will be restricted for those with income above £100,000 tapering down to zero for anyone with income in excess of £112,950. This produces an effective income tax rate of 60% on income between £100,000 and £112,950, comfortably the highest in the G20.

Capital Gains Tax and Entrepreneur's relief

There was speculation prior to the Budget that the CGT rate would be increased to close the gap between the present 18% capital gains tax rate and the more punitive income tax rates which peak, from 6 April 2010, at 50%. Surprisingly there is to be no increase – CGT would remain at the flat rate of 18%. The present annual exempt amount for individuals of £10,100 is unchanged for 2010-11.

From 6 April 2010, the maximum lifetime limit for entrepreneur's relief is doubled to £2million. As this is taxed at an effective rate of 10%, this measure potentially entitles an individual to an additional £80,000 capital gains tax savings when selling qualifying business investments.

NIC rates and thresholds

Apart from minor adjustments to the Lower Earnings Limit for 2010-11, NIC rates and thresholds remain as in 2009-10. The previously announced combined increase of 1% in the main rates of NIC will be effective for 2011-12.

Pensions

From April 2011 tax relief will be restricted on pension contributions for those earning more than £150,000 (including the value of employer contributions and charitable donations). For those earning between £150,000 and £180,000 higher rate tax relief will be gradually reduced. Earnings over £180,000 will only qualify for basic rate relief.

Furnished Holiday Let Property

As previously announced the special tax concessions offered to owners of qualifying Holiday Let Property will cease from 6 April 2010. From this date, income from such property will be taxed in the same way as income from other property rental businesses.

Income Tax

The current Nil Rate Band of £325,000 will be frozen at this level for all tax years up to 2014-15.

Trusts

Tax rate applicable to trusts increases to 50% from April 2010. Settlers who receive a tax repayment because their own tax rate is less than 50% will be required to repay the refund back to the trustees. Such repayments will be disregarded for inheritance tax.

Business Tax Announcements

Capital Allowances

Annual Investment Allowance (AIA) at 100% on qualifying capital expenditure has been doubled to £100,000 from April 2010 (effective 1 April for companies, 6 April for individuals/partnerships) However, a new anti-avoidance rule will be introduced that will disallow property losses to the extent that they are due to AIA, if the losses arise as a result of relevant tax avoidance arrangements. It is worth noting that the current 40% FYA rules have not been extended.

Tax breaks for zero and low emission vehicles

As announced in PBR, 100% first year allowances will be available on the purchase of new goods vehicles that are not capable of producing CO2 emissions. The relief will be available for companies incurring such expenditure on or after 1 April 2010 and before 1 April 2015 (6 April 2010 and 6 April 2015 for individuals). Similarly, there will no taxable benefit for an employee that is provided with a zero emission van or car and a reduced taxable benefit percentage of 5% for an employee provided with a car that produces less than 75g/km of CO2. These reductions will apply from 6 April 2010 to 5 April 2015.

Carry back of losses - Corporation tax

The temporary extension of trading loss carry-back from one to three years for losses up to £50,000 continues for company losses arising in accounting periods ending between 24/11/08 and 23/11/10.

Carry back of losses - Income Tax

The temporary extension of trading loss carry-back from one to three years for losses up to £50,000 continues for the 2008-09 and 2009-10 tax years for unincorporated businesses; consequently this relief for income tax purposes will cease 5th April 2010.

Corporation Tax Rates

The main rate of corporation tax (for large companies) remains unchanged for the financial years 2010/11 and 2011/12 at 28%. The small companies' rate of corporation tax will remain at 21% for the financial year 2010/11 to be increased to 22% in financial year 2011/12. Measures are to be introduced from 1 April 2011 to simplify the associated company rules as they apply to the small companies' rate of corporation tax.

Small business rate relief

The level of small business rate relief in England is to be temporarily increased for one year from 1 October 2010 to give full relief for eligible businesses premises with a rateable value up to £6,000 and tapering relief to £12,000.

Indirect Tax Announcements

Stamp Duty – Residential Property

One of the more politically charged announcements was the introduction of a new relief for first time home buyers which will exempt them from Stamp Duty on a property purchase up to £250,000 - this is effective for transactions taking place on or after 25 March 2010 and before 25 March 2012.

To qualify all of the following conditions will need to be met:

1. The individual or individuals jointly purchase a major interest in land which is wholly residential; and
2. The consideration is more than £125,000 but not more than £250,000; and
3. The individual(s) intends to occupy the property as his/her or their only or main residence and has or have not previously purchased such an interest or its equivalent anywhere in the world.

To fund this additional relief a higher SDLT rate of 5% will be introduced from 6 April 2011 for purchases of residential property exceeding £1 million.

VAT

The rate of VAT remains at 17.5%. The taxable turnover threshold, that determines whether you should be registered for VAT, will increase from £68,000 to £70,000 from 1 April 2010. The taxable turnover threshold that determines whether you could apply for deregistration will be increased from £66,000 to £68,000 on the same.

A new penalty regime is to be introduced for late submission of returns and late payments of VAT and other indirect taxes.

A fixed penalty of £100 will apply on the first failure to submit a return on time, escalating by a further £100 for each subsequent failure up to a maximum of £400. These fixed penalties will apply even if the tax has been paid. An additional 5% will be charged if the return remains outstanding for more than 6 months and another 5% after 12 months. Penalties for late payments of VAT will also be levied at 2%, 3% and 4% for each second, third and fourth default respectively. A further 5% will be added after 6 months and again after 12 months if the tax remains unpaid – resulting in a maximum 14% penalty charge.

Anti-Avoidance Measures

A number of anti-avoidance measures have been introduced as part of the Budget tackling various forms of planning and we flag the material areas below:

SDLT and partnerships

Rules are being introduced in relation to SDLT applying to transactions between members of a partnership. Existing anti-avoidance rules currently apply SDLT in respect of 'notional land transactions' and these rules are being extended to prevent the special partnership rules from applying to such transactions.



Loans to participators

Legislation effective from 24 March 2010 will deny a corporation tax deduction for the amount of the release, or write-off, of a loan made by a close company to a relevant person (participator). The release or write-off will continue to be treated as a distribution in the hands of a relevant person.

Tax Administration

The announcements continued the theme of previous Budgets, with further refinement and streamlining of tax administration rules:

Late filing and payment of returns

Measures will be introduced to encourage filing and payment by the correct dates by introducing an escalating series of penalties depending upon the number of failures within a set penalty period. Further penalties will arise if there is a prolonged delay in filing returns or paying the tax due.

Financial security for late payment of PAYE and NIC

Legislation is to be introduced to allow HMRC to require a financial security from employers where amounts due under PAYE or NICs obligations are seriously at risk. This would be in line with the current practice for VAT.



Penalties for offshore tax avoidance – Finance Bill

2010 will introduce 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.



vision through excellence

CHARTERED ACCOUNTANTS | TAX CONSULTANTS | BUSINESS ADVISORS

Capitax Financial Ltd is a firm of Chartered Accountants and Tax Consultants, specialising in providing tax, accountancy and business services to small and medium sized businesses, whether the business is a new set-up or a growing one.

Our services extend to the people who run the businesses, helping them to achieve their personal and corporate objectives. We also focus on private clients seeking personal tax and wealth management advice.

Capitax Financial Ltd

Devonshire House, 582 Honeypot Lane, Stanmore, Middlesex, HA7 1JS

T +44 (0) 208 732 5585

E info@capitaxfinancial.com

F +44 (0) 208 711 6911

W www.capitaxfinancial.com

