

# “Emergency” Budget 2010

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## FOREWORD

We have lost trust in our elected MPs. Amazingly this originally occurred due to a few overzealous expense claims and not due to the £893 billion that has been borrowed and spent on our behalf. The electorate, and hence those in power, have now focused on the latter.

Had we spent this money defending our country from an evil dictator and preserving liberty perhaps our children would have been proud to work to pay it back; as other generations have before them. Sadly we have simply spent the money on ourselves and cannot really expect those now under 18, with no current vote, to pay.

Can we ever trust, should we ever trust, elected individuals, with a maximum time horizon of five years and no personal risk, to manage such backbreaking sums of money again? The answer of course has to be no. The Chancellor has already recognised this with the new Office for Fiscal Responsibility. In fact two of his three themes are Responsibility and Fairness. The third being Freedom. Presumably, his freedom to cut and tax!

Paul Ffitch  
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Further copies of this guide, together with further information concerning the Budget, are available on our website at [www.sayersb.co.uk](http://www.sayersb.co.uk).

Note: This Guide has been compiled from the Chancellor's Budget Report, Budget Statement and Government Press Releases. The legislation necessary to implement these proposals will be contained in a Finance Bill expected to be published shortly. The Bill will then pass through Parliament before becoming law as the Finance (No.2) Act 2010. Until then the Chancellor's proposals should be regarded as subject to amendment. No liability can be accepted for any loss incurred by a person relying solely on the content of this Guide.

## OVERVIEW:

The announcements made today were a mixture of new initiatives, exact repeats of announcements made by the previous Chancellor in March and repeats of previous announcements with subtle changes.

Some measures announced in March have already been enacted under Finance Act 2010 and as a result they have not been repeated today. To avoid confusion this Guide contains only items that were announced today and that will form part of Finance (No.2) Act 2010.

The five year plan to rebalance the economy concentrated on the reduction of government spending with a fifth of the rebalancing being achieved through tax rises.

- The main revenue raiser was clearly the proposed increase in VAT to 20% as from 4 January 2011.
- Capital Gains Tax is up 10% to 28% but with safeguards to the cherished 10% Entrepreneurs Relief.
- A Bank Levy of up to 0.07% based on short and long term liabilities of banks.
- A halving of the Annual Investment Allowance.

Tax breaks included:

- An Employers National Insurance holiday for the first year of new businesses in certain areas.
- An increase in the Personal Allowance of £1,000 for under 65's with any benefit for higher rate taxpayers subsequently removed by a reduction of the higher rate thresholds.
- A review on the restriction of tax relief on pension contributions should be completed by the Autumn.
- Corporation tax rates to fall to 24% by 2014-15 with the small companies rate of 20% April 2011.

# BUDGET JUNE 2010

## INCOME TAX

### From 6 April 2011

- The personal allowance for those aged under 65 will be increased by £1,000 to £7,475;
- The basic rate limit will be reduced so that higher rate tax payers do not benefit from the increase in the personal allowance.

### Pensions – Restricting Tax Relief

The Government will consult with employers and pension providers to determine a new pensions regime with the intention to introduce a new, simplified regime from April 2011. It has been suggested that the new regime will include an annual allowance in the region of £30,000 - £45,000 and include a revised lifetime allowance (currently £1.6 million).

This new regime will replace the proposed changes to pensions tax relief of high earners introduced by the previous Government. These changes involved the restriction of higher rate tax relief on pension contributions from 6 April 2011 for those with incomes of more than £150,000.

#### **Tax Tip: Pension Contributions**

Details of a new regime for tax relief on pension contributions should be available in the Autumn. Please do not hesitate to contact us if you have any queries, or would like to review your position later this year.

### Pensions – Anti-Forestalling

The anti-forestalling measures introduced by the previous Government will remain in place until April 2011 when it is expected that a new pension regime will be introduced.

### Pensions – Requirement to Purchase an Annuity

The Government has announced that the income tax and inheritance tax charges that apply if a pension fund has not purchased an annuity by a member's 75<sup>th</sup> birthday will be withdrawn from 5 April 2011. As a temporary measure until the new rules are introduced, from 22 June the age limit will be increased to 77.

#### **Tax Tip: Pension Annuities**

If you are approaching 75, you may wish to defer purchasing an annuity until the new rules are known and you have had the chance to discuss the position with your adviser.

# **BUDGET JUNE 2010**

## **INCOME TAX: Continued**

### **ISAs – Indexed Limits from 6 April 2011**

The annual ISA limit of £10,200, of which up to £5,100 can be saved in cash, will be increased in line with inflation (RPI) on an annual basis from April 2011. The increase will be rounded to a convenient multiple of £120, to allow monthly contributions to be more easily calculated.

### **Furnished Holiday Lettings**

The current Furnished Holiday Lettings rules will not be withdrawn from 6 April 2010, as announced by the previous Government. However, new rules will be introduced from April 2011 following a public consultation into a proposal to tighten the qualifying criteria for a property to be treated as a furnished holiday let.

### **Deduction of Income Tax at Source**

Legislation will be introduced to allow HM Revenue and Customs to make regulations regarding how and when individuals should account for income tax deducted from payments of interest or royalties.

### **Taxation of Non-UK Domiciliaries**

Following the changes introduced in April 2008, a further review of the taxation of non-UK domiciliaries has been announced.

# BUDGET JUNE 2010

## BUSINESS TAX

### Corporate Tax Rates

- The main rate of Corporation Tax has been 28% since 1 April 2008 for companies whose profits are above the upper relevant amount. This 28% rate will be reduced to 27% on or after 1 April 2011. Further 1% annual reductions down to a rate of 24% by 1 April 2014 are proposed.
- The small profits rate for profits below the lower relevant amount was set at 21% from 1 April 2008. The 21% rate will be reduced to 20% on or after 1 April 2011.
- The upper and lower relevant amounts of £1.5m and £300,000 respectively are reduced where a company has one or more associates (i.e. companies under common control). These limits will remain unchanged.

### Tax Tip

With the differential between Income Tax and Company Tax rates those who are self-employed or even in partnership may be advised to revisit the question of whether to incorporate or not. Anyone nearing retirement or planning a sale of their business in due course may find substantial tax savings to be made from incorporating.

### Capital Allowances – All Businesses

Capital allowances allow businesses to write off the cost of capital assets, such as plant and machinery, against their taxable income. They take the place of commercial depreciation which is not allowed for tax.

#### Plant & Machinery – Annual Investment Allowance

From April 2008 most businesses have been able to claim an Annual Investment Allowance (AIA) on the first £50,000 of plant and machinery expenditure (subject to certain exceptions – the main one being expenditure on cars).

With effect from 1 April 2010, for businesses within the charge to Corporation Tax, and from 6 April 2010 for businesses within the charge to Income Tax, the maximum amount of the AIA increased to a new limit of £100,000.

Where a business has a chargeable period that spans the April 2010 date the AIA will be duly apportioned. However, only expenditure of up to a maximum of £50,000 incurred before April 2010 will qualify for this increased AIA relief.

With effect from April 2012 the maximum amount of the AIA will be reduced from £100,000 to a new limit of £25,000.

It should be noted that there are special rules about the entitlement to AIAs for companies within a group or under common control. These rules remain in force.

#### 3.2.1

# BUDGET JUNE 2010

## BUSINESS TAX: Continued

### Capital Allowances – All Businesses

#### Plant & Machinery – Writing Down Allowance (WDA)

- The general rate of plant and machinery WDA is currently 20% per annum on a reducing balance basis. For special rate expenditure the rate of plant and machinery WDA is currently 10 per cent per annum on a reducing balance basis. Special rate expenditure includes expenditure on long-life assets, thermal insulation, integral features and expenditure incurred on or after 1 April 2009 on cars with CO<sub>2</sub> emissions of more than 160g/km.
- The main rate of WDA will be reduced from 20% to 18% and the special rate from 10% to 8% from 1 April 2012 (Corporation Tax) or 6 April 2012 (Income Tax). The rate changes will have effect from a fixed date so for those businesses where the chargeable period spans the April 2012 date hybrid rates will have effect for the whole of that transitional chargeable period.

#### Zero Emission Goods Vehicles

As previously announced in the March 2010 Budget, expenditure incurred on the purchase of new and unused (not second hand) zero emission goods vehicles (as defined) will attract a 100% First Year Allowance (FYA) from April 2010. This additional FYA relief will continue for a period of five years. The amount of expenditure that may qualify for the new FYA is limited to €85m over the five year period. Needless to say there are various exclusions and limitations to the new relief.

#### Qualifying Carers

The forthcoming Finance Bill will correct various technical anomalies in the special capital allowances rules in relation to the Income Tax relief for foster carers to ensure that the rules operate as intended when individuals start, or finish, qualifying or electing for foster-care relief. The amended legislation would also apply to shared lives carers when the special rules are also extended to them.

### National Insurance Contributions (NIC)

Although the precise thresholds for the various rates of NIC will not be known until the autumn, the June 2010 Budget would nonetheless seem to confirm that the proposed NIC rates for 2011/12 will remain as originally proposed viz:

- The main rate of Class 1 and Class 4 NICs will increase from 11% to 12% and from 8% to 9% respectively.
- The employer rate (to include Class 1A and Class 1B contributions) will increase from 12.8% to 13.8%.
- The additional rate of Class 1 and Class 4 NICs will increase from 1% to 2%.

### 3.2.2

# **BUDGET JUNE 2010**

## **BUSINESS TAX: Continued**

### **Capital Distributions**

Most distributions received by UK companies are exempt from Corporation Tax. The Finance Bill will now clarify the treatment of certain distributions and in particular will mean that the distributions will not be prevented from being exempt solely because they are of a capital nature.

### **Enterprise Management Incentives (EMI)**

At present, a company granting qualifying EMI share options to its employees is required to operate “wholly or mainly” in the UK. New legislation will be introduced in the Finance Bill whereby a company granting EMI options will in future be required instead to have a “permanent establishment” in the UK. In the case of a parent company of a group the requirement will be that at least one company in the group carrying on a qualifying trade must have a “permanent establishment” in the UK. This amendment is being made to ensure that EMI schemes comply with EU state aid guidelines.

### **Research & Development (R&D)**

The Finance Bill will legislate to remove the condition requiring that any intellectual property deriving from the R&D expenditure must be owned by the company making the claim for enhanced tax relief for R&D expenditure. This change will have effect for expenditure incurred by small or medium size enterprises and will apply for accounting periods ending on or after 9 December 2009.

### **Consortium Relief**

New legislation will be introduced to amend the “link company” for consortium relief. At present the link company must be UK resident. It is proposed that in future any company established within the EEA can be a link company.

A further test will also be introduced to determine the amount of a consortium’s losses that may be claimed by its members.

### **Restriction on Relief for Interest (Worldwide Debt Capital”)**

For accounting periods beginning on or after 1 January 2010 the Finance Bill will include restrictions on the level of UK financing costs on which UK resident companies can obtain tax relief where these costs exceed the financing costs of the worldwide group.

# **BUDGET JUNE 2010**

## **CAPITAL TAXES**

### **Capital Gains Tax**

As from 23 June 2010 the Capital Gains tax rate for higher rate taxpayers will increase from 18% to 28%. Where total income and gains fall below the higher rate tax bands gains will continue to be taxed at 18%. For trustees and personal representatives the 28% rate will apply.

Gains arising in 2010/11 made before 23 June 2010 will continue to be liable at 18% and will not be taken into account in determining the rate(s) at which gains post 22 June 2010 should be taxed.

“Entrepreneurs” were able to qualify for an effective 10% rate of Capital Gains Tax where they made a qualifying business disposal. This is basically a disposal of all or a substantial part of a trading business. The “effective” 10% rate is replaced with an actual 10% from 23 June 2010. When first introduced this relief was only available for lifetime gains of up to £1,000,000. As from 6 April 2010 the lifetime limit was increased to £2,000,000. As from 23 June 2010 this is further increased to £5,000,000. As we said in March this welcome measure is unlikely to cost the Treasury too much in the coming months and hopefully will provide a much needed boost to the economy.

As previously announced in March, with effect from 9 December 2009 individuals setting aside part of their home for use under a local authority adult placement centre will continue to be entitled to Private Residence Relief.

The Annual Exempt Amount will remain at £10,100 per tax year.

# BUDGET JUNE 2010

## OTHER MATTERS

### Venture Capital Trust (VCT) and Enterprise Investment Schemes (EIS)

Following on from the March 2010 announcements, legislation will be introduced relaxing the requirements for such investments to qualify for tax relief. This will allow VCT shares to be traded on any EU regulated market (not just the UK); furthermore, with regard to the EIS and VCT company, the qualifying trade no longer needs to be carried out in the UK but simply has to have a permanent establishment in the UK. These measures along with other proposed revisions will allow more diversity in the VCT/EIS market and in turn, provide the investor with a wider investment choice.

#### Tax Tip

VCTs and EIS investments provide valuable forms of tax shelters; there is still plenty of time before the end of the 2010/11 tax year to consider whether you could benefit tax-wise. Currently, VCTs allow income tax relief at 30% on qualifying investments up to £200,000; EIS investments qualify for income tax relief at 20% on up to £500,000 along with Capital Gains Tax deferral relief and possible carry back opportunity.

### Penalties: Late Filing of Tax Returns and Tax Payments

Following the March 2010 announcements, legislations will be introduced to finally complete the reform of the penalty regime for late submission of Returns and payment of tax. The idea is to encourage filing and payment by the correct dates by having a tougher system of penalties. This is a dramatic departure from the current regime which almost pales into insignificance in comparison. Although the details are yet to be finalised the key elements of the penalty model proposed is:

- immediate £100 late filing penalty, regardless of whether the tax due has been paid;
- following the initial £100 charge, the “penalty period” commences and this is set for a year. During this period, fixed penalties of £100 can accrue for the first 6 failures in any “penalty period” and, then £200 for subsequent failures. The period can be extended by a further year for non-compliance; indeed it would appear that where there are continual failures, the penalty regime is harsher than the changes indicated back in March 2010;
- if the Return remains outstanding, further penalties can arise equivalent to 5% of the tax due;
- where tax is paid late, a penalty period is set for a year; continued non-payment during this period will trigger a charge of 2% of the unpaid tax as well as extending the penalty period. Penalties will continue to accrue to a maximum of 4%. Prolonged non-payment will attract charges of 5% of the unpaid tax after 6 and 12 months.

#### 3.4.1

# BUDGET JUNE 2010

## OTHER MATTERS: continued

### **Tax Warning**

With HMRC using brute force to bring taxpayers into line, it has become more important than ever that your Tax Return is prepared early. It avoids the unwelcome eye of HMRC and also ensures we have sufficient time to calculate and advise you of the tax due.

### **REITs – Stock Dividends**

Following the March 2010 announcements, legislation will be introduced to allow Real Estate Investment Trusts (REITs) to distribute 90% of their profits by way of a cash dividend is to be relaxed to include stock dividends. The stock dividends will continue to be subject to income tax but the change is intended to provide greater flexibility to the REIT itself.

### **Quality Care Relief**

This introduces a lump sum tax-free allowance available to qualifying carers from 6 April 2010, as an alternative to current simplified arrangements.

### **Bank Levy**

This will be introduced from 1 January 2011 and, very simply is based upon short and long-term liabilities of banks and building societies; the aim of this is to encourage these institutions and groups to move to less risky funding profiles. It should be welcomed that at long last, financial institutions make a fair contribution to reflect the potential risk they present the UK financial system and the economy generally. Final details of the levy will be released later in the year.

### **Members of Parliament – Expense Payments**

The much heralded new scheme under which MPs are paid expenses came into effect on 6 May 2010. Retrospective legislation has therefore been introduced to consolidate the income and National Insurance treatment and in some cases, it would appear that the rules for tax purposes will be more stringent.

### **VAT: Standard Rate**

Legislation will be introduced in Finance Bill 2010 to increase the standard rate of VAT from 17.5% to 20% with effect from 4 January 2011.

Anti-forestalling legislation will be introduced to counteract schemes designed to avoid the increases.

For businesses using the flat rate scheme new percentages have been issued to reflect the increase in the standard rate.

# **BUDGET JUNE 2010**

## **OTHER MATTERS: continued**

### **VAT: Zero Rate**

The Chancellor has confirmed that zero rated supplies such as foodstuffs and children's clothing will remain unaffected.

### **VAT: "Lennartz" accounting**

Under current legislation on the purchase of immovable property, boats and aircraft VAT is initially recoverable in full on both the business and expected private use of the asset. VAT recovered is then clawed back in subsequent years in respect of any private use. This is known as Lennartz accounting. The proposed changes will mean that in future VAT recovery is restricted from the outset to only the business use of an asset. This measure was previously announced in March.

### **Settlor Interested Trusts**

Where an individual can benefit from a trust they themselves have set up anti avoidance rules prevent any tax advantage. With the new trust rate moving to 50% as from 6 April 2010 measures will be introduced to require settlors to pay over any tax repayments they receive as a result of the legislation. These payments to the trust will be disregarded for inheritance tax purposes. Again, this measure was previously announced in March.

# RATES AND ALLOWANCES

## INCOME TAX

			2010/11	2011/12
			£	£
Personal Allowance	(age under 65)	*	6,475	7,475
	(age 65 – 74)	**	9,490	****
	(age 75 and over)	**	9,640	****
Married Couple's Allowance	(age 75 and over)	***	6,965	****
	minimum amount	***	2,670	****
Income Limit for Age-Related Allowances		**	22,900	****
Blind Person's Allowance			1,890	****

\* Personal Allowance restricted by £1 for every £2 of income over £100,000 (no age based exemption)

\*\* The Age allowance will be restricted by £1 for every £2 of income over the "Income Limit" down to the personal allowance as applies to individuals under 65 years of age.

\*\*\* Indicates allowances where tax relief is restricted to 10%.

\*\*\*\* The figures for 2011/12 will not be announced until September's RPI is known.

## Tax Rates and Bands

		2010/11		2011/12
		£		£
Basic Rate	20%	0 - 37,400	20%	0 - 34,900
Higher Rate	40%	37,401 - 150,000	40%	34,901 - 150,000
Additional Rate	50%	Over 150,000	50%	Over 150,000

From 6 April 2011, it is proposed that the basic rate limit will be reduced by £2,500. This figure is not final but should be confirmed in the autumn.

UK savings income falling within the first £2,440 of the basic rate band is taxed at 10%, provided that the non-savings income does not exceed this level.

UK dividends within; the basic rate limit are taxed at 10%, the higher rate limit at 32.5% and the additional rate limit at 42.5%.

## NATIONAL INSURANCE - 2010/11

### Class 1 Contributions for Employers

Weekly Earnings	Up to £110	£110 to £844	Over £844
Standard Rate	0%	12.80%	12.80%
Contracted Out Salary Related	0%	9.10%	12.80%
Contracted Out Money Purchase	0%	11.40%	12.80%

### Class 1 Contributions for Employees

Contribution Rate (Contracted Out Rate)	0% (0%)	11% (9.40%)	1% (1%)
Weekly Earnings	£0 - £110	£110 - £844	Over £844
Monthly Earnings	£0 - £477	£477 - £3,657	Over £3,657
Annual Earnings	£0 - £5,715	£5,715 - £43,875	Over £43,875

### Class 2 Contributions for the Self-Employed

Weekly Flat Rate	£2.40
Small Earnings Exemption	£5,075

### Class 3 Voluntary Contributions

Weekly Rate	£12.05
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### Class 4 Contributions for the Self-Employed

Profits between £5,715 and £43,875	8%
Profits above £43,875	1%

## RATES AND ALLOWANCES - continued

### CORPORATION TAX

Financial Year to	31 March 2011	31 March 2012
<b>Taxable Profits</b>		
Up to £300,000	21%	20%
£300,001 - £1,500,000	29.75%	28.75%
Over £1,500,000	28%	27%

### CAPITAL GAINS TAX

#### Annual Exemption

	2010/11	2011/12
	£	£
Individuals	10,100	10,100
Personal Representatives	10,100	10,100
Trusts	5,050	5,050

Prior to 23 June 2010 all chargeable gains were taxed at a flat rate of 18%. From 23 June 2010 gains are now added to taxable income as the top slice and taxed at 18% if the total falls within the basic rate band, and any excess gains taxed at the new higher rate of 28%. Trusts and estates will be taxed at the new 28% rate.

Entrepreneurs' Relief - from 6 April 2010, the first £2 million (previously £1 million) of qualifying Capital Gains are taxed at an effective tax rate of 10%. From 23 June 2010 the first £5 million of lifetime gains will be taxed at an actual rate of 10%.

### INHERITANCE TAX

	2010/11	2011/12	2012/13
	£	£	£
Nil-Rate Band	325,000	325,000	325,000
Annual Allowance	3,000	3,000	3,000
Small Gifts Exemption	250	250	250

The rate of Inheritance Tax is 40% on death and 20% for lifetime chargeable transfers.

### STAMP DUTY

Rates	Residential Property	Commercial Property
0%	£0 - £125,000	£0 - £150,000
0% (first time buyers from 25/3/2010 to 24/3/2012)	£0 - £250,000	n/a
1%	£125,001 - £250,000	£150,001 - £250,000
3%	£250,001 - £500,000	£250,001 - £500,000
4%	£500,001 - £1,000,000	£500,001 - £1,000,000
5% (from 6/4/2011)	Over £1,000,000	n/a
0.5%	Sale or Transfer of Shares and Securities	

### VAT

	£
VAT registration threshold	70,000
VAT deregistration threshold	68,000
Flat-rate scheme	VAT turnover
	150,000 (ex VAT) in next 12 months
	Total business income
	187,500 (inc VAT) in next 12 months
Cash Accounting	Turnover
Annual Accounting	1,350,000 (ex VAT) in next tax year

From 4 January 2011 the standard rate of VAT will increase from 17.5% to 20%.