



Budget Newsletter 2010



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A Political Budget

As expected, Alistair Darling's performance was very much a political affair with very little in the way of major tax changes.

The Chancellor took great delight (and it has to be said was very entertaining!) at announcing the new tax information exchange with Belize, to keep Lord Ashcroft's tax affairs very much in the political spotlight.

In any game there are winners and losers and in this political one, the winners are SMEs, first time buyers and successful entrepreneurs, whilst the losers are tax evaders, the wealthy and cider drinkers!

Please click on one of the headings on the right for our commentary on a particular subject, or simply scroll down to view the complete analysis.

New tax & NIC rates for 2010 - 2011

Income Tax

	2009-10 £	2010-11 £
Personal Allowance - under 65	6,475	6,475
Personal Allowance – 65 – 74	9,490	9,490
Personal Allowance – 75 and over	9,640	9,640
Married Couples Allowance – under 65	N/A	N/A
Married Couples Allowance – 65 – 74 born pre 6/4/1935	N/A	N/A
Married Couples Allowance – 75 and over	6,965	6,965
Earned income – Basic Rate (20%) Band – income to	37,400	37,400
Earned income – Higher Rate (40%) income over	37,400	37,400



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National Insurance

	2009-10 £	2010-11 £
Per week		
Class 1 - Employment income		
Lower earnings limit - No NIC paid at this limit - credit given	95	97
Secondary limit - NIC starts to be paid	110	110
Upper earnings limit – main rate limit	844	844
Upper accruals point – no further credit given but NIC paid	770	770
Class 2 rate	2.40	2.40
Small earnings limit (annual profits)	5,075	5,075
Class 4		
Lower profits limit – per year – 8% rate charged above	5,715	5,715
Upper profits limit – per year – 1% rate charged above	43,875	43,875

From 2011-12

All rates of class 1, class 1A and class 4 NIC are due to increase by 1% on 6 April 2011. The lower limits, under which no contributions are payable, will also increase from this date

Higher earning individuals

From 6 April 2010 onwards there will be a higher personal income tax rate of 50% for taxable income above £150,000. Dividends, which are taxed as the “top slice” of income, will be taxed at a new rate of 42.5% where they fall above the £150,000 band.

The personal allowance will also be restricted for individuals with “net income” of over £100,000. For every £2 of “net income” above £100,000 the allowance will be restricted by £1 until it is reduced to nil.

For example, somebody who is under 65 at the end of the tax year would be entitled to a personal allowance for 2010-11 of £6,475. However, if they had ‘net income’ of:

- £107,000 they would only be entitled to a personal allowance of £2,975;
- over £112,950 they would not be entitled to any personal allowance.

For this purpose, “net income” means income subject to income tax:

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- minus certain specified deductions such as trading losses and payments made gross to pension schemes such as retirement annuity schemes
- minus grossed-up gift aid donations
- minus grossed-up personal pension contributions

If you suspect that your 'net income' for the upcoming 2010-11 tax year may exceed £100,000, and you wish to discuss possible ways of reducing your income for tax purposes and avoid paying tax at the higher 50% tax rate, please contact Bevan Osgood on 01228 530913.

Trusts

The tax rate applicable to trusts will be increased to 50%, and the dividend trust rate will be increased to 42.5%.

Individual Savings Account

In an effort to assist savers who are currently faced with much lower interest rates than those earned in previous years the ISA subscription limit will increase from £7,200 to £10,200 for all savers from 6 April 2010. A maximum of £5,100 of this investment limit can be saved in a cash ISA.

From 6 April 2011, and over the course of the next Parliament, the ISA limits will be increased in line with the Retail Price Index on an annual basis, with increases being rounded to the nearest multiple of £120 to assist those who save monthly into their ISA.

If you have not already used your 2009/2010 ISA allowance and would like to discuss your investment strategy please contact our sister company Dodd Murray Ltd on 01228 522258 who will be pleased to help. A married couple taking action now could invest almost £35,000 in a tax free environment over the course of the next two weeks, which could lead to significant tax savings.



Corporation Tax

The government is to keep corporation tax rates at 21% and 28% from April 2010 (for small and large companies respectively).

With the Conservatives having announced that they will, if elected, cut corporation tax rates to 20% and 25% respectively, there appears to be a clear dividing line between the two parties in this area. However, the tax position is never as straightforward as it may initially appear e.g. with the government having doubled the Annual Investment Allowance to £100,000 (and the Conservatives indicating that they would scrap this tax relief), many small companies will probably pay less tax under the government's proposals.

It was very encouraging to see that the government has announced an extension of their current "Time to Pay" initiative, which allows businesses the opportunity to defer their tax liabilities over a period of up to 12 months. We have been very concerned that if this initiative was withdrawn in the Budget, it would place a great deal of pressure on cash-flows. The good news is that the "Time to Pay" facility will continue for up to another five years.

It is also hoped that many small businesses will actually get access to some of the £94 billion that has been promised by the government through the new lending targets that it has set for the RBS and Lloyds. Bank lending continues to be a major issue for many small businesses and this announcement is very welcome

Entrepreneurs' Relief Lifetime Limit Doubles

Entrepreneurs' Relief was introduced on 6 April 2008 to replace the very valuable reliefs known as indexation allowance and taper relief in reducing the amount of gain that is chargeable to Capital Gains Tax (CGT).

The relief is available where certain conditions are met on capital gains incurred on material disposals of business assets, and reduces the amount of capital gain liable to CGT by 4/9ths.

Previously entrepreneurs' relief was subject to a lifetime limit of £1 million pounds of gains, the gain being reduced by 4/9ths, effectively meaning that the tax rate was reduced to 10% instead of 18% on qualifying gains up to this limit.

However from 6 April 2010 the lifetime limit on gains qualifying for entrepreneurs' relief will increase from £1 million to £2 million. This will be a welcome announcement to individuals and trustees disposing of assets



at a gain in the future, particularly where they have already used their £1 million lifetime limit. The relief does not apply to limited companies.

Where gains in excess of £1 million have been made prior to 6 April 2010, no additional relief will be due for the excess above the old limit. The additional relief will only apply to disposals after 6 April 2010. The other tests for entrepreneurs' relief remain unaffected by the change.

Value Added Tax

In line with previous years, the VAT registration threshold will benefit from a small increase and move from £68,000 to £70,000 with effect from 1 April 2010. The threshold for deregistration will also increase on this date to £68,000.

There will also be an increase in the fuel scale charges from 1 May 2010 to reflect the changes to fuel prices (although the Chancellor did announce that the fuel duty increase on petrol and diesel outlined in the pre-budget report would be phased in on 1 April 2010, 1 October 2010 and 1 January 2011 in a bid to help economic recovery).

Some businesses may also see an increase (from 31 January 2011) in their postal costs following the removal of the VAT exemption. Any delivery services provided by Royal Mail which have been specially negotiated (and not subject to price or regulatory control) will be subject to VAT at the standard rate.

Stamp Duty Land Tax Changes

The threshold for stamp duty land tax (SDLT) will increase to £250,000 for first time buyers. This will affect purchases made on or after 25 March 2010, but before 25 March 2012.

The relief is only available where the buyer or buyers have never purchased a property anywhere in the world, and where they will occupy the property as their main residence.

If two or more buyers are purchasing a property together, then the purchase will only be eligible for this relief if neither buyer has owned a property before.



This relief will be paid for by increasing the rate of SDLT for purchases of residential property costing over £1m. SDLT will increase from 4% to 5% on these purchases with effect from 6 April 2011.

The Chancellor also announced anti avoidance provisions to prevent individuals using partnership rules to reduce the amount of SDLT paid on land transactions.

Inheritance Tax

Nil Rate Band

The Nil Rate Band for inheritance tax was £325,000 in 2009/10 and will remain at £325,000 for the next four years – up to and including 2014/15.

As the nil rate band of the first spouse to die can be transferred to the second spouse's estate, it is possible for a couple to pass assets to the value of £650,000 from their combined estate on death without paying IHT. Any value over this threshold will suffer IHT at a rate of 40%.

Tax refunds and Settlor Interested Trusts

This is a rather technical point, which will relieve a potential tax problem. This provision affects settlors who can benefit from the trust that they themselves have created. Where this happens, both the trustees and the settlor are subject to tax on the income, with credit given to the settlor for the tax paid by the trustees.

Where the tax paid by the trustees is more than would be payable by the settlor, the settlor receives a refund, which he is required to pay back to the trustees. These payments to the trustees could be considered to be further additions to the property of the settlement, that is further gifts made by the settlor, and therefore using up some of the settlor's nil rate band for IHT purposes. This legislation will ensure that they are not treated as gifts for IHT.



Capital Allowance

Annual Investment Allowances (AIAs)

Currently AIAs are available to all businesses for investment of up to £50,000 in plant and machinery to be used by the business. Contrary to industry expectations, the Government have doubled this limit to £100,000, with the limit being time apportioned where businesses' accounting period straddles the implementation date (i.e. 1 April 2010 for companies and 6 April 2010 for other businesses).

Though this is great news for those businesses that have incurred more than £50,000 in their current period, attention will need to be taken in calculating the amount of allowances that are available for expenditure incurred prior to the increased limit.

A simple example is a business with a 31 December 2010 year end. Their AIA is calculated as follows:

$$3/12 \times £50,000 + 9/12 \times £100,000 = £87,500.$$

That is, the business can acquire up to £87,500 on capital equipment and receive 100% allowances on the expenditure incurred in the year. The Budget press releases do not set out the rules clearly on what would happen if more than £50,000 of the expenditure is incurred prior to the new implementation date, although they indicate that the maximum amount that can be claimed is £50,000. That is, if all £87,500 is incurred prior to 1 or 6 April 2010, the business would only be eligible for £50,000. We will provide further guidance when the position has been clarified.

Energy Saving & Water Efficient Technologies

The annual review of the technologies which reduce energy consumption, save water or improve water quality, and which receive 100% allowances against a business' taxable profit has resulted in the addition of two new sub technologies. These being:

- Permanent Magnet Synchronous Motors;
- Biomass fired warm air heaters;

The complete list of qualifying technologies can be found via www.eca.gov.uk



Support For Small Businesses

A number of measures have been announced to help small businesses with cash flow and other support, coming out of the recession.

Time To Pay

The HMRC Time to Pay initiative, whereby it is possible to ask HMRC for time to pay taxes of all descriptions that are about to become due, has been a great help to lots of taxpayers. The government have announced that they are going to extend the Time to Pay initiative for the whole life of the next parliament. Under this initiative it is essential to contact HMRC before the tax is due – it can not be used for tax that is already late. A payment plan has to be agreed with HMRC and then this must be kept to. If a payment is not made in accordance with the agreed plan then HMRC will come down very heavily very quickly.

The extension is very welcome. Dodd & Co can help with any applications under this, which are usually straightforward.

Bank Lending Commitments

RBS and Lloyds have agreed with the Government that they will lend £105bn to homebuyers and businesses over the next 12 months, and that £41bn of this will be to small businesses. It is to be hoped that this really does free up some new lending.

Small Business Credit Adjudicator

If a small business can not get the borrowing it wants then it will be able to ask the new Small Business Credit Adjudicator, which is being set up with Business Link Financial Intermediary Service, to look into the refusal. The Adjudicator will have statutory powers to ensure that any judgements it makes are enforceable.



Small Business Rate Relief

From October 2010 any eligible business occupying properties with rateable values below £6,000 will pay no business rates for 1 year.

Where rateable values are up to £12,000 then there will be significant reductions.

Working Tax Credits - Benefits For The Over 60s

From 6 April 2011 people aged 60 and over will qualify for Working Tax Credits if they work for at least 16 hours per week. This means that more people will qualify for Working Tax Credits if they work part time and earn relatively low wages. They will no longer need to work 30 hours to pass the first hurdle of qualifying.

Currently those aged 60 and over qualify for Working Tax Credits if they either:

- Work 30 hours or more per week, or
- Work 16 hours or more per week and they either have dependent children or qualify for the disability element of working tax credits, or
- Work 16 hours or more per week and they are returning to work after being on certain benefits for 6 months or more

This will be a welcome announcement for people aged 60 and over, who are continuing to work part time and have low income. Working Tax Credits will help boost their income and is an added incentive to working part time for at least 16 hours a week.

Tax Relief for Carers

The Government intends to introduce a new income tax exemption for certain payments to special guardians, and to certain carers looking after children under a residence order.

The changes will be effective from 6 April 2010 and will be a similar relief to the current income tax exemption for foster carers.

Income from providing care is normally taxed as self-employed trading income. However, foster carers do not currently pay income tax on their foster care income up to a certain limit (currently income of up to



£10,000 per annum, plus £200 per child per week if they are under 11 or £250 per child per week if they are 11 or over is exempt). If their income is in excess of this they can choose to either pay tax on:

- Their foster care income less their individual limit; or
- Their actual profits calculated using the normal tax rules for businesses

If the carer opts for the second method of calculating their income, it is possible to claim a fixed rate of expenses when calculating their taxable profits from providing care to a maximum of three people. The fixed expenses are:

- £400 a week for the first individual placed with the carer
- £250 a week for the second individual placed with the carer and
- A further £250 a week for the third individual placed with the carer

Calculations will therefore need to be prepared on a case by case basis to check which is the most beneficial way of calculating the income to be taxed.

Changes To Tax Relief On Pensions

Annual and Lifetime Allowances

Tax relief on pension savings is only available when the contributions made in any one year do not exceed an Annual Allowance, and also where the total pension value in the lifetime of the scheme does not exceed a Lifetime Allowance.

These allowances did originally increase annually when they were introduced in 2006, but are now set at £255,000 for 2011/12 to 2015/16 inclusive for the Annual allowance and £1.8m for the Lifetime allowance, until 2015/16.

Restriction of tax relief to basic rate

In the 2009 budget and the 2009 Pre budget report, the Chancellor announced details of his plans to restrict tax relief on pension contributions to basic rate, so that higher rate tax relief is not given. His proposals are very complicated and have been out to consultation. Despite the fact that the consultation responses were unanimous in their opinion that the proposals were too complex, and that the stated result



of limiting the tax relief to the very wealthy could be achieved far more simply by simply restricting the annual allowance, the Budget 2010 is carrying on with the original proposals.

This means that from 6 April 2011 where someone earns over £180,000 tax relief will be restricted to basic rate. Where someone earns between £150,000 and £180,000 then relief will be tapered from full higher rate relief to basic rate relief. For those earning below £150,000 (calculated by including the amount of any employer contributions), the tax relief is given in full.

For anyone in a defined benefit scheme, rather than a defined contribution scheme, the value of the contribution will be assessed using age related factors.

There are transitional rules to restrict tax relief in the current 2009/10 and 2010/11 tax years. These rules apply where income is above £130,000. Full tax relief will be given on regular contributions that are continuing, regardless of the amount. However irregular or one off payments, of the sort made by most self employed people, will be restricted to somewhere between £20,000 and £30,000, depending on their circumstances.

The position is complicated, please seek advice from Dodd & Co on how these changes affect you, and whether there is any way to mitigate the tax charges.

Childcare Vouchers

In the past employers have excluded those staff that are paid at an amount equal to or just above the National Minimum Wage (NMW), from salary sacrifice child care arrangements. This is on the grounds that by the employee salary sacrificing the amount of the childcare costs, the employee would be paid at an amount lower than the NMW.

The government will introduce rules to ignore this position, so that the employer is free to provide a salary sacrifice opportunity to its employees, regardless of whether the sacrifice would take their income to below the NMW



Zero Emissions Good Vehicles

A business which purchases either a new or used (but not second hand) zero emission goods vehicle will qualify for 100% allowances in the year in which it is acquired. To qualify for the allowances, the goods vehicle must:

- Not under any circumstances produce CO₂ emissions when driven;
- Be of a design primarily suited to the conveyance of goods or burden; and
- Be purchased after 1 April 2010 for companies and 6 April 2010 for other businesses.

The Revenue have indicated that this relief will continue for the following 5 years, to April 2015.

Zero / Low Emission Cars – Taxable Benefit

The government has pushed on with its green policy on vehicles and tax related benefits. This has been affected by an introduction of an exemption for both cars and vans which are not able to produce any CO₂ emissions when being driven.

In addition, the government will introduce a revised definition of what a “qualifying low emission car” is, and include a lower rate to apply when calculating a taxable benefit on a low emission car, where the CO₂ emissions are equal to or below 75 g/km.

Currently, a vehicle with CO₂ emissions below 120 g/km will have a 10% rate applied against the vehicles list price to calculate the taxable benefit. However, there will be a further introduction of 5% rate where the vehicles CO₂ emissions are equal to or below 75 g/km.

Employee Share Schemes

There were several press releases on HMRC’s tax advantaged share schemes and venture capital schemes (such as EIS). The good news is that there are no major changes to these HMRC approved schemes and most of the changes related to anti-avoidance measures.

Hence, with a top rate of income tax of 50% coming effect on 6 April 2010 we anticipate that more businesses will implement share schemes for their key employees, which provide the opportunity to take advantage of 18% capital gains tax rates (or even 10%, where the employee qualifies for Entrepreneurs’ Relief on a future disposal of their shares).



Life Insurance Policies – Extension Of Deficiency Relief

Where someone cashes in all or part of a life assurance investment (commonly called bonds) a gain or loss will arise. If a part of a bond is cashed in and there is a gain, but in a later year the balance of the bond is cashed in and there is a loss, the earlier gain will have been subject to higher rate tax, if the investor fell within the higher rate tax brackets. Special provisions are needed to allow some loss relief, as over the life of the bond there will have been a smaller gain than that which has already been taxed. This relief is called deficiency relief.

In the past this relief has been given where there was higher rate tax (40% tax) due in the year the bond was encashed. The relief is being extended with effect from 6 April 2010 to cover not just higher rate tax but also the new additional rate tax (50%) which will commence on 6 April 2010 on income over £150,000.

Historically losses were rare, and gains normally arose. However, in the last 18 months, there have been a number of situations where bonds were partially encashed in the good times when there was a gain, but the position post October 2008 has been a loss. The extension of the relief is therefore very helpful.

Release Of Loans To Participators In Close Companies

In general a company is a close company if it is under the control of 5 or fewer participators. A participator is a person who has a share or an interest in the capital or income of a company – usually shareholders and loan creditors.

Under corporation tax rules concerning corporate debt, the company may be entitled to receive a full deduction against its corporation tax liability for a debt that is written off in the company's accounts.

New rules are being introduced such that any loan to a participator which is written off on or after 24 March 2010 will NOT be allowed as a deduction for corporation tax purposes.

As far as the person with the loan is concerned, they will still be treated as having received a distribution from the company when the loan is written off. Income tax will still be payable by that individual on the distribution.



Landline Duty

A duty of 50 pence per line per month is being introduced from 1 October 2010.

This is being introduced to raise funds to provide superfast broadband to 90% of the country by 2017.

The duty will apply when a local loop is made available for use (not just for those that are used).

It is expected that owners of the local loop will recoup the duty from the end user.

HMRC Powers

The review of HMRC powers is now coming to an end and updates to their computer systems will take place over the coming years to implement the earlier changes announced.

New powers will bring the penalties for late filing of VAT and excise duty (etc) returns in line with those already announced for direct taxes. New measures are to be introduced which will target individuals and businesses who fail to declare the full extent of their financial interests outside the UK and the new penalties will apply to periods beginning after 1 April 2011.

Measures were also announced that will target employers with a history of non-compliance (including late/non payment of liabilities) and will require security to be given for amounts due under PAYE and NIC.

HMRC will also be given additional powers to ensure that promoters of tax avoidance schemes comply with the rules and increased penalties will help them to combat failure.



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