

# **BUDGET JUNE 2010 WEBINAR**

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# Introduction

- As expected the emergency budget made massive cuts seeking to save an additional £40bn per annum over Labour's plans:
  - Restrictions on tax credits,
  - a freeze on child benefits,
  - increased retirement age.
  - a public sector pay freeze and
  - departmental cuts of 25%.
- Increases in VAT and CGT were predicted.



# Introduction

- Business taxes and corporate taxes
- Employment taxes
- Personal taxes
- VAT
- Anti-avoidance
- Insurance premium tax



# Business taxes and corporate taxes



# Main Rate of Corporation Tax

- The main rate of corporation tax will reduce from 28 per cent to 27 per cent with effect from 1 April 2011. The rate will reduce to 26 per cent, 25 per cent and 24 per cent on 1 April 2012, 2013 and 2014 respectively.
- These rates apply to companies with profits above the upper limit of £1,500,000 (the limit is divided where a company has an accounting period of less than twelve months and/or if it has associated companies).
- Companies with profits between £300,000 and £1,500,000, which receive marginal relief, will also benefit.



# Small Profits Rate of Corporation Tax

- The small profits rate is currently 21 per cent and will be reduced to 20 per cent with effect from 1 April 2011.
- Companies with profits below the lower limit of £300,000 are subject to a lower rate of corporation tax (the lower limit of £300,000 is divided where a company has an accounting period of less than twelve months and/or if it has "associated companies").



# Capital Allowances

## Rate Changes

- The rate of WDA within the main rate pool and the special rate pool will both drop by two per cent, to 18 per cent and eight per cent respectively.
- Special rate expenditure includes:-
  - integral features,
  - long life assets
  - and cars with CO<sub>2</sub> emissions in excess of 160g/km.
- Effective for accounting periods ending after 31 March 2012 (for corporation tax purposes) and after 5 April 2012 (for income tax purposes). A hybrid rate will apply where an accounting period spans the operative dates.



# Capital Allowances

## Annual Investment Allowance Changes

- The AIA entitles businesses to a 100 per cent deduction on capital expenditure qualifying for inclusion in the main and special rate pools (excluding cars).
- The annual investment allowance (AIA) will be reduced from £100,000 to £25,000 for expenditure incurred after 31 March 2012 (for corporation tax purposes) and after 5 April 2012 (for income tax purposes).
- Transitional rules will be published in due course.



# Capital Allowances

## Zero-emission goods vehicles

- Expenditure incurred on new and unused zero-emission goods vehicles during a 5 year period from 1/6 April 2010 will qualify for 100% first year allowances.



# Other matters

- Research and development tax relief
- Enterprise management incentives
- Consortium relief
- Furnished holiday lettings



# Employment Taxes



# Employers' National Insurance Contributions

- The proposed one per cent increase to employers Class 1 NICs will come into force from 6 April 2011 as originally announced.
- The secondary threshold at which point employers will pay national insurance will be increased by £21 per week above indexation effective from 6 April 2011.



# Regional Employers NIC holidays

- In September 2010 a scheme will be introduced, but effective from budget day, to give ‘new’ employers in certain geographical areas, relief from paying Employers NICs on the first 10 new employees during their first year of employment.
- Cap of £5,000 NIC per employee
- The scheme is planned to run for a three years.
- The measure is to target areas with higher public sector employment - Scotland, Northern Ireland, Wales and, in England, the North West, North East, Yorkshire and Humber, West Midlands, East Midlands and South West.



# National Insurance

- The upper earnings and upper profits limits will be reduced to maintain their alignment with the reduced income tax basic rate band.
- The proposed one per cent increase to employees' Class 1 NICs will come into force as originally announced.



# Personal Taxes



# The personal allowance 2011/12

- The personal allowance for those under 65 is to be increased by £1,000 to £7,475.
  - In order to ensure that higher rate taxpayers do not benefit from this change, the basic rate limit will be reduced accordingly.
  - The personal allowances for those aged 65 to 74 and those over 75 were frozen at £9,490 and £9,640 respectively for 2010/11.



# Capital gains tax (CGT)

## Rate of CGT

- The rate of CGT for higher rate taxpayers is to be increased from 18 per cent to 28 per cent from 23 June 2010.
- The rate will remain at 18 per cent for basic rate taxpayers.
- Gains will be aggregated with income to determine the rate that applies. Only gains within the unutilised balance of the basic rate band will be subject to the 18 per cent rate.



# Capital gains tax

## Rate of CGT (cont)

- Most trustees and estates will pay CGT at 28%
- Non-domiciled individuals who pay the £30,000 remittance basis charge will pay CGT at 28%
- Gains arising before 23 June will not be taken into account in determining the rate at which gains arising from 23 June are subject to tax.

## Annual exemption

- The annual exemption is unchanged at £10,100.



# Capital gains tax

## Example

- In 2010/11 income after deductions and personal allowances £27,400
- Chargeable gain May 2010 of £17,000
- Chargeable gain November 2010 of £25,100



# Capital gains tax

- The unused basic rate band is  $£37,400 - £27,400 = £10,000$
- The annual exemption of  $£10,100$  can be set against the second gain first thereby reducing the amount taxable at 28%
- The second gain is taxed as follows:

	£25,100
Less annual exemption	<u>£10,100</u>
Taxable	£15,000
Tax at 18% on	£10,000
Tax at 28% on	£ 5,000
- The pre 23 June gain of  $£17,000$  will be taxed at 18%



# Entrepreneurs' relief (ER)

- ER remains at 10 per cent, but the lifetime limit for ER is to be increased from £2m to £5m for gains made from 23 June 2010.
- Where disposals qualified for ER prior to 23 June no additional relief (above £2m) will be given on those disposals. However, the individuals (or trustees) will be able to claim relief on up to a further £3m post 23 June, up to the new limit of £5m.
- Gains qualifying for ER post 22 June are set against any unused basic rate band before non-qualifying gains.



# Residence and Domicile

- The Emergency Budget confirmed that a review will be carried out to assess whether further changes should be made to the current rules, to ensure that non domicile individuals make a fair contribution to reducing the deficit.



# Pensions: Deferring requirement to buy an annuity

- WEF 2011/12 requirement to use a pension fund to buy an annuity by age 75 ceases.
- Interim rules apply
  - Pending implementation registered pension scheme members attaining age 75 after 21 June 2010 will not be required to secure an income until age 77.
  - inheritance tax charges specific to money purchase funds on the death will not apply for members reaching age 75 on or after 22 June 2010.
  - Income tax charge of 35% on lump sum death benefits on death after 22 June aged 75 and over. Prior to these changes the charges could total 82 percent of the value of the fund.



# Pensions: Restricting Higher Rate Tax Relief

- Reform of the highly complex tax proposals to restrict tax relief on pensions from 2011/12.
- Most likely to restrict the annual allowance. This is the maximum per annum contribution that may be made with full tax relief. Figures suggested are in the £30,000 - £45,000 range.
- A consultation process will get underway shortly.
- The anti-forestalling rules remain in place.



# Pensions

## State pension

- The state pension is to be linked to earnings from April next year with the pension guaranteed to rise in line with earnings, prices or 2.5% whichever is greater.
- Proposal for retirement age to be increased to 66 by 2016



# Benefits

## Benefits

- Benefits other than the state pension and pension credit will be linked to consumer prices rather than retail prices, saving £6bn by the end of the Parliament.
- Child benefit to be frozen for three years.
- Medical assessment for Disability Living Allowance from 2013.
- Housing benefit to be reformed with an upper limit of £400 per week. Intended to save £1.8bn a year by the end of the Parliament.
- Families earning over £40k will have their tax credits reduced.



**VAT**



# VAT- rate

- WEF from 4 January 2011 standard rate of VAT increased to 20 per cent.
- The reduced rate of VAT remains unchanged at five per cent as does the VAT registration threshold.
- There will also be no change to the scope of the zero rate.
- The threshold for joining the VAT Flat Rate Scheme unchanged but flat rate percentages increase, also with effect from 4 January 2011.



# VAT- anti-forestalling legislation

- The legislation will impose a supplementary charge of 2.5 per cent on 4 January 2011
  - where the recipient of a supply is not able to recover its VAT in full and
  - The customer and the supplier are connected or,
  - The value of the supply is in excess of £100,000 or,
  - The supplier, or somebody connected with the supplier, funds any prepayment for the supply or,
  - A VAT invoice is issued for the supply and payment of that invoice is not required within six months.
- The supplementary charge will not apply if the prepayment or invoicing in advance is normal commercial practice for a business.



# VAT – Lennartz Accounting

- Under Lennartz accounting
  - VAT on immovable property, boats and aircraft can be recovered upfront.
  - VAT is the payable over subsequent years in respect of private use.
- Changes will be introduced “as soon as possible after the summer recess” to restrict upfront VAT recovery to the business use only.
- Further changes will ensure existing users of the Lennartz accounting method are not unfairly advantaged.



# Anti-avoidance



# Anti-avoidance

- The government announced its intention to consider whether a general anti-avoidance rule should be implemented.
- It also announced that it will consult on bringing Inheritance Tax within the disclosure of tax avoidance schemes regime.



# Extraction of profit by way of dividend

	2010/11	2010/11	2010/11	2011/12	2011/12	2011/12
Annual profit	0 to £300,000	£300,001 to £1,500,00	Over £1,500,000	0 to £300,000	£300,001 to £1,500,00	Over £1,500,000
Marginal rate of CT	21%	29.75%	28%	20%	28.75%	27%
Effective rate higher	41%	47%	46%	40%	47%	45%
Effective rate additional	50%	55%	54%	49%	54%	53%



# Extraction of all profit by way of salary

	2010/11	2011/12
Effective rate higher	48%	49%
Effective rate additional	57%	58%



# Insurance Premium Tax



# Insurance premium tax (IPT)

- WEF 4 January 2011 the standard rate of insurance premium tax will increase from five per cent to six per cent and the higher rate of IPT from 17.5 per cent to 20 per cent (in line with the increase in the standard rate of VAT).
- The standard rate of IPT applies to most general insurance (including property, motor and medical insurance) but does not apply to life assurance and other long term insurance products which are exempt from IPT.
- The higher rate IPT applies to travel insurance and certain other insurance products (such as extended warranties) sold alongside motor vehicles and some consumer goods.



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