# Budget review
June 2010

Target
Chartered Accountants

## BUDGET BOOSTS BUSINESS

*The first coalition Budget has brought good news for Entrepreneurs and their businesses. The Chancellor has increased Capital Gains Tax breaks for entrepreneurs who sell their business and the widely feared 50% Capital Gains Tax rate for the highest earners hasn't materialised. Also, in an effort to make the UK a more attractive place for companies to do business, the top rate of Corporation Tax will fall over the next four years from 28% to 24%.*

The Chancellor has promised to bring an end to the annual budget deficits of recent years and balance the books by 2016. The majority of this will happen as a result of cuts to public spending, with the full details being released in the October spending review. There is a rise in VAT from 17.5% to 20%, which will raise £13bn a year in revenues – this measure will undoubtedly grab the press headlines, but it only brings us into line with rates elsewhere in Europe. The banks will also face an annual levy designed to raise £2bn a year.

Most private businesses are likely to view the Budget with cautious optimism, although those in the retail sector will hope that the VAT rises do not curb consumer spending too much.

**Gavin Lenthall**
Group Head of Tax Planning

## Entrepreneurs benefit from CGT changes

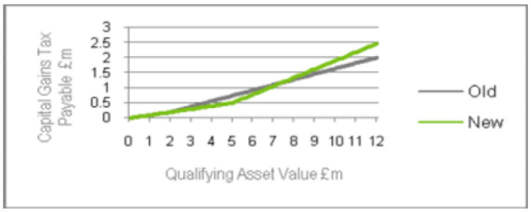
In an unprecedented move, the Chancellor announced a mid-year increase in the Capital Gains Tax (CGT) rate from 18% to 28%. The change in rate became effective at midnight on 22 June 2010.

A rise in CGT rates to 40%, or even 50% for non-business assets, was widely anticipated following a post election announcement by the Coalition Government. However, with political pressure mounting against such a change, the proposals have been watered down to a more palatable rate of 28%.

At the same time, the Chancellor announced a commitment to maintain the 10% CGT rate for Entrepreneurs and further sweetened the position by increasing the lifetime Entrepreneur's Relief limit from £2m to £5m of business gains. This provides a very significant tax benefit to smaller businesses, with the increase in allowance applying with effect from 23 June 2010.

**The winners and losers**

The combination of an increased Entrepreneur's Relief allowance to £5m and an increase of the main rate by 10% above that limit results in a 'tipping point' for business owners for gains at around £7.5m.




The losers from the rise in CGT rates to 28% are, therefore, holders of non-business assets, such as buy-to-let investors, second home owners and holders of shares and securities, not qualifying for Entrepreneur's Relief. This latter group will include many employee shareholders of businesses (including EMI option holders) where they do not hold at least 5% of the shares.

In addition to the above, Entrepreneurs holding substantial business assets are likely to be significantly worse off as a result of an effective 10% tax increase. Transferring assets to family members to secure multiple £5m allowances may now look increasingly attractive.

## Businesses

**Corporation Tax to increase competitiveness**

The UK's corporation tax rate, which is one of the highest in the EU, is generally seen as a barrier to making the country attractive to large corporations. The Chancellor is aiming to fix this by reducing the full rate of tax from 28% down to 24% over four years, starting with a reduction to 27% from April 2011.

The Government is kicking off a full reform of the corporation tax system in the autumn, allowing time to listen to the needs of businesses and take a more considered approach. Overall, the aim is to end up with a broader tax base, with lower rates to improve our competitiveness in the EU.

Alongside the full rate decrease, the small rate of corporation tax will also be reduced from 21% to 20% from April 2011.

**Business allowances to balance out tax deficit**

| What | Was | Will be | From |
|---|---|---|---|
| Annual Investment Allowance for 100% tax relief on capital expenditure | £100k | £25k | April 2011 |
| Capital writing down allowances on general plant and machinery | 20% | 18% | April 2011 |
| Capital writing down allowances on long-life assets and integral fixtures and fittings | 10% | 8% | April 2011 |

**NIC scheme to target regions**

In a further bid to help businesses in targeted regions, the Chancellor announced a three year scheme to exempt new businesses from up to £5,000 of employers NIC payments for each of the first 10 employees. The targeted regions are:

- Outside London, East of England, and the South East

The employers NIC threshold is also due to be increased from £110 to £131 per week from April 2011.

**VAT – the headline news**

As expected, the Chancellor announced an increase in VAT from 17.5% to 20% from 4 January 2011.

- He has confirmed, however, that zero rated essentials, such as food and medical items, will remain unaffected.
- Anti-forestalling arrangements have been introduced with effect from 22 June 2010 to prevent artificial arrangements being put in place to circumvent the increase in VAT.
- As a result of the increase in VAT, the flat rate scheme percentages have been increased, to apply from 4 January 2011.

## Pension rules - all change AGAIN!

Speculation prior to the Emergency Budget was that tax relief may be restricted to 20% across the board, but thankfully this has not come to fruition.

Instead, the Chancellor has announced that he is considering scrapping the complex tax rules. This would:

- Maintain tax relief for high earners

**BUT**

- Reduce the annual pension allowance to a more reasonable level to compensate

The Budget notes suggest that a reformed annual allowance in the region of £30,000 to £45,000 may be appropriate, compared to the current annual allowance limit of £255,000.

He also announced that the age 75 rule (compulsory annuity purchase) will now be scrapped from 2011/12 and in the interim individuals will not have to buy an annuity or secure pension income until they reach 77.

Overall, the pensions industry will probably be breathing a sigh of relief. Whilst the scope to make very large contributions will be reduced, pensions may remain attractive for high earners as a tax shelter. In terms of abolishing the age 75 rule, the headline proposal will be welcomed, but, as ever, the devil will be in the detail.

## Personal Tax

Just as the Capital Gains Tax (CGT) changes were less harsh than anticipated, more widely, individuals appear to have got off relatively lightly. Whilst the CGT changes are immediate, many of the other announcements have been put back until at least next year.

**Income Tax and National Insurance changes from 6 April 2011**

↑ Personal allowance
for people under 65
£1,000

↑ National Insurance
for employees and employers
1%

- The personal allowance will increase to £7,475; however, the basic rate tax band threshold will also be reduced to ensure that higher rate tax payers do not benefit from this increase.

- The National Insurance thresholds for employees/self-employed will be adjusted to fall in line with the changes to income tax thresholds. The 1% increase in both employers' and employee's National Insurance from 6 April 2011 at all levels (announced by the previous Government) remains.

Although the final figures will not be announced until next year, the results of this Budget are that basic rate taxpayers will be better off and higher rate tax payers no worse off. Clearly, higher earners will be relieved, following the introduction of the new 50% tax rate on 6 April 2010. With both sets of changes in mind, tax planning at the threshold margins (i.e. where a 20% 'basic' rate becomes a 40% 'higher' rate and where 40% becomes the 50% 'highest' rate) will be all the more beneficial.

**Tax Planning opportunities**

There is good news on a couple of fronts for HMRC-sponsored tax reliefs:

- **Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT**)
  The availability of investment opportunities may well increase as European Economic Area wide investments will be given the same treatment as those that are wholly in the UK.
- **Property owners of furnished European property lets**
  Will retain the 'business' tax benefits afforded to them, as the decision to abolish the favourable tax treatment on 6 April 2010 has been reversed. However, the qualifying criteria are to be reviewed to take effect from 6 April 2011.

**Tax avoidance**

Although there is limited detail on the specifics, the Chancellor has made the usual statements reaffirming the Government's intention to tackle tax avoidance. Specific consultations are being aimed at Stamp Duty Land Tax and Employer Funded Trusts. More widely, the Government is considering a more general 'anti-avoidance' rule as a catch-all to strengthen defences.

**This month's Budget is best viewed with cautious optimism. Whilst there is good news for entrepreneurs and businesses, there are many areas still under review by the Coalition Government, so our advice is to secure your tax position now while you can. Please don't hesitate to contact us.**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