

Issue: Budget review 2010

The calm before the storm?



Despite the media hype surrounding tax rises and spending cuts, the Chancellor failed to deliver many changes in this year's Budget speech. Whilst this is good news for many, it's almost certain that we will have another Budget in June when the new government will want to set out their tax and spending policies for the next parliament. This is likely to see tax increases and spending cuts, with the 18% Capital Gains Tax rate as a possible target.



On the positive side, borrowing this year is actually going to be £11bn less than the original Budget of £178bn. The Chancellor was keen to emphasise that small businesses are playing their part in minimising the effects of the recession by keeping people employed. There are a few measures aimed at small businesses and the Chancellor has agreed with RBS and Lloyds TSB that they will provide £94bn of loans to small businesses. Whilst this is welcome news, it remains to be seen what impact the cash injection will have on economic growth in the future.

Gavin Lenthall
Group Head of Tax Planning

What we already knew...

- From 6 April 2010 income tax will rise to 50% for people with an income over £150,000.
- In April 2011 all National Insurance Contributions will rise by 1%.
- High earners will lose their personal allowance if their income exceeds £100,000.
- Higher rate tax relief on pension contributions will disappear for those with high income.

Stamp Duty Land Tax

The Chancellor responded to pressure to assist first-time buyers by extending the current 0% threshold for residential property purchases from £125,000 to £250,000 for two years. Against the back-drop of this 'targeted' stamp duty holiday, he simultaneously announced a stamp duty hike for purchasers of properties in excess of £1m to 5% from 6 April 2011.

Whilst both measures should stimulate activity in the residential property market in the short-term, the impact for higher value properties may ultimately be a softening of prices and fall in demand after April 2011.

£10K
INCREASE

Capital Gains Tax

Despite speculation that the Chancellor might move to closer align the headline rate of Capital Gains Tax (CGT) of 18% with the top rate of income tax next year of 50%, the outcome was rather more curious. Instead of increasing headline CGT rates, the £1m Entrepreneurs' limit was extended so that gains of up to £2m will qualify for a 10% rate.

The more cynical observers will now be questioning whether this is simply a 'pre-election sweetener' for small businesses, in the knowledge that a more difficult message will need to be delivered in the not too distant future. With the obvious temptation for wealthy individuals to turn income into capital, this may not be the end of the story. Watch this space.

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Inheritance Tax

The Chancellor confirmed that the Inheritance Tax (IHT) allowance of £325,000 will now be frozen for four years. For married couples, this provides a combined relief of only £650,000, with the balance of their estate exposed to 40% tax on death. As residential property prices recover, this will inevitably bring more estates into the IHT net and demonstrates the need for more families to consider IHT planning opportunities.

Tackling tax avoidance

Tackling tax avoidance remains a key theme of the current administration, and the Chancellor announced enhanced penalties for offshore tax evaders, potentially up to 200% of the tax due. Following the agreement reached with Liechtenstein, new information exchange agreements are to be signed with Grenada, Dominica and Belize, the latter being the home of the Tory Deputy Chairman Lord Ashcroft. The detailed Budget Notes also include a number of other targeted measures to clamp down on specific tax avoidance schemes. All of our tax planning strategies remain unaffected.

Business expenditure

The headline item for businesses in this year's Budget is the increase in the Annual Investment Allowance (AIA) from £50,000 to £100,000. The AIA has been available since April 2008 for all businesses purchasing certain plant and machinery, effectively as a 100% deduction against taxable profits up to £50,000 worth of spend.

This limit has now been doubled for expenditure from 1 April 2010 for companies and 6 April 2010 for sole traders and partnerships, so it may be worth revising the timing of any planned capital expenditure until post 1/6 April 2010.

In addition, to reflect the green agenda promoted by this Budget, further enhanced capital allowances of 100% have been introduced for expenditure on energy efficient plant and machinery which reduce water use, or improve water quality.

Support for SMEs

In order to increase support for small and growing businesses, the Chancellor announced there will be a reduction in business rates for small businesses occupying premises of a rateable value of up to £12,000. Alongside this are promises of new lending commitments, the continuation of the Business Payment Support Service and the creation of a small business credit adjudicator, where businesses feel they have been unfairly refused credit.

Finally, the Chancellor announced the launch of the 'UK Finance for Growth' initiative, which aims to raise a pot of money for making equity investments into UK businesses.

Whilst all these changes are good news for small and medium sized businesses, they are not applicable to large corporates, so will not serve to increase our competitiveness outside the UK, or our attractiveness to non-UK corporates looking for a new residence.

Round up of the rest...

- ISA allowances will increase to £10,200 for 2010/11 and indexed each year thereafter, in line with RPI.
- There are no changes to corporation tax or VAT rates.
- Duty on cider will increase by 10% above inflation from Sunday. Duty on beer, wine and spirits will increase as planned from midnight Sunday. Tobacco duty will rise immediately by 1% above inflation this year, then 2%.
- Increases in fuel duty are to be staged. Fuel duty will rise by a penny in April, followed by a further 1p rise in October and the remainder in January.
- From 1 May 2010, VAT fuel scale charges will increase to reflect the increase in fuel prices.

Whilst this month's Budget has failed to deliver many changes, we are likely to see tax increases in a post-election Budget, so our advice is to act now and secure your tax position while you can. Please don't hesitate to contact us.

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