OFFICES AT:

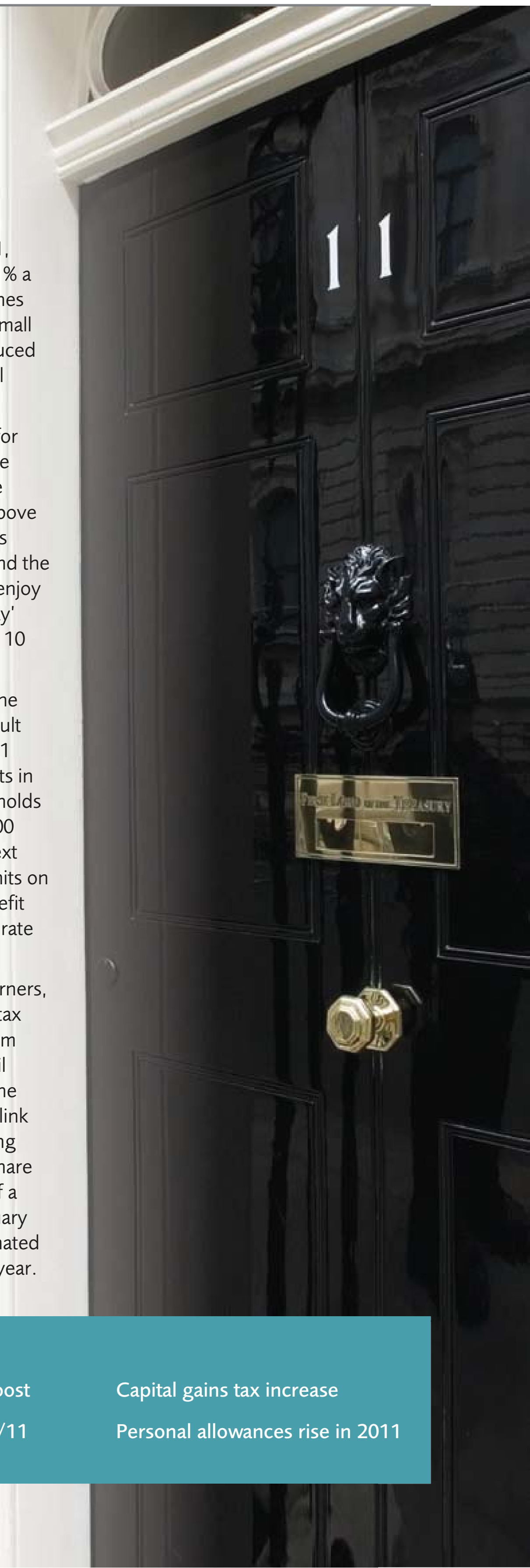
NEWBURY	Tel: 01635 35255
OXFORD	Tel: 01865 200500
READING	Tel: 0118 9590261
HENLEY	Tel: 01491 572565
SOUTHAMPTON	Tel: 02380 221222

Email: info@jamescowper.co.uk
Website: www.jamescowper.co.uk

jamescowper

Accountants & Business Advisers

BudgetReview



Osborne unveils 'tough' Budget but declares Britain 'open for business'

Billed as a 'tough but fair' Budget, Chancellor George Osborne has announced his plans to tackle the UK's record deficit while sustaining the economy.

Setting out the Government's target of bringing the current structural deficit into balance by 2016, the Chancellor said that it was on course to meet this goal a year early. However, the newly created Office for Budget Responsibility has revised down its forecasts for economic growth in the short term, cutting them from 1.3% to 1.2% for 2010, and from 2.6% to 2.3% in 2011. Public sector net borrowing is expected to be £149 billion this year, falling to £60 billion in 2013/14.

In order to meet the fiscal mandate, the Chancellor announced a combination of tax rises and spending cuts. An increase in VAT was widely expected in the so-called 'unavoidable Budget', and it was confirmed that VAT will rise from 17.5% to 20% with effect from 4 January 2011. Capital gains tax will also rise from 18% to 28% for higher rate taxpayers, from 23 June 2010.

Declaring Britain to be 'open for business', the Chancellor outlined plans to reform the corporation tax regime, with the main rate being reduced from 28% to 27% on 1 April 2011, followed by reductions of 1% a year thereafter until it reaches 24% in 2014. The rate for small companies will also be reduced from 21% to 20% from April 2011.

Meanwhile, the threshold for employer national insurance contributions (NICs) will be increased by £21 a week above indexation. New businesses outside London, the East and the South East of England will enjoy a national insurance 'holiday' of up to £5,000 for the first 10 employees.

Wide-ranging changes to the welfare system will also result in savings to the tune of £11 billion by 2014/15, with cuts in Child Tax Credit for households with income of over £40,000 a year coming into force next year, together with new limits on housing benefit. Child Benefit will be frozen at its current rate for the next three years.

In a bid to protect lower earners, the basic personal income tax allowance will be raised from £6,475 to £7,475 from April 2011. Pensioners will see the restoration of the earnings link from next April. The banking industry, meanwhile, will share in the squeeze by means of a bank levy, which from January 2011 will generate an estimated £2 billion of revenue each year.

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Corporation tax rates and bands are as follows:

Financial year to	31 March 2012	31 March 2011
Taxable profits		
First £300,000	20%	21%
Next £1,200,000	28.75%	29.75%
Over £1,500,000	27%	28%

The main rate of corporation tax will be reduced to 27% for the financial year commencing 1 April 2011 (FY 2011). There will be further reductions (by 1% per annum) to take the rate down to 24% by 1 April 2014. The small profits rate will be reduced to 20% for FY 2011.

Capital allowances

The rates of writing down allowances (WDAs) for new and unrelieved expenditure on plant and machinery will be reduced from 20% to 18% per annum for expenditure allocated to the main rate pool, and from 10% to 8% per annum for expenditure allocated to the special rate pool. This will have effect for chargeable periods ending on or after 1 April 2012 for businesses within the charge to corporation tax and on or after 6 April 2012 for businesses within the charge to income tax.

The Annual Investment Allowance (AIA) will be reduced from the current limit of £100,000 to a new limit of £25,000. This will have effect from April 2012.

Regional employer NICs holiday for new businesses

Details of a scheme to assist new businesses in targeted areas of the UK will be announced soon. Within a three year qualifying period, employers eligible for the scheme will not have to pay the first £5,000 of Class 1 employer NICs due in the first 12 months of employment. This will apply for each of the first 10 employees hired in the first year of business. Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June 2010 which meets the criteria set out in the forthcoming announcement will be eligible for the scheme.

The targeted countries and regions will be: Scotland, Wales, Northern Ireland, the North East, Yorkshire and the Humber, the North West, the East Midlands, the West Midlands and the South West.

Value Added Tax (VAT)

Change to the standard rate of VAT

The Chancellor announced that the standard rate of VAT will increase to 20% on 4 January 2011.

Value Added Tax Rates and Thresholds

From	4 Jan 2011	1 Jan 2010
Standard Rate	20%	17.5%
VAT Fraction	1/6	7/47
Reduced Rate	5%	5%
Current Turnover Limits		
Registration – last 12 months or next 30 days over	£70,000 from 01/04/10	
Deregistration – next 12 months under	£68,000 from 01/04/10	
Annual Accounting Scheme	£1,350,000	
Cash Accounting Schemes	£1,350,000	
Flat rate scheme	£150,000	

Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the reduced 5% rate, such as domestic fuel and power, are not affected by this change.

There are no changes to the Cash Accounting or Annual Accounting Schemes.

Anti-forestalling legislation will be included in the Finance Bill 2010 to prevent the 17.5% rate applying to supplies of goods or services that are provided on or after 4 January 2011, subject to certain conditions.

VAT flat rate scheme

As a consequence of the increase of the standard rate of VAT from 17.5% to 20%, the flat rate scheme sector flat rates have also been recalculated to reflect the increase.

The VAT flat rate scheme was introduced in 2002 with the objective of simplifying VAT for businesses with an annual turnover up to £150,000, tax exclusive. That threshold remains unchanged.

Capital taxes

Capital gains tax (CGT)

The annual exempt amount remains at £10,100 for 2010/11.

For gains arising up to and including 22 June 2010, the rate of CGT is 18%. For gains arising on or after 23 June 2010 the rate remains 18% for those whose total taxable income and gains are less than the income tax basic rate upper limit. For gains, including parts of gains, above that limit, the rate is 28%. Gains arising before 23 June 2010 are not taken into account in determining the rate (or rates) at which gains arising on or after 23 June will be charged.

The Chancellor also announced that taxpayers will be able to deduct losses and the annual exempt amount in the way which minimises the tax payable.

Entrepreneurs' Relief

Entrepreneurs' Relief has until now reduced the effective rate of CGT charged on certain qualifying gains to 10%, subject to a lifetime limit. The lifetime limit was increased to £2 million with effect from 6 April 2010.

The Chancellor announced that for gains arising on or after 23 June 2010 the rate of CGT on gains qualifying for Entrepreneurs' Relief would be 10%, and that with effect from the same date the lifetime limit would be increased to £5 million.

Trusts

The rate of CGT for trusts and personal representatives is also increased to 28%, for gains arising on or after 23 June 2010, except where Entrepreneurs' Relief applies.

Inheritance tax (IHT)

The IHT threshold is frozen at £325,000 from 2010/11 to 2014/15.

The rate of IHT remains 20% for lifetime transfers and 40% for death estates (including transfers within seven years before death brought back into the estate for the purpose of calculating the tax due at death).

National Insurance Contributions

2010/11		**Employer**	**Employee**
Class 1 – not contracted out			
Payable on weekly earnings of			
Below £97 (lower earnings limit)		Nil	Nil
£97 to £110 (earnings threshold)		0%	0%
£110.01 – £770 (upper accrual point)		12.8%	11%
£770.01 – £844 (upper earnings limit)		12.8%	11%
Over £844		12.8%	1%
Over state retirement age, the employee contribution is generally nil.			
Class 1A	On relevant benefits	12.8%	Nil
Class 2	Self employed	£2.40 per week	
	Limit of net earnings for exception	£5,075 per annum	
Class 3	Voluntary	£12.05 per week	
Class 4*	Self employed on profits		
	£5,715 – £43,875	8%	
	Excess over £43,875	1%	

*Exemption applies if state retirement age was reached by 6 April 2010.

Changes to NICs – What lies ahead?

As previously announced, from April 2011 rates will rise by 1%.

The March Budget raised the employees' earnings threshold and lower profit limits. The Emergency Budget announced a rise in the employers' earnings threshold of £21 a week above indexation, and a reduction in the upper earnings limit to maintain the alignment with the basic rate income tax limit.

Income tax and personal savings

Income Tax Rates	2010/11
Basic rate band – income up to	£37,400
Starting rate for savings	*10%
Basic rate	20%
Dividend ordinary rate	10%
Higher rate – income over	£37,400
Higher rate	40%
Dividend upper rate	32.5%
Additional rate – income over	£150,000
Additional rate	50%
Dividend additional rate	42.5%

***Starting rate is for savings income up to the starting rate limit of £2,440 within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.**

The Chancellor announced that the basic rate band for 2011/12 will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. The exact figure will be announced later.

Personal Allowances		2010/11
Personal Allowance (PA)	– under 65	£6,475
	– 65 to 74	£9,490
	– 75 and over	£9,640
Married Couple's Allowance (MCA) Either partner born before 6 April 1935 (relief restricted to 10%)		£6,965

Age-related allowances are reduced by £1 for every £2 that adjusted net income exceeds £22,900, to a minimum PA of £6,475.

The MCA is reduced by £1 for every £2 by which the income of the spouse or civil partner with the most income exceeds £22,900, subject to a minimum of £2,670 (highest income counts for the reduction).

Where income exceeds £100,000, the PA, including the minimum age-related allowances, is reduced by £1 for every £2 that net adjusted income exceeds £100,000.

For 2011/12, the PA for those aged under 65 will be increased to £7,475. The basic rate limit will be reduced so that higher rate tax payers do not benefit from the increase in the PA.

Individual Savings Accounts (ISAs)

Changes to the way the annual ISA limit is set were announced on 24 March 2010, but were not included in the original 2010 Finance Act. The Chancellor has confirmed those changes will be carried through.

Furnished Holiday Lettings (FHL)

The Chancellor announced that the proposed withdrawal of the FHL rules from 6 April 2010 will not take effect. A consultation will take place over the summer of 2010 about plans to change the tax rules for FHL from April 2011. The consultation will specifically look at:

- ensuring the FHL rules apply equally to properties in the European Economic Area (EEA)
- increasing the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- changing the way in which FHL loss relief is given.

Non-domiciliaries

As announced in the Coalition Agreement, the Government is to review the taxation of non-domiciled individuals.

Pension savings

The Government proposes cancelling the introduction of the high income excess relief charge, which would apply from 6 April 2011, and replacing it, principally, with a reduced annual allowance as a means to restrict pensions tax relief.

The requirement to buy an annuity by age 75 is to end, with effect from 2011/12. In the interim, the age by which an annuity must be bought or an income secured is increased, with effect from 22 June 2010, to 77, so long as the individual had not reached the age of 75 before 22 June 2010. The same changes will also apply for inheritance tax (IHT) purposes to members who die on or after 22 June 2010.

Company Cars

Rates are unchanged, but the quarterly VAT charge on fuel will increase from 4 January 2011.

CO_2 emissions	Appropriate percentage		Quarterly VAT £		
(g/km)	Petrol %	Diesel %	Fuel scale charge	VAT on charge 17.5%	VAT on charge 20%
Up to 75	5	8	141	21.00	23.50
76 to 120	10	13	141	21.00	23.50
121 – 134	15	18	212	31.57	35.33
135 – 139	16	19	227	33.80	37.83
140 – 144	17	20	241	35.89	40.17
145 – 149	18	21	255	37.97	42.50
150 – 154	19	22	269	40.06	44.83
155 – 159	20	23	283	42.14	47.17
160 – 164	21	24	297	44.23	49.50
165 – 169	22	25	312	46.46	52.00
170 – 174	23	26	326	48.55	54.33
175 – 179	24	27	340	50.63	56.67
180 – 184	25	28	354	52.72	59.00
185 – 189	26	29	368	54.80	61.33
190 – 194	27	30	383	57.04	63.83
195 – 199	28	31	397	59.12	66.17
200 – 204	29	32	411	61.21	68.50
205 – 209	30	33	425	63.29	70.83
210 – 214	31	34	439	65.38	73.17
215 – 219	32	35	454	67.61	75.67
220 – 224	33	35	468	69.70	78.00
225 – 229	34	35	482	71.78	80.33
230 and above	35	35	496	73.87	82.67