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Budget Review

Pre-election Budget 'to support recovery and tackle the deficit'

In his last Budget before a much-anticipated General Election, and with the UK emerging from the 'deepest global recession for over 60 years', Chancellor Alistair Darling faced a delicate balancing act as he outlined a series of measures aimed at tackling the deficit while supporting economic recovery.

Reiterating his plan to halve the deficit within four years, the Chancellor revised his borrowing forecast for 2009/10 downwards from £178 billion to £167 billion, but also downgraded the economic growth forecast for 2011 to 3-3.5%.

Among the key measures announced was support for first time buyers, in the form of a two year stamp duty land tax relief on residential properties costing less than £250,000. This will be offset by a new 5% rate for properties worth over £1 million where the effective date (normally the date of completion) is on or after 6 April 2011.

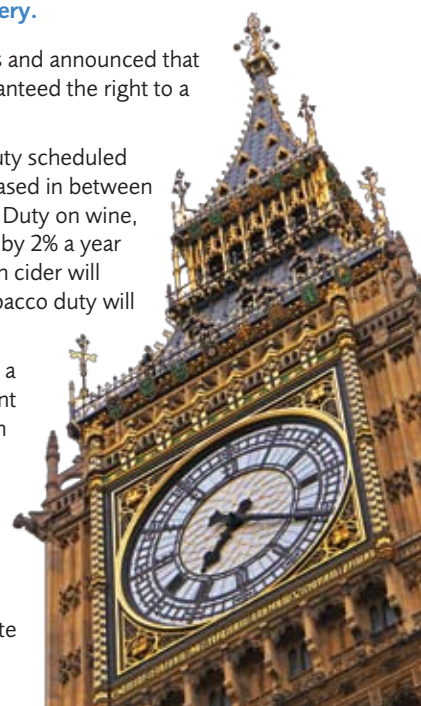
A £2.5 billion small business package aimed at boosting skills and innovation was also unveiled, with a temporary increase in small business rate relief taking effect from October, in addition to a doubling of the Annual Investment Allowance and the Entrepreneurs' Relief lifetime limit.

Revealing that the one-off tax on bank bonuses has raised £2 billion, Darling pledged support for a global

tax on bank transactions and announced that UK citizens will be guaranteed the right to a basic bank account.

The 2.76p rise in fuel duty scheduled for April will now be phased in between April and January 2011. Duty on wine, beer and spirits will rise by 2% a year until 2013, while duty on cider will increase by 10% and tobacco duty will rise by 1%.

Other measures include a new £2 billion investment bank to back low-carbon industries, funding for 20,000 new university places, further measures to tackle tax avoidance, and an extension of the higher winter fuel allowance rate for another year.



Vehicle Excise Duty

Vehicle Excise Duty ('Car Tax') rates reflect emissions, with lower scale rates for cars using alternative fuels.

The following table shows the rates which apply from 1 April 2010 for cars registered on or after 1 March 2001.



Band	CO ₂ (g/km)	First Year Rate	Standard Rate	
			Petrol & Diesel	Alternative Fuels
A	Up to 100	£0	£0	£0
B	101 - 110	£0	£20	£10
C	111 - 120	£0	£30	£20
D	121 - 130	£0	£90	£80
E	131 - 140	£110	£110	£100
F	141 - 150	£125	£125	£115
G	151 - 165	£155	£155	£145
H	166 - 175	£250	£180	£170
I	176 - 185	£300	£200	£190
J	186 - 200	£425	£235	£225
K*	201 - 225	£550	£245	£235
L	226 - 255	£750	£425	£415
M	Over 255	£950	£435	£425

*includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006.



2010

Inside...

Business tax and investment incentives

Corporation tax rates

Capital taxes

Value Added Tax

National Insurance Contributions

Income tax and personal savings

Tax and travel

Business tax and investment incentives

Capital allowances

The Annual Investment Allowance (AIA) will be increased from the current limit of £50,000 to a new limit of £100,000. This will have effect for qualifying expenditure incurred on or after 1 April 2010 for corporation tax and on or after 6 April 2010 for income tax.

A 100% first year allowance will be introduced for business expenditure on new and unused (not second hand) zero-emission vehicles. The vehicles will need to be of a design primarily suited to the conveyance of goods or burden. For corporation tax the expenditure must be incurred on or after 1 April 2010 and before 1 April 2015, and for income tax it must be incurred on or after 6 April 2010 and before 6 April 2015.

Small business rate relief

The Government is to introduce a temporary increase in the level of small business rate relief, so that eligible small businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from October 2010. In addition, small businesses benefiting from rate relief taper (rateable values up to £12,000) will receive significant reductions.

Loans to participators

Legislation will be introduced that will deny a corporation tax deduction for the amount of the release or write-off of a loan or advance of money made by a close company to a participator (or an associate of a participator). This has effect for debt (or part debt) releases or write-offs on or after 24 March 2010.

PAYE schemes

Legislation will be introduced in Finance Bill 2010 to allow HM Revenue & Customs (HMRC) to require a financial security from employers where amounts due under PAYE or NICs obligations are seriously at risk.

This is likely to affect those employers who have a history of serious non-compliance in terms of paying late or not paying. The amount of security will be set by HMRC in light of the potential tax liability.

Real Estate Investment Trusts (REITs)

UK REITs will be allowed to issue stock dividends in lieu of cash dividends in meeting the requirement to distribute 90% of the profits from the property rental business of the REIT.

The legislation will have effect for property income distributions made on or after Royal Assent.

Share schemes

HMRC will now be able to withdraw approval of a Share Incentive Plan (SIP) where alterations to share capital or changes in rights attaching to shares materially affect the value of participants' plan shares.

In addition, corporation tax deductions will not be allowed where companies pay money to SIP trustees to buy shares from directors/shareholders, but no real value is transferred to employees under the SIP.

These measures will have effect in relation to payments and alterations made on or after 24 March 2010.

Legislation will be introduced to counter avoidance arrangements which are being used to circumvent the financial limit in Company Share Option Plans (CSOPs). CSOP options granted on or after 24 March 2010 can no longer be over shares in a company which is under the control of a listed company.

National Minimum Wage (NMW)

The Government has announced that the NMW rates will increase with effect from 1 October 2010.

The current NMW is £5.80 per hour for those aged 22 and over.

With effect from 1 October 2010, 21 year olds will be included in the main adult rate, which will rise to £5.93.

HMRC recently created a new enforcement team with the principal aim of cracking down on employers who are failing to pay their employees at the correct NMW rates. The Dynamic Response Team will concentrate on the most complex and high profile cases.

Corporation tax rates

Taxable profits	Financial year to 31 March 2011	Financial year to 31 March 2010
First £300,000	21%	21%
Next £1,200,000	29.75%	29.75%
Over £1,500,000	28%	28%



Capital taxes

Capital gains tax (CGT)

The annual exempt amount is £10,100 for individuals (£5,050 for most trustees) for 2010/11.

The rate of CGT remains 18% with Entrepreneurs' Relief potentially reducing the effective rate of tax on qualifying gains to 10%.

Entrepreneurs' Relief

With effect from 6 April 2010, the Chancellor announced an increase in the lifetime limit for Entrepreneurs' Relief to £2 million.

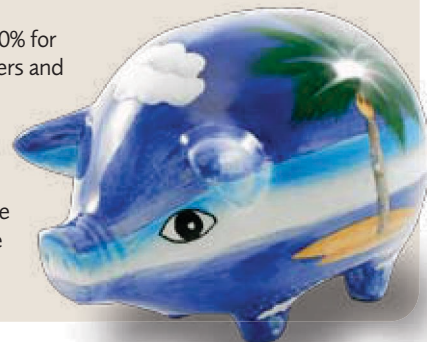
The new limit will apply only to disposals on or after 6 April 2010. Where individuals or trustees make qualifying gains above the previous £1 million limit before 6 April 2010, no additional relief will be allowed for the excess above the old limit. But if they make further qualifying gains after 5 April 2010, they will

be able to claim relief on up to a further £1 million of those additional gains, giving relief on accumulated qualifying gains up to the new limit of £2 million.

Inheritance tax (IHT)

The IHT allowance (nil-rate band) has been frozen at £325,000 for 2010/11 to 2014/15. The transferability of the allowance gives an effective joint tax-free maximum of £650,000 for married couples and civil partners.

The rate of IHT remains 20% for chargeable 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).



Value Added Tax (VAT)

The standard rate of VAT returned to 17.5% from 1 January 2010.

Switching to VAT online services

Those with an annual turnover of £100,000 or more (exclusive of VAT) on 31 December 2009 will be sent a letter from HMRC. This letter will explain that VAT returns must be submitted online and paid electronically for all returns starting on or after 1 April 2010. There will be a guide with the letter, which explains how to register and enrol for VAT online services and we will be happy to discuss any queries you may have. The requirement to submit VAT returns online and pay electronically also applies to those who register or should have registered for VAT on or after 1 April 2010, regardless of turnover.

Value Added Tax Rates and Thresholds

From	1 Jan 2010	1 Dec 2008
Standard Rate	17.5%	15%
VAT Fraction	7/47	3/23
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

National Insurance Contributions (NICs)

2010/11

Class 1 – not contracted out

Payable on weekly earnings of

	Employer	Employee
£97 (lower earnings limit) to £110	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.

NIC rates from 6 April 2011

Employee Class 1	12%
Employer Class 1 and Class 1 A/B	13.8%
Self-employed Class 4	9%
Class 1/4 additional rate	2%

Alcohol duty increases

- 36p on a 70cl bottle of spirits at 37.5% abv
- 2p on a pint of beer
- 5p on a litre of still cider
- 9p on a 75cl bottle of sparkling cider
- 10p on a 75cl bottle of wine or made-wine
- 12p on a 75cl bottle of sparkling wine



Income tax and personal savings

Income Tax Rates	2010/11	2009/10
Basic rate band – income up to	£37,400	£37,400
Starting rate for savings	*10%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£37,400	£37,400
Higher rate	40%	40%
Dividend upper rate	32.5%	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.

Personal Allowances	2010/11	2009/10
Personal Allowance (PA) – under 65	£6,475	£6,475
– 65 to 74	£9,490	£9,490
– 75 and over	£9,640	£9,640

Married Couple's Allowance (MCA)

Either partner born before 6 April 1935 £6,965 £6,965 (relief restricted to 10%)

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

The married couple's allowance 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.

Pension savings

Anti-forestalling provisions, restricting higher and additional rate tax relief for higher-earners, will continue to operate through 2010/11.

With effect from 6 April 2011, people with annual income of £150,000 or over but below £180,000 will have their tax relief on pension contributions (including the value of employer contributions for those in employment) reduced gradually from the individual's marginal rate to the basic rate as income increases. Where income is £180,000 or over, the measure restricts tax relief on pension contributions to the basic rate.

For the purposes of this measure, income is calculated before deduction or relief for pension contributions and charitable donations, and for those in employment, includes the value of any pension benefit funded (or eventually funded) by their employer.



This Budget Newsletter was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Act receives Royal Assent. This Newsletter is for guidance only, and professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or the distributors for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.

Tax and travel

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO₂ emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage' as shown in the table below. The first line of figures in the table relates to qualifying low emissions cars (QUALECs). Discounts of between 2% and 3% are given for cars other than QUALECs that can be driven on alternative fuels.

The car fuel benefit is calculated by applying the same percentages to the fuel multiplier, which for 2010/11 increases from £16,900 to £18,000.

For cars which cannot produce CO₂ engine emissions under any circumstances when driven, the appropriate percentage is reduced to 0%, thereby reducing the car benefit charge to nil. For cars emitting between 1 and 75g/km the appropriate percentage is reduced to 5% for 5 years from 6 April 2010.

VAT on fuel for private use in cars

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT on a scale charge. The table shows the VAT chargeable for quarters commencing on or after 1 May 2010.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,000. There is a further £550 taxable benefit if the employer provides fuel for private travel.

The flat rate of £3,000 is reduced to nil for vans emitting zero CO₂. There will be no fuel benefit for such vans.

CO ₂ emissions (g/km)	Appropriate percentage		Quarterly VAT	
	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £
up to 75	5	8	141	21.00
76 - 120	10	13	141	21.00
121 - 134	15	18	212	31.57
135 - 139	16	19	227	33.80
140 - 144	17	20	241	35.89
145 - 149	18	21	255	37.97
150 - 154	19	22	269	40.06
155 - 159	20	23	283	42.14
160 - 164	21	24	297	44.23
165 - 169	22	25	312	46.46
170 - 174	23	26	326	48.55
175 - 179	24	27	340	50.63
180 - 184	25	28	354	52.72
185 - 189	26	29	368	54.80
190 - 194	27	30	383	57.04
195 - 199	28	31	397	59.12
200 - 204	29	32	411	61.21
205 - 209	30	33	425	63.29
210 - 214	31	34	439	65.38
215 - 219	32	35	454	67.61
220 - 224	33	35	468	69.70
225 - 229	34	35	482	71.78
230 and above	35	35	496	73.87