2011/12

Budget update

23 March 2011

Getting ahead...

www.hazlewoods.co.uk

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Contents

INTRODUCTION

George slays the petrol dragon

It was always on the cards wasn't it? With oil prices rising almost daily and the cost of filling your tank of petrol increasing by about 40% over the last few months it was almost inevitable that the Chancellor would offer some relief when he stood up on Budget Day. And so it proved. Rather than the potential 4p per litre increase that was planned, George Osborne has cut fuel duty by 1p from 6pm on 23 March 2011.

Good news for motorists, but was everything else quite so positive?

Let's deal with the negatives first. Growth has been forecast at 1.7% for this year, down from the previous figure of 2.1%. This, again, was expected and, depending on who you believe, is either as a result of the snow we had at the end of last year, or a mis-management of the public purse. Whichever proves to be correct will be found out over the next twelve months.

Most of the negative matters had already been announced, such as the increases in National Insurance, which take effect from 6 April this year, the 50% higher tax rate (which is already in place) and the swathing public spending cuts. So, having already hit the majority of the general public pretty hard, this Budget had a softer edge to it. The focus of Revenue raising is now on those that have had the most negative press coverage. Any guesses?

It's perhaps not difficult to work out that banks are to be hit again, with an increase in the bank levy. North Sea Oil companies have also been targeted, to finance the give away on the fuel duty. Putting in place a 'fair fuel stabiliser' will, based on current oil prices, increase the tax rate for those companies from 20% to 32%.

Finally, tax avoiders have been singled out, with various measures that the Treasury suggests will increase the tax take by £1 billion per year. However, the longer the 50% rate stays in place, the more appetite there will be to avoid tax, so the battle will no doubt continue. With that in mind, the 50% rate was re-emphasised as being a temporary measure and will be revisited once the tax take is known from the income tax returns for 2010/11. Don't hold your breath as this will not be until at least this time next year.

So with the above measures aiming to bring in about £3.4 billion and the Chancellor stating it was a fiscal neutral Budget, where is it all going?

The reduction in fuel duty is costing the Government and estimated £1.9 billion, which still leaves £1.5 billion to play with.

So, we come to the other good news. The main rate of corporation tax is to decrease by 2%, rather than the 1% originally anticipated. The Chancellor also reconfirmed that the intention is to further reduce the main rate by 1% per year for the next three years. This brings the rate down to 26% from 1 April, with the aim to reduce it to 23% by 2014, which would make it the lowest rate amongst the G7 countries. This is certainly welcome, with the aim being to say to the world that Britain is the best place for their businesses.

To further assist business owners, the Entrepreneurs' Relief limit has, for the third successive Budget, been increased, this time to £10 million from the previous £5 million lifetime limit. For a husband and wife owned company, this means the first £20 million of gains they make when they sell, will be subject to the low rate of 10% capital gains tax.

There was a surprising boost for smaller businesses engaging in Research and Development (R&D) activities, with an increase in the tax credit available from 175% to 200% from 1 April 2011 and to 225% from 1 April 2012. This is becoming an increasingly valuable relief and many businesses engage in R&D unknowingly. It is going to become more and more important to understand where the relief applies.

There is to be no significant increase in public spending, but certain specific areas are to benefit. There will be a new scheme to help first time buyers purchase newly built homes, investment to increase the number of apprenticeship spaces by 50,000 per year and a £150 million investment in new University Technical Colleges.

But as with every Budget there is always something that sneaks through, mostly unnoticed. It was previously announced that there was to be a change in the way tax credits, public sector pensions and benefits would increase year on year, from being based on the Retail Price Index (RPI) to the less generous Consumer Price Index (CPI). The Chancellor announced that direct tax bands would follow the same pattern. According to the government's own numbers, these two measures will bring in an extra £11.5 billion per year by 2015/16. Who is paying that? We all are.

So, whilst the petrol dragon may have been slain (or at least injured a little), there appears to be a much bigger monster waiting in the wings.

INDIVIDUALS

Increased personal allowance

From April 2012 the personal allowance is to be increased by a further £630 to £8,105. The basic rate limit will reduce by the same amount to £34,370, which means that the higher rate tax cut off point will be unchanged.

The Chancellor announced that he sees the 50% tax rate as temporary, but did not give any indication as to when it might be abolished.

Action

With the 50% additional tax rate set to stay, at least for now, it is important to mitigate the effects of this rate where possible. For ideas on how to minimise your tax bill speak to your usual Hazlewoods contact.

Reduction to childcare relief for higher earners

As previously announced, higher rate and additional rate taxpayers who join a childcare vouchers scheme on or after 6 April 2011 will have their tax relief restricted.

The restriction will work by reducing the income tax exempt limits from £55 per week to

- £28 per week for higher rate taxpayers
- £22 per week for additional rate taxpayers

Action

If you are a higher rate or additional rate taxpaying employee and you have at least one child you should consider joining your employer's childcare vouchers scheme (if they have one) before 6 April 2011.

If you run your own business and you are a higher rate or additional rate taxpayer you should consider setting up a scheme before 6 April 2011.

Junior ISAs replace the Child Trust Fund

As previously announced, a new Junior Individual Savings Account (Junior ISA) is going to become available for children under 18 who do not have a Child Trust Fund (CTF).

Junior ISAs will be similar to existing ISAs, including that savings will be tax free.

Action

If you have a child under 18 who does not have a CTF, or was born on or after 3 January 2011 and so could not have a CTF, look out for details of the new Junior ISAs. It is expected that they will be available from Autumn 2011.

INDIVIDUALS (cont)

CPI indexation to be used instead of RPI indexation

Various tax rates and allowances automatically rise in line with inflation, which at the moment is based on the Retail Price Index (RPI). However, from 2012/13 the Consumer Price Index (CPI) indexation is to be used instead, for all direct taxes.

The impact will be quite considerable and it is anticipated that by 2015/16 the measure will raise extra tax revenues of over £1 billion.

This is in addition to changing to CPI when applying inflation to all benefits, tax credits and public service pensions from 2011/12. This was announced last summer and is now expected to raise £3 billion in the next tax year, rising to a staggering £10.6 billion in 2015/16.

Enterprise Investment Scheme and Venture Capital Trusts

The rate of income tax relief is to increase under Enterprise Investment Schemes (EIS) from 20% to 30% of the amount subscribed for shares issued on or after 6 April 2011.

Proposed amendments, to apply from 6 April 2012 onwards, are expected to be as follows:

- The thresholds for the maximum size of qualifying company for both EIS and Venture Capital Trusts (VCTs), as follows:

	Current	Proposed
No of employees	No more than 50	No more than 250
Gross assets	Must not exceed £7 million before the share issue and £8 million after investment	Must not exceed £15 million before investment

- The maximum annual amount that can be raised under both schemes by an individual company, is expected to increase from £2 million to £10 million ; and
- The annual amount that an individual can invest under EIS is expected to increase from £500,000 to £1 million.

Companies whose trade is wholly or substantially based on the receipt of Feed-In Tariffs (FITs) will be excluded from obtaining relief under EIS and VCT schemes where commercial electricity generation commences on or after 6 April 2012. Shares issued before 23 March 2011 will not be affected.

The aim is to help smaller, riskier UK companies to compete for finance by increasing the incentives for people to invest. Individuals investing under both schemes will be able to invest more, and in a wider range of companies from April 2012.

Action

If raising finance, consider whether your company qualifies to enhance the benefits received by investors. If looking to invest, ensure the company qualifies to maximise your tax relief.

Entrepreneurs' Relief

The lifetime limit on qualifying gains, made by an individual or trustee, will be increased from £5 million to £10 million and apply to qualifying disposals on or after 6 April 2011.

There are no other changes to the rules and qualifying conditions relating to Entrepreneurs' Relief.

This means that, for a husband and wife owned company, £20 million gains can be made that will be subject to the low rate of 10%. This makes planning for sale incredibly important to ensure that the qualifying conditions are met so that this valuable relief can be utilised in full.

Action

Ensure the qualifying conditions are met to benefit from this relief. Where family members could be brought in to benefit, ensure they are in place at least one year before disposal.

BUSINESS

Capital allowances - doubling the definition of 'short life'

Very little change on capital allowances was announced but don't forget that main pool rates decrease from 20% to 18% from 6 April 2012. This does not reduce the amount that can be claimed on an asset overall but it delays the relief by spreading it over a longer period. On the flip side, what was announced in the Budget is a change to the 'short life assets' regime. This allows capital allowances to be accelerated by making an election if the asset is expected only to have a short life. Previously a short life was four years; the change is that 'short' is to become eight years. The measure will be of most benefit to businesses that make significant investment in plant and machinery with an expected useful life of between four and eight years.

Approved Mileage Allowance Payments

From 6 April 2011 the rate of Approved Mileage Allowance Payments for employees who use their private cars and vans for business mileage will be increased from 40p per mile to 45p per mile for the first 10,000 business miles in the tax year. The rate after 10,000 miles will remain at 25p per mile.

In addition, the allowance for passenger payments currently in place for employees at 5p per passenger mile will be extended to volunteers.

Employment Issues

Disguised remuneration

Legislation, first announced on 9 December 2010, will be introduced in the Finance Bill 2011, which seeks to tackle third party arrangements to avoid or defer the payment of income tax or NI contributions due on employment income, typically through the use of Employee Benefit Trusts (EBTs) or Employer Financed Retirement Benefit Schemes (EFRBS).

The legislation will have effect on and after 6 April 2011 and apply to rewards which are earmarked for an individual employee, or otherwise made available on and after that date.

In addition, anti-forestalling provisions apply to the payment of sums and the provision of readily convertible assets for the purposes of securing the payment of sums between 9 December 2010 and 5 April 2011 where, if paid or provided on or after 6 April 2011, would be caught by the legislation.

The anti-forestalling charge (PAYE and NIC) will arise on 6 April 2012 if sums loaned to employees, that do not give rise to a PAYE and NIC charge, have not been repaid, or readily convertible assets used to secure the payment of a sum have not been returned, before that date.

The employer will be required to account for income tax under PAYE as if the amount concerned was a payment made on 6 April 2012. The value of any readily convertible asset provided (to which the anti-forestalling provisions apply) will also count as employment income and be subject to PAYE.

The initial legislation has been amended to reflect concerns that the legislation was broad and those arrangements which were outside the scope of the policy intention were inadvertently caught.

Corporate

A double dose of corporation tax rate deduction

A pleasant surprise is the extra 1% cut in the main rate of corporation tax. The Government had already tried to put UK companies on a more internationally competitive basis by announcing last summer that rates would be reduced at 1% per year for four years. This took the overall rate from 28% to 24%. Now the first rate cut will be doubled, so the main rate will be 26% for 2011/12 coming down to 23% by 2014/15. This will cost the Exchequer about half a billion pounds next year and an average of £1 billion per year for the four years thereafter.

Last time the rate cut was 'paid for' by hitting capital allowances for businesses. This time the financing comes, initially at least, from the increase in the bank levy.

Changes to the research and development tax relief system

In order to incentivise companies to increase their innovative activities and stimulate growth, the Chancellor has announced a number of changes to the Research and Development (R&D) tax relief scheme for Small and Medium Enterprises (SMEs).

From 1 April 2011 companies can claim an additional tax deduction of 100% of the costs of carrying out qualifying R&D (up from 75%). A further increase to 125% will be introduced from 1 April 2012.

In addition, it has been announced that further changes will be made from 1 April 2012 including:

- Abolishing the cap on the payable tax credit (currently limited to the amount of PAYE & NI paid in the period);
- Removing the £10,000 de-minimis limit in relation to qualifying expenditure; and
- Amending the relief available to SMEs that carry out subcontracted R&D activities on behalf of large companies.

Action

Often companies carry out R&D activities without knowing. Speak to your usual Hazlewoods contact if you have any doubts over your entitlement.

OTHER ISSUES

Stamp Duty Land Tax

The main announcement in respect of Stamp Duty Land Tax (SDLT) was the measures they are introducing to counter avoidance. Planning involving Shar'ia Law finance has become widely used and was being reported in the Sunday papers. As a result, amendments are to be introduced to the legislation, with effect from 24 March 2011, to counter these planning schemes.

Whilst this may block some planning schemes, others are still available.

Inheritance tax

There have been previous announcements and speculations that the government is considering a far-reaching overhaul of Inheritance Tax (IHT) and particularly the very valuable reliefs for business assets and lifetime gifts, but no major changes were announced.

There are only two announcements relating to IHT in this Budget. Firstly, the Nil Rate Band is fixed at £325,000 until April 2015, and from 2015/16 the assumption is that the annual rises will be calculated by reference to the CPI, although that can be over-ridden. Secondly, a reduced rate of IHT will apply where a deceased leaves more than 10% of their net Estate (after deducting IHT exemptions, reliefs and the Nil Rate Band) to charity. The rate in these cases will be reduced from 40% to 36%, and will apply where death occurs after 5 April 2012.

VAT

Registration/deregistration

The registration and deregistration thresholds are increased by £3,000 to £73,000 and £71,000 respectively, with effect from 1 April 2011.

Fuel scale charge

The figures for the amount of output VAT to account for, in respect of fuel provided for private motoring, are shown on our "Tax Facts" card. The figures are based on Carbon Dioxide (CO_2) emissions, and come into effect in the first VAT return period beginning on or after 1 May 2011.

Low value consignment relief

With effect from 1 November 2011, the threshold value below which imports from outside the EU are not subject to VAT on importation is reduced from £18 to £15. The measure, which is designed to eliminate the competitive disadvantage between UK businesses and non-EU businesses when supplying goods in the £15 - £18 range, will impact upon individuals and households on purchases of items such as CD's, DVD's, electronic goods and accessories etc, typically ordered online. The Government is also to explore with the European Commission the options available for limiting the relief further.

Online registration/online filing of VAT returns

The Government is to mandate online VAT registration/de-registration, and notification of changes, from 1 August 2012.

Also, online filing of VAT returns and electronic payments will become compulsory for VAT-registered businesses, with a VAT exclusive turnover of under £100,000, for VAT periods beginning on or after 1 April 2012. The Government will be consulting on this measure and will issue consultation documents in June.

Overseas traders

The VAT registration threshold is to be removed for businesses not established in the UK (ie such businesses will need to register for VAT as soon as they make any taxable supplies in the UK).

VAT cost-sharing exemption

Consultation is to continue on the options for implementing the VAT cost-sharing exemption into UK legislation. The exemption could be used by organisations such as charities, universities and housing associations wanting to make efficiency savings by working together to achieve economies of scale. Present UK VAT legislation can create an irrecoverable VAT cost in such situations, thus acting as a barrier to such arrangements.

Tackling VAT fraud on imported road vehicles

The Government is to consult on a measure which, from 2013, will require details of vehicles entering the country for permanent use on UK roads to be notified to HMRC online before the vehicle is registered with the DVLA.

Individuals and non-VAT registered businesses will pay the VAT at the time of notification, whereas VAT registered customers will continue to make payment through their VAT return. The DVLA will be able to refuse vehicle licensing and registration where the VAT is not shown as secure.

Confirmation of previously announced measures

- Academies

  New legislation will bring Academies in line with Local Authority maintained schools. Currently Academies and similar organisations suffer VAT on costs that can be reclaimed by Local Authorities who fund schools, leading to a disparity.
  This legislation will apply to expenses incurred on or after 1 April 2011.

OTHER ISUUES (cont)

- **Business samples**

  With effect from Royal Assent, business samples that are given free of charge will remain VAT free, regardless of the number of identical samples given out.

- **Supply splitting**

  Also from Royal Assent, zero-rating is withdrawn for the supply of printed matter where this is ancillary to a differently rated service supplied by a separate entity and where, if the service and printed matter had been supplied by a single entity, the two supplies would have been treated as a single standard rated, reduced rated or exempt supply.

HMRC Administration

Tax simplification

Following the reports produced by the Office of Tax Simplification (OTS) the Chancellor announced several measures aimed at reducing the tax compliance burden for business and individuals. These are:

- The abolition of 43 tax reliefs, which are no longer thought to be valid.
- A consultation is to be launched into the possible integration of the operation of tax and National Insurance Contributions. Any change will be complex and it is not likely to be quick.
- The Government intends to keep IR35, but will make improvements to the way it is administered.
- The OTS is to continue to look at improving tax administration for small businesses and more will be announced in Budget 2012.
- A consultation this year on modernising the personal tax system, making it more accessible to individual taxpayers.

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Staverton
Staverton Court
Staverton Cheltenham
GL51 0UX
Tel: 01242 680000

Gloucester
Windsor House
Barnett Way
Barnwood
Gloucester GL4 3RT
Tel: 01452 634800

Cheltenham
Windsor House
Bayshill Road
Cheltenham GL50 3AT
Tel: 01242 237661

www.hazlewoods.co.uk