

Welcome...

to our Budget Brochure.

George Osborne declared this to be a Budget for Growth, Enterprise and Aspiration.

We love all the good ideas about encouragement for business and tax simplification. We are sceptical about the increases in national insurance, as they will make all but the lower paid worse off. For motorists the reduction in fuel duty is to be welcomed, as is the increase in the tax free mileage rates.

Let's hope it works and it really does stimulate growth.

This brochure aims to summarise the main measures that affect our clients. If you need further assistance just let us know.

Please contact us for advice in your own specific circumstances.

We're here to help!

Budget News March 2011

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Individuals

Personal Allowances

These allowances represent the amount of an individual's income in the tax year that is not subject to income tax. Some people are eligible for several allowances such as the personal allowance, and married couple's allowance. The married couples allowance is available to married persons and civil partners, but only where at least one person of the couple was born before 6 April 1935.

The personal allowance for 2011/12 will increase by £1,000 to £7,475, but the 40% tax threshold will reduce to £35,000 (see below). This ensures that higher and additional rate taxpayers do not benefit from the increased personal allowance in this year.

From 6 April 2012 the personal allowance will be increased again by £630 to £8,105, and in that year the 40% threshold will be reduced further to £34,370.

Personal allowances are withdrawn at certain income thresholds, indicated below, and cannot be claimed by non-domiciled individuals who elect to have their foreign income and gains taxed on the remittance basis for the tax year.

The income tax allowances, reliefs and credits are...

	2010/11	2009/10
Under 65	£7,475	£6,475
65 - 74	£9,940	£9,490
75 and over	£10,090	£9,640
Minimum married couples allowance*	£2,800	£2,670
Maximum married couples allowance*	£7,295	£6,925
Blind person's allowance	£1,980	£1,890
Income limit for allowances for those aged 65 or more	£24,000	£22,900
Income limit for allowances for those aged under 65	£100,000	£100,000

** given where one partner was born before 6 /4/1935, and only as 10% reduction in tax.*

Income Tax Rates

The tax rates for 2011/12 have been frozen at the 2010/11 levels but the threshold at which the 40% tax rate is applied is reduced to £35,000. This introduces a subtle tax increase as it pulls more taxpayers into the 40% tax bracket, and increases the amount of income subject to tax at 40%.

The income tax rates and bands are...

	2010/11	2009/10
Savings rate* (10%)	£0 - £2,560	£0 - £2,440
Basic rate (20%)	£0 - £35,000	£0 - £37,400
Higher rate (40%)	£35,001 - £150,000	£37,400 - £150,000
Additional rate (50%)	Over £150,000	Over £150,000

** Only applies if non savings income is below this amount*

Non-Domiciled and Non Resident

Individuals who are domiciled outside of the UK (non-domiciled), and who have been resident in the UK for at least 7 years out of the previous 9 tax years, must pay a remittance basis charge if they want to exclude their off-shore income and gains from UK taxation. This **remittance basis charge** is current set at £30,000 per year. It is proposed that from 6 April 2012 the remittance basis charge will increase to £50,000 for non-domiciled who have been UK resident for at least 12 years. Those who have been resident in the UK for at least 7 years but less than 12 years will continue to pay the £30,000 charge.

There is currently no clear measure by which an individual can determine whether they are treated as resident for tax purposes in the UK. The Government intends to introduce a legal test of residence with effect from April 2012.

Tax Credits

The main changes to Tax Credits as it applies to the self-employed, is the change in the **income disregard** from £25,000 in 2010/11 to £10,000 in £2011/12.

The income disregard provides a buffer for changes in income, so overpayments of tax credits do not arise where income varies within this threshold year on year. The reduction in this threshold is likely to adversely affect families with fluctuating incomes, such as the self-employed. In the future, in order to avoid a claw-back of tax credits, the claimant will need to finalise their self-employed profit figures as close to the tax year end as possible.

Savings and Investments

Enterprise Investment Scheme

Income tax relief for investors is to be proposed to be enhanced as follows:

Rate of income tax relief: 2010/11 - 20%, 2011/12 - 30%, 2012/13 - 30%

Annual maximum investment qualifying for income tax relief: 2010/11 - £500,000, 2011/12 - £500,000, 2012/13 - £1,000,000

These changes will be subject to State aid approval from the EU.

Venture Capital Trusts

The range of companies that can accept investments through the EIS or Venture capital Trusts is to be increased from April 2012 to include those with gross assets less than £15 million, and with less than 250 employees.

At present only companies with asset value of less than £7 million and with less than 50 employees can qualify for these tax favoured investments. The cap on the amount a company can raise through these schemes in any year will also be increased from £2 million to £10 million.

Pension Contributions

The level of contributions that can be made with full tax relief to a registered pension scheme is to be reduced from £255,000 to £50,000 per pension input period (PIP) falling in the tax year. However, this cap can be expanded by bringing forward unused relief from the previous three tax years, up to a maximum of £50,000 from each year. If the annual allowance is exceeded the taxpayer must pay an annual allowance charge on the excess at their marginal rate of income tax.

The Lifetime Allowance will reduce from £1,800,000 in 2011/12 to £1,500,000 in 2012/13.

Independent Savings Accounts (ISAs)

The ISA savings limits applicable in 2011/12 for those over 18 are:

- Overall limit - £10,680
- Cash up to - £5,340
- Balance in stocks and shares up to - £10,680
- For those aged 16 & 17:
- Overall limit - £5,340
- Cash up to - £5,340
- Balance in stocks and shares up to – nil

From April 2012 the ISA savings limits will be increased in line with the consumer Prices Index (CPI) rather than in line with the Retail Prices Index (RPI), as has been the case so far.

Savings for Children

Children born between 1 September 2002 and 2 January 2011 inclusive were eligible for a **child trust fund** account (CTF). Each child received a voucher to allow the account to be opened which also provided an initial deposit. The existing CTF accounts will continue and funds of up to £1200 per year can be contributed for each child tax free. The CTF account can only be accessed by the child when he or she reaches age 18.

Junior ISA

The Junior ISA is a replacement for the CTF but no funds will be provided by the Government. The junior ISA will be available to all children resident in the UK who do not have a child trust fund account. It will also have the following features:

- No tax will be charged on income or gains earned within the ISA.
- Funds placed in the account will be owned by the child and locked in until the child reaches age 18.
- Accounts can be opened from autumn 2011 (exact date to be announced).
- Sharia compliant products will be offered as Junior ISAs.
- The annual savings limits will be announced later, but are likely to be similar to normal ISAs.

Capital Taxes

Capital Gains Tax Rates and Thresholds

The rates and thresholds for capital gains tax are as follows for 2011/12:

Annual exemption - £10,600

Annual exemption for most trustees - £5,300

Rate for gains in basic rate band - 18%

Rate for gains above basic rate band - 28%

Rate for gains subject to entrepreneurs' relief - 10%

Lifetime limit for entrepreneurs' relief - £10,000,000

Entrepreneurs' Relief

This relief applies to gains made on the disposal of businesses, parts of a business, shares in trading companies and certain business assets disposed of after a business ceases or in association with a business disposal. The taxpayer and the business must both meet a number of qualifying conditions for the relief to apply.

Each taxpayer has a maximum amount of gains that they can include in a claim for entrepreneurs' relief, called the lifetime limit. This lifetime limit was initially set at £1 million from 6 April 2008. It was increased to £2 million from 6 April 2010, increased again to £5 million from 23 June 2010. The lifetime limit will be doubled to £10 million for gains made after 5 April 2011.

Inheritance Tax

The nil rate band for inheritance tax (IHT) will remain frozen until 2014/15 at £325,000. This is the amount of a person's estate that is free of inheritance tax.

The rate payable on death for 2011/12 remains at 40% with the rate payable on lifetime gifts to certain trusts remaining at 20%.

From April 2012 those that give at least 10% of their estate on death to charity will pay a reduced rate of IHT of 36%. Gifts made to charities are exempt from IHT.

Business Tax

IR35 Review

The Office of Tax Simplification was tasked with reviewing the operation of IR35, or the provision of services through intermediaries as the legislation is more correctly called. Unfortunately the Government does not agree that IR35 should be abolished. However, it has promised to improve the way HMRC provide guidance to businesses who are trying to operate IR35.

Capital Allowances

The rates and thresholds of the main capital allowances will apply as follows for the year from April 2012:

- Main pool writing down allowance: reduced from 20% to 18%
- Special rate pool writing down allowance: reduced from 10% to 8%
- Annual Investment Allowance (AIA) cap: reduced from £100,000 to £25,000

Short Life Assets

At present a business can elect for named assets (not cars) to be treated individually for capital allowance purposes rather than being included in the main pool or special rate pool. The assets subject to this election are called short life assets as they are deemed to have a useful life of less than 4 years. If the business sells or scraps the short life asset before the end of its deemed life, the business will get tax relief for the full cost of that asset while it is being used by the business. This would not apply when the asset is included in one of the capital allowance pools.

For assets purchased on or after 1 April 2011 (6 April 2011 for unincorporated businesses), the life of the short life asset will be deemed to be 8 years. This will benefit larger businesses that incurred expenditure on assets in excess of their Annual Investment Allowance cap for the year.

Enterprise Zones

The Government will create 21 Enterprise Zones around the country. Further details of the exact location and duration of these zones will be released later. All we know so far is that businesses within these zones will be able to apply for up to 100% discount on business rates.

Tax Reliefs to Go

The Office for Tax Simplification has suggested a list of more than 40 tax reliefs that could be abolished because they are rarely used, or are in fact obsolete.

Most of these reliefs will be abolished after consultation.

Reliefs on this list which may be of interest to small businesses include:

- Tax free meals for employees who cycle to work
- Tax free late night taxis for employees
- Additional tax relief for companies that clean up contaminated land or buildings (land remediation relief)
- Relief from CGT for grants for giving up agricultural land

Corporation Tax Rates

The small profits rate of corporation tax will be cut from 21% to 20% from 1 April 2011, and is expected to remain at that rate for the next four years, but this has not been confirmed. The small profits rate applies to profits of up to £300,000 where the company has no associated companies which are trading.

The main rate of corporation tax was due to be cut from 28% to 27% from April 2011, but that rate will now be 26%, reducing by 1% per year thereafter until the rate reaches 23%.

Research and Development Tax Credits

Small and medium sized companies could previously claim tax relief of 175% for qualifying revenue expenditure incurred on research and development (R&D) projects. This tax relief will increase to 200% for R&D expenditure incurred after 31 March 2011. A further increase in this tax relief to 225% is planned for qualifying R&D expenditure incurred after 31 March 2012.

The rules that govern what type of expenditure qualifies for this relief will also be revised with effect from 2012 to make it easier for small companies to claim this relief.

Employers

NIC

When business owners and accountants are asked what single action could simplify the tax system, most suggest merging income tax and NI. This message has finally been heard by the Government, who will start consulting on how the operation of the NI and income tax could be combined.

This does not mean these two taxes will be merged. The Government has stated that NI will not be applied to savings, dividends or pensions. The likely changes will involve aligning the rules and mechanics of collecting the two taxes. However, don't expect big changes any time soon!

From 6 April 2011 the rates and thresholds for the main NI contributions were already known with most increasing by 1%. The main figures for 2011/12 are:

- Lower Earnings Limit (LEL) for Class 1 NICs - £102/week
- Employer's class 1 above £136/week not contracted out - 13.8%
- Employee's class 1 not contracted out from £139 to £817/week - 12%
- Employee's additional class 1 above £817/week - 2%
- Self-employed class 4 from £7,225 to £42,475 per annum - 9%
- Self-employed class 4 additional rate above £42,475 per annum - 2%
- Self-employed class 2 - £2.50 per week
- Voluntary contributions class 3 - £12.60 per week

Approved Mileage Rates

Where an employee uses his or her own car for business journeys their employer can pay them an approved mileage allowance payment (AMAP), free of tax and NIC.

This AMAP rate has been stuck at 40p per mile since about 2002, and at current petrol prices many employees who need to use their car for business cannot afford to do so. The AMAP will increase to 45p per mile from 6 April 2011 for the first 10,000 business miles per year, any additional miles can be reimbursed at 25p per mile. If the employer does not pay the full AMAP rate the employee can claim the additional amount in tax relief from HMRC.

The tax free AMAP can also be paid by charities to volunteers. The self-employed, who have profits below the VAT registration threshold (£73,000 from 1 April 2011), may also use the AMAP rate as a substitute for motor expenses claimed in their accounts.

Where an employee carries a fellow employee as a passenger on a business journey, an additional 5p per mile tax free can be paid. The rate will also now apply to volunteer drivers who take other volunteers on business/ charity related journeys.

Car Benefit

The tax charge for personal use of a company car is based on a percentage of the list price of that car when new.

From 6 April 2011 the percentages are all increased by 1% for those in the 15% to 35% range but with a 35% maximum kept. The taxable benefit of using a car with CO2 emissions of 121-129g/km is 15% of the list price. This percentage increases by 1% for each additional 5g/km of CO2 emissions to a maximum of 35% for cars with CO2 emissions of 225g/km or more.

Where a company car driver receives free fuel, the taxable benefit is calculated as the percentage of the list price for the car applied to a set value, currently £18,000. This value will increase to £18,800 from 6 April 2011.

The maximum taxable benefit of receiving fuel for personal use will increase from £6,300 (for 2010/11) to £6580 (for 2011/12).

VAT

VAT Rates and Thresholds

There were few changes announced for VAT. The rates and thresholds are as follows from 1 April 2011:

- Lower rate - 0%
- Reduced rate - 5%
- Standard rate - 20%
- Registration turnover - £73,000 (up from £70,000)
- Deregistration turnover - £68,000 (up from £71,000)

Low Value Consignments

Low value consignment relief allows goods to be imported into the UK by post from outside the EU, with no VAT or duties charged, if the value of the package is less than £18. This has encouraged suppliers of CDs, DVDs and other durable items, to supply goods via the Channel Islands and other non-EU territories to avoid VAT being applied on the sale price. The monetary limit for low value consignments will be reduced to £15 from 1 November 2011, and this limit will be reviewed in March 2012. The Government will also look at other ways of closing this loophole.

VAT Online Filing

It will be compulsory for all VAT registered businesses to file their VAT returns online from 1 April 2012. At present only businesses who became VAT registered from April 2010 or those with turnover of £100,000 or more must file VAT returns online. Also from 1 August 2012 all requests to register or deregister for VAT will have to be made online.

Need Help

Please contact us if we can help you with these or any other tax or financial & accounting matters.



In addition, if there's anyone else who you think would benefit from receiving this newsletter, please forward the email to them and ask them to contact us to be added to the newsletter list.

New Clients Welcome



If you are not already a client we would love to meet you or just have a chat with you on the phone to discuss how we can help. All new client consultations are free of charge and without obligation.

Disclaimer

The information contained in this newsletter is of a general nature and no assurance of accuracy can be given. It is not a substitute for specific professional advice in your own circumstances. No action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a consequence of the material can be accepted by the authors or the firm.

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