

## **2010 Budget Report From Riz Akhtar** **RA Accountants LLP**

At this time of the year, my commentary normally starts with a paragraph titled “Winners” and “Losers” but this time I will title it “Losers” and “Big Losers”.

Considering the indebted nation the UK has become, it was disappointing to see the Chancellor claiming a victory of securing pennies to fill pot holes and no credible plan to fill the country’s financial black hole.

Well, I will still keep the tradition going, being British, however to a somewhat minimum and leave the rest for you to read between the lines.

This report focuses on some of the tax changes we can now expect. We will also have further changes to deal with after the election.

### **Winners**

No stamp duty for first time buyers up to property value £250,000.

Low income families with children aged one or two are to get a £4 a week rise in child tax credit from 2012.

### **Small & Medium Sized Businesses**

- Most needed breathing space “Time to Pay” required by struggling companies to pay their taxes has been extended
- Annual Investment Allowance has been doubled to £100,000 from 1<sup>st</sup> April 2010 (6<sup>th</sup> April for individuals and partnerships) from £50,000
- Business rates holidays for small & tiny businesses on properties up to a rateable value of £6,000
- Entrepreneur’s Relief to be doubled for disposals from 6<sup>th</sup> April 2010 to £2m as a lifetime limit

### **Losers**

- Individuals earning over £150,000 face a higher rate of income tax at 50% from 6<sup>th</sup> April 2010
- Progressive erosion of tax allowances for those earning more than £100,000
- Restriction on pension tax relief for those earning more than £130,000
- Increased duties on cigarettes, alcohol and worst off are the cider drinkers
- Like many recent years “anti avoidance” on tax schemes such as employee benefit trusts etc.
- Like VAT, HMRC may be able to ask for security for late payment of PAYE from employers
- From 6<sup>th</sup> April 2011, residential properties over £1m will be subject 5% stamp duty

## **PERSONAL TAX ANNOUNCEMENTS**

### **Changes to Stamp Duty Land Tax (SDLT)**

#### **First time buyer's concession**

One of the more politically charged announcements today was the introduction of a new relief for first time home buyers which will exempt them from Stamp Duty on a property purchase up to £250,000 - this is effective for transactions taking place on or after 25 March 2010 and before 25 March 2012. This additional relief is partly funded next year by the increase in SDLT on more expensive property sales.

To qualify all of the following conditions will need to be met:

1. The individual or individuals jointly purchase a major interest in land which is wholly residential, and
2. The consideration is more than £125,000 but not more than £250,000, and
3. The individual(s) intends to occupy the property as his/her or their only or main residence and has or have not previously purchased such an interest or its equivalent anywhere in the world.

#### **New rate of Stamp Duty for expensive properties**

From 6 April 2011 a new 5% SDLT rate will be applied to residential property sales where consideration exceeds £1m.

#### **Income tax rates and thresholds**

The changes to tax rates and thresholds announced in the pre-budget report last year have been confirmed, including the advent of the 50% income tax rate for tax payers with taxable earnings in excess of £150,000 per annum.

A reminder of 2010-11 position is set out below:

- the basic rate will remain at 20%;
- and higher rate will remain at 40%;
- the additional rate will be set at 50%;
- the basic rate limit will remain at £37,400;
- the starting rate limit for savings will remain at £2,440;
- the personal allowances will remain at their 2009-10 amounts.

From 2010-11 the additional 50% rate will apply to taxable income above £150,000.

From 2010-11 the amount of the personal allowance will be gradually withdrawn for all individuals (regardless of age) with "adjusted net incomes" above £100,000. The rate of reduction is £1 for every £2 above the income limit.

#### **NIC rates and thresholds**

Apart from minor adjustments to the Lower Earnings Limit for 2010-11, NIC rates and thresholds remain as in 2009-10.

The previously announced combined increase of 1% in the main rates of NIC will be effective for 2011-12.

## **Pensions**

The restriction of tax relief for tax payers earning in excess of £150,000 per annum is confirmed. This will take effect from 6 April 2011.

The Registered Pensions Scheme 2010-11 Lifetime Allowance of £1.8 million and Annual Allowance of £255,000 will continue to apply at these levels for a further five tax years, i.e. up to and including the tax year 2015-16.

## **Furnished Holiday Let Property**

As previously announced the special tax concessions offered to owners of qualifying Holiday Let Property will cease from 6 April 2010. From this date, income from such property will be taxed in the same way as income from other property rental businesses.

## **Inheritance Tax**

The current Nil Rate Band of £325,000 will be frozen at this level for all tax years up to 2014-15.

## **Company Car Tax changes**

A new 10% car benefit rate will be introduced on 6 April 2012 for all company cars with emissions up to 99g/km.

Additionally, from 6 April 2010 to 5 April 2015 there are two further changes to the chargeable benefit in kind for company cars and vans with zero emissions or emissions up to 75g/km. These are:

- the first change is full relief from the chargeable benefit in kind on company cars and vans which cannot produce more than 0g/km CO<sub>2</sub> engine emissions under any circumstances when driven.
- the second change reduces the chargeable benefit in kind on company cars which have an approved CO<sub>2</sub> emissions figure of exactly 75g/km or less, to 5% of list price.

## Tax Credits

A number of changes to tax credits were announced including:

1. From April 2012 an increase in the child element of £4 per week for 1 and 2 year olds.
2. From April 2010 awards for fixed period childcare costs (such as claims of a few weeks during the school holidays) will be averaged and paid over that fixed period rather than averaged over a year. This will enable families to receive all the financial support towards their childcare costs they are entitled to receive for these periods when they need it.
3. From 6 April 2011, people aged 60 and over will qualify for Working Tax Credits if they work at least 16 hours a week.
4. As announced at the 2009 Pre-Budget Report and confirmed at Budget on 24 March 2010, from 6 April 2010:
  - the Child element in Child Tax Credit will increase by £20 above earnings indexation to £2300 per year. An increase of £65 per year overall;
  - the disabled elements of Child Tax Credit will increase by 1.5%;
  - the elements of the Working Tax Credit (except the childcare element) will increase by 1.5%;
  - maximum amounts for child care, family and baby element for Child Tax Credit, the income disregard, the first and second tax credit threshold and the withdrawal rates remain unchanged; and
  - the income threshold for those on child tax credit only rises to £16,190.

From 12 April 2010:

- Child Benefit rates and Guardians Allowance will increase by 1.5%.

## **BUSINESS TAX ANNOUNCEMENTS**

### **Annual Investment Allowance**

At present it is possible to write off the full cost of up to £50,000 of capital expenditure on qualifying assets. This limit is doubled from 1 April 2010 (for corporation tax) and 6 April 2010 (for income tax) to £100,000.

### **First Year Allowance**

The temporary first year allowance of 40% ceases to apply on 1 April 2010 (corporation tax) and 5 April 2010 (income tax).

### **Tax incentive for British Video Games industry**

The Government is to seek State Aid Approval to introduce a new tax relief for the UK video games industry. Consultations on the shape of the new relief will begin later this year.

### **Losses - carry back**

#### **Corporation tax**

The temporary extension of trading loss carry-back from one to three years for losses up to £50,000 continues for company losses arising in accounting periods ending between 24/11/08 and 23/11/10.

#### **Income Tax**

The temporary extension of trading loss carry-back from one to three years for losses up to £50,000 continues for the 2008-09 and 2009-10 tax years for unincorporated businesses; consequently this relief for income tax purposes will cease 5<sup>th</sup> April 2010.

### **Corporation Tax Rates**

For the Financial Year commencing 1 April 2011, the small profits rate of corporation tax remains at 21%.

For the Financial Year commencing 1 April 2011 the main rates of corporation tax are set at 28%.

### **VAT increased registration and deregistration limits**

The taxable turnover threshold, that determines whether you should be registered for VAT, will increase from £68,000 to £70,000 from 1 April 2010. The taxable turnover threshold that determines whether you could apply for deregistration will be increased from £66,000 to £68,000 on the same date.

## **Business Payment Support Service**

This service which allows you to negotiate extended payment of your tax dues, including VAT, Corporation Tax, Income Tax and NICs and PAYE, is to continue.

HMRC will require businesses seeking Time To Pay (TTP) arrangements for arrears of £1m or more, to provide an Independent Business Review (IBR) in support of their request. It is expected that the new requirement will be implemented from April 2010 and HMRC will informally consult on how this will work.

There will be no change for other businesses.

## **Capital Gains Tax**

There was speculation prior to the Budget that the CGT rate would be increased to close the gap between the present 18% capital gains tax rate and the more punitive income tax rates which peak, from 6 April 2010, at 50%.

Surprisingly there is to be no increase and as an unexpected bonus the lifetime limit of gains that can be covered by Entrepreneurs' Relief is to be doubled, from £1m to £2m.

The present annual exempt amount for individuals of £10,100 is unchanged for 2010-11.

## **Anti-avoidance legislation**

There are the usual spate of complex issues which are coming under HMRC scrutiny - this includes closer exchange of information with certain off-shore tax havens that have benefited a particular high profile individual recently!

One of the more relevant areas of proposed legislation is with regard to Employee Benefit Trusts and similar arrangements. HMRC consider these as being used to disguise payments of remuneration with a consequent loss of tax and National Insurance. They have declared their intention to introduce anti-avoidance legislation to take effect from 6 April 2011.

## **Fuel Duty**

The expected increase of 2.76p per litre in fuel duty that was due to be implemented on 1 April 2010 is now to be phased in as follows:

- 1 April 2010 increase of 1p per litre
- 1 October 2010 increase of 1p per litre
- 1 January 2011 increase of 0.76p per litre

**If you feel that these changes will affect you and your business or would like any clarification on any of the points then please do not hesitate to call Riz Akhtar on 020 8429 7474**

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayer's circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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