

Budget 22nd June 2010 Issue

Contents:

Summary
Key economic statistics
News for businesses and individuals
Other announcements
More information

Time for us all to feel the pinch?



A packed budget with lots of changes and complexities built into the tax system.

The VAT increase from 17.5% to 20% with effect from 4 January 2011 stole the headlines. However, there is further bad news for consumers and small businesses in this “emergency budget”.

Higher rate taxpayers will pay Capital Gains Tax at 28% with effect from 23 June 2010 to give investors certainty apparently however this was eased by an extension in the Entrepreneurs Relief lifetime allowance to £5m from £2m on qualifying assets.

In summary, it's not as bad as it might have been, however, everything points at 2011 being a very tough year and the risk of a double dip recession has definitely been increased this week.

Summary

Let's to summarise!

With regard to **indirect tax (VAT)**:

- the standard rate of VAT will increase to 20 per cent with effect from 4 January 2011
- the reduced rate of 5 per cent remains unchanged
- the sectoral rates for the VAT flat rate scheme will be updated
- the standard rate of insurance premium tax will increase to 6 per cent and the higher rate to 20 per cent from 4 January 2011.

With regard to **income tax**:

- the personal allowance for the under-65s will remain at £6,475 in 2010–11 but will be increased to £7,475 in 2011–12
- the basic rate limit for income tax will be reduced in 2011–12, the exact amount of reduction to be confirmed in the autumn but based on current RPI estimates to be £2,500
- the higher rate threshold for 2011–12 is to be confirmed in the autumn

With regard to **National Insurance**:

- the starting point at which employers start to pay NICs will increase by £21 per week above indexation from April 2011
- the upper earnings limit and the upper profits limit will maintain alignment with the income tax higher rate threshold
- the rate for employees' NICs below the Upper Earnings Limit will increase to 12 per cent for 2011–12 and to two per cent for earnings above it
- the rate for employers' NICs will increase to 13.8 per cent for 2011–12
- the reduced rate married women between primary threshold and upper earnings limit is 4.85 per cent for 2010–11 and 5.85 per cent for 2011–12
- the rate of Class 4 contributions for profits below the Upper Profits Limit will increase to 9 per cent for 2011–12 and to two per cent for profits above that limit
- the figure for Class 2 contributions for 2011–12 will be determined by data available in the autumn

With regard to **benefits, the state pension and tax credits**:

- benefits, tax credits and public service pensions will be price indexed by reference to the consumer price index from April 2011
- the state pension will be uprated by the highest of the increase in earnings, prices (using the CPI) and 2.5 per cent from April 2011, although it will be increased by at least the equivalent of the RPI in April 2011
- the standard minimum income guarantee in pension credit will increase in April 2011 by the cash rise in a full basic state pension
- the child element of the child tax credit will increase by £150 above CPI in April 2011 and the baby element will be removed
- income thresholds and withdrawal rates are reduced for 2011–12 to become: first withdrawal rate 41 per cent; second income threshold £40,000; second withdrawal rate 41 per cent; income disregard £10,000
- child benefit will be frozen for three years from 2011–12

With regard to **business taxes**:

- the main rate of corporation tax will be 27 per cent in 2011–12, 26 per cent in 2012–13, 25 per cent in 2013–14 and 24 per cent in 2014–15

- the small profits rate will be 20 per cent from April 2011

With regard to **capital gains tax**:

- the rate will rise from 18 per cent to 28 per cent for higher and additional rate taxpayers from 23 June 2010
- entrepreneurs' relief lifetime limit of gains will rise to £5 million from 23 June 2010

With regard to **excise duties**:

- cider duty rates will be reduced from 30 June 2010
- landline duty will not be implemented

Key economic statistics

Growth forecast revised down from 2.6% to 2.3% in 2011.

The economy is predicted to grow by 1.2 % this year, 2.3% next year, 2.8% in 2012, 2.9% in 2013 and 2.7% in both 2014 and in 2015.

Debt to peak in 2013/14 at 70% of GDP.

Unemployment is forecast to peak this year at 8.1% and then fall for each of the next four years, to reach 6.1% in 2015.

Consumer price inflation is expected to reach 2.7% by the end of 2010 before "returning to target in the medium term". The inflation target remains at 2%, as measured by the Consumer Prices Index.

The UK is set to miss the previous government's "golden rule" - of borrowing only to invest over the economic cycle - in the current cycle by £485bn.

News for businesses and individuals

Corporation tax

Good News: The main rate of corporation tax will be reduced to 27 per cent in 2011-12, with further reductions to 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent in 2014-15.

A reduction in the small profits rate of corporation tax to 20 per cent from April 2011

Budget also announces a reduction in the small profits rate of corporation tax to 20 per cent from April 2011. Corporation tax on profits	April 2010-2011	April 2011-12
£0 - £300,000	21%	20%*
£300,001 - £1,500,000	Marginal rate	Marginal rate
£1,500,001 or more	28%	27%

Other support for businesses

There will be an increase in the EFG Scheme for small businesses and the introduction of a new fund called the Enterprise Capital Fund.

There will be incentives for some new businesses with a growth fund for SME's with high growth potential and incentives for businesses in certain regions re employer NIC's.

We just don't see the banks lending at the moment and wonder if this will have much impact at all?

Capital Gains Tax

With effect for disposals on or after 23 June 2010, an additional rate of capital gains tax of 28 per cent is introduced.

In the case of individuals, the current rate of 18 per cent will remain payable where the total of the individual's income and chargeable gains for the tax year do not exceed the upper limit for the income tax basic rate band. Where, however, that total exceeds the limit, the excess, to the extent that it comprises chargeable gains (taken as the top slice of that total) is charged at 28 per cent. In arriving at the total of income and chargeable gains, any gains realised on disposals in the period 6 April to 22 June 2010 are ignored; these remain taxable at 18 per cent.

Chargeable gains arising to trustees and personal representatives on disposals on or after 23 June 2010 will be charged at 28 per cent.

Entrepreneurs' relief remains available to reduce the effective rate of capital gains tax on disposals of business assets to 10 per cent. The maximum relief, which was raised to gains of up to £2m in the first Finance Act of 2010, is to be raised further, to £5m, in respect of disposals on or after 23 June 2010.

The annual exemption for 2010–11 remains unchanged at £10,100.

Capital Allowances

Bad news here unfortunately which may wipe out the reduced Corporation Tax.

From April 2012 the main rate of CA's will be reduced from 20% to 18% and the special rate from 10% to 8%.

The Annual Investment Allowance will be reduced from £100k to £25k from April 2012.

Income tax

In 2011-12, the income tax personal allowance for under 65s will be increased by £1,000 in cash terms, taking it from £6,475 in 2010-11 to £7,475 in 2011-12

To ensure that the majority of higher rate taxpayers will pay the same total level of income tax and National Insurance Contributions (NICs) as previously planned, the Government will also reduce the basic rate limit for tax by £2,500, and the upper earnings and profits limits for NICs by £1,650, based on current estimates of the Retail Prices Index (RPI). Exact figures for the basic rate limit and higher rate threshold will be confirmed in the autumn.

The NIC Upper Earnings/Profit Limit (UEL/UPL) will be reduced to maintain alignment with the income tax higher rate threshold; and

The NIC secondary threshold will be increased by an extra £21 per week above indexation, calculated once the RPI for September 2010 is known.

The reduction in the basic rate limit is intended to ensure that higher rate taxpayers do not benefit from the increase in the personal allowance.

VAT

The standard rate of VAT rises to 20 per cent from 17.5 per cent for:

- any supply made on or after 4 January 2011; and
- any acquisition or importation taking place on or after that date.

Changes to the thresholds for the Payment on Account scheme will be made to maintain the status quo of the scheme.

R&D Tax Credits

It is a condition of the research and development (R&D) tax relief rules applying to small or medium-sized enterprises that any intellectual property derived from the R&D must be owned by the company making the claim. As previously announced (2009 Pre-Budget Report PBRN06), this condition is to be abolished with effect for any expenditure incurred on R&D in an accounting period ending on or after 9 December 2009.

Flat Rate VAT

From 4 January 2011, revised flat rate percentages apply to reflect the increase in the standard rate of VAT to 20 per cent.

From the same date, a person must leave the flat rate scheme if either his VAT-inclusive annual flat rate turnover exceeds £230,000 or his VAT-inclusive turnover in the next 30 days can reasonably be expected to exceed £230,000. Before 4 January 2011, both exit thresholds are £225,000.

Furnished Holiday Lets

The proposed changes to their taxation have been scrapped.



Other announcements

With regard to benefits, the state pension and tax credits:

- benefits, tax credits and public service pensions will be price indexed by reference to the consumer price index from April 2011;
- the state pension will be uprated by the highest of the increase in earnings, prices (using the CPI) and 2.5 per cent from April 2011, although it will be increased by at least the equivalent of the RPI in April 2011;
- the standard minimum income guarantee in pension credit will increase in April 2011 by the cash rise in a full basic state pension;
- the child element of the child tax credit will increase by £150 above CPI in April 2011 and the baby element will be removed;
- income thresholds and withdrawal rates are reduced for 2011–12 to become: first withdrawal rate 41 per cent; second income threshold £40,000; second withdrawal rate 41 per cent; income disregard £10,000; and
- child benefit will be frozen for three years from 2011–12.

Health in pregnancy grant to be abolished from April 2011.

The welfare shake-up will save £11bn by 2014/15.



More Information

Easy-to-browse version of Budget 2010:

http://www.hm-treasury.gov.uk/junebudget_easyread.htm

Budget 2010 documents:

http://www.hm-treasury.gov.uk/junebudget_documents.htm

Budget 2010 press notices:

http://www.hm-treasury.gov.uk/junebudget_press_notices.htm

<http://www.telegraph.co.uk/finance/financetopics/budget/>

http://www.direct.gov.uk/en/NI1/Newsroom/Budget/Budget2010/DG_186500



Disclaimer

Resolve Business Solutions are a registered firm of Chartered Accountants and advise that you seek professional advice before making decisions on tax and accounting matters that may be referred to above.