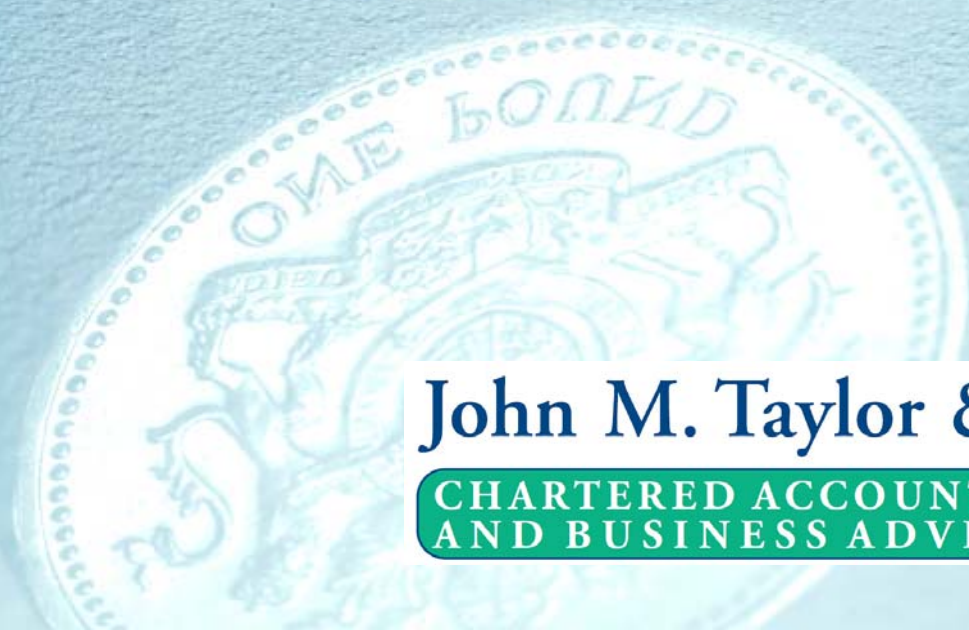


Chancellor's Budget 2010: John M Taylor & Co Commentary



John M. Taylor & Co

**CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS**

Budget 2010



Summary

The last Budget before an election raises as many questions as it answers. Will the Chancellor try to bribe the electorate? Is the electorate open to bribery? If the Government loses the election, will this Budget matter at all - will the incoming Chancellor change everything anyway?

We have Mr Darling's plans in some detail, but not the Opposition's. It seems likely that a Conservative Chancellor would make changes, but he would probably stick with most of the plans for the tax year 2010/11 because the election will not happen until the tax year has already started. It seems likely that whichever party wins, there will be a reappraisal of the government's finances soon afterwards.

There is no doubt that Mr Darling was in a difficult position when preparing this Budget. The country's finances are in a dire state, and he had to tread a tightrope between risking a return to recession on the one hand and appearing too lax for the financial markets on the other. Depending on the national vote, we may never find out if his answers were right. He repeatedly claimed in his speech that the current Government "made the right calls" in dealing with the recession, but his assurances may have been too little, too late.

As usual, the speech itself does not tell the full story. Many of the important details are hidden away in press releases issued by HM Revenue & Customs after the Chancellor sits down. This booklet summarises the main changes and outlines their likely effect on the average taxpayer - subject to the political uncertainties of a General Election!

Significant points

- New 50% rate of income tax in 2010/11 for income over £150,000
- Restriction of personal allowances in 2010/11 for income over £100,000
- Most other rates and allowances frozen at 2009/10 levels
- Increases in company car benefits, but cuts for ultra-green vehicles
- Two year holiday for Stamp Duty Land Tax for first-time buyers of homes bought for up to £250,000
- Inheritance Tax threshold frozen for five years
- Doubling of Annual Investment Allowance on plant to £100,000
- Business Payment Support Service likely to be extended

25 March 2010

Other Points of Interest:

- Small companies rate of CT to remain at 21% for another year.
- NIC rates to increase by 1% from 2011 rather than the planned 0.5%.
- No change to Income Tax rates and allowances.
- IHT nil rate band frozen at £325,000.
- Fuel Benefit multiplier to increase to £18,000 from 6 April 2010.
- Increase in VAT Registration Threshold to £70,000.
- Pensions - Annual allowance increases to £255,000.
- Business Rates to be cut for small businesses from October.
- 100% FYA on zero emission commercial vehicles.
- NIC - Lower Earnings Limit to increase to £97 pw.

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PERSONAL TAX



Individuals with total income in the range £100,000 to £113,000 will pay an effective rate of tax of 60% on income falling within this bracket.



Tax rates

Personal allowances and higher rate thresholds normally increase in line with inflation in the year to the previous September. As the retail prices index fell in the year to September 2009, the allowances and basic rate band for 2010/11 are frozen at their 2009/10 levels. This will represent a tax rise for those who enjoy an increase in their income over the previous year. As previously an-

nounced, in 2010/11 personal allowances will be withdrawn for those with total income over £100,000. The basic allowance of £6,475 will be reduced by £1 for every £2 of the excess, until it is reduced to zero at £112,950. For someone with income above this level, the loss of 40% tax relief is a tax increase of £2,590 for the year. The effective marginal rate of tax in the band from £100,000 to £112,950 is typically 60%.

For 2010/11, a new "additional" income tax rate of 50% will apply to income above £150,000. The last time the top rate was above 40% was in 1987/88, when high earners paid tax at 60%. The additional rate on dividend income will be 42.5% - after deduction of the 10% tax credit, an investor with this level of income will have to pay additional tax amounting to 36.1% of the net amount.

Example of Personal Allowance withdrawal

The effect of the changes can be illustrated as follows:

	2010/11		2010/11	
	£	Tax £	£	Tax £
Non dividend income	100,000		113,000	
Personal allowance	(6,475)		Nil	
Taxable income	<u>93,525</u>		<u>113,000</u>	
Taxable at 20%	37,400	7,480	37,400	7,480
Taxable at 40%	56,125	22,450	75,600	30,240
Total tax liability		<u>£29,930</u>		<u>£37,720</u>

Increase in income = £13,000
Increase in tax payable = £7,790
Effective tax rate = 7,790/13,000 = 60%

Tax Tip

Last chance to advance taxable income into 2009/10 to pay less in tax, even if it is due earlier.

Company cars and fuel

The taxable benefit on most company cars is calculated using a percentage of the original list price. The percentage depends on the car's level of CO₂ emissions. The tax charges have been used in recent years as an incentive for employers and individuals to choose "greener" cars, by increasing the rates on higher emissions and introducing new lower rates for lower emissions. This has resulted in taxable benefits changing from year to year even though an employee keeps the same car.

For 2010/11, the following rules remain the same:

- The maximum percentage is 35% for petrol or diesel cars
- For diesels, 3% is added to the percentage for a petrol car with the same emissions, subject to the 35% maximum

Once a set figure is reached - this has been lowered year by year to increase the "green" incentive - the percentage is increased by one point for every complete 5g/km increase in the CO₂ rating

The following changes apply from 6 April 2010:

- Electric cars, which cannot emit CO₂ at all, will not create a chargeable benefit for five years (to 2014/15)

- Cars with a rating up to 75g/km will be charged on 5% of the list price (8% for diesels) for the same five years
- Cars with a rating from 76g/km to 120g/km will continue to be charged on 10%/13%
- Above 120g/km, the basic charge is 15% (18% diesel), but the threshold for 1% increases falls from 135g/km to 130g/km - so the additions begin at 135 (16%/19%), 140, 145 etc. rather than at 140, 145, 150 etc.
- The maximum charge (35%) applies at 230g/km (petrol) or 215g/km (diesel)

The lowering of the threshold will increase the tax charge by a small amount for most drivers - those with cars rated between 135g/km and 234g/km. There is a more significant increase in the tax charge on the benefit of free fuel provided by an employer for private motoring in a company car. The same percentage rate applies as for the car benefit itself, but the fixed figure it is multiplied by rises from £16,900 to £18,000. The taxable benefit on a petrol car with a 130g/km rating has therefore risen from £2,535 to £2,700, and the maximum benefit has risen from £5,915 to £6,300 (a 6.5% increase).



If you provide company cars to any employees, or you drive one, when next changing your car it makes sense to carefully consider which car you choose. Different cars can result in vastly different tax and national insurance costs. In addition, capital allowance rates vary according to CO₂ emissions levels. For more advice please give us a call when choosing your next company car.

Tax Tip

Consider the tax charges when choosing a company car.

National Insurance

The percentage rates of NIC and most of the thresholds remain unchanged. There is a £2pw increase in the "lower earnings limit" to £97pw. Pay above this level has to be reported under the PAYE system and qualifies the recipient for benefits, but no NIC is payable until earnings reach the "primary threshold" of £110pw. Further increases in NIC are due to come into effect until 6 April 2011. It is intended that all NIC rates will increase by 1%, with the lower earnings limit being adjusted to compensate those on low earnings.

SAVINGS



Changes to the tax relief available on your pension savings.

This will potentially catch a significant number of individuals who were not previously caught by the tax relief restrictions.

PENSION CONTRIBUTIONS

According to rules announced in 2006, the maximum amount of a tax-efficient pension fund from which benefits are drawn in 2010/11 is £1.8m. If an employee or self-employed person contributes personally, tax relief will be available on a payment of up to 100% of current year earnings to the maximum of £255,000. The maximum employer contribution to a pension fund that will enjoy tax relief is £255,000, less any amount put in by the individual.

However, the Chancellor announced in 2009 that pension relief would be restricted from 2011/12 for those earning over £150,000pa. In order to stop those affected advancing their pension contributions to beat the change, "antiforestalling rules" were introduced. These are complicated, but in essence they can apply to anyone who earns

over £130,000, if they pay contributions of more than £20,000 in 2009/10 or 2010/11, unless they had contracted to pay contributions at that level before the new rules were announced. Anyone who thinks they might be affected should take advice before paying extra contributions.

This Budget also included more details of how the relief will be restricted for high earners from 6 April 2011 onwards. Someone with total income of £150,000 (before deduction of pension contributions) will enjoy 40% tax relief on their contributions; someone with total income of £180,000 or more will only enjoy relief at the basic rate (currently 20%). In between these levels there will be a proportional withdrawal of the marginal rate relief.

Tax Trap

Review pension contributions but watch the anti-avoidance rules.

OTHER MEASURES

Removal of higher rate relief for pension contributions from 6 April 2011

From 6 April 2010 those earning over £150,000 will not receive higher rate tax relief on their pension contributions. In calculating the individual's gross income, employer contributions will also be taken in to account.

Those earning less than £130,000 excluding employer pension contributions will not be affected at all by the rules. If the income exceeds £130,000 then the amount of any employer contribution must be added to establish if the £150,000 limit is exceeded.

Individual Savings Accounts

As announced last year, the investment limit for ISAs rises on 6 April 2010 to £10,200 a year (with no more than £5,100 in a cash ISA). The limit rose to the higher figure on 6 October 2009 for those aged 50 and over by 5 April 2010.

The Chancellor announced that the limit will increase in line with inflation in future years. The measure of inflation will be the annual increase in the retail prices index to the previous September (e.g. September 2010 for 2011/12), and the result will be rounded to the nearest multiple of £120 to make monthly savings plans easier to operate.

CAPITAL GAINS TAX

Annual exemption and rate

The annual exemption for individuals is £10,100 for 2010/11 (unchanged from 2009/10). Trustees receive half this figure (£5,050, also unchanged), although this may be shared between trusts which have been set up by the same person.

There is no immediate change to the main rate of CGT, which remains 18%. Many commentators predict that the rate will increase in a future Budget: it is so much lower than the new highest income tax rate (50%) that it will encourage attempts to convert income into capital gains.

Entrepreneurs' Relief (ER)

ER reduces the amount chargeable to CGT on certain sales of business interests and business assets by individuals and some trusts. The effect of the relief has been to cut the rate of CGT from 18% to 10% on the first £1m of qualifying gains

over the individual's lifetime. This lifetime limit is raised to £2m for disposals on or after 6 April 2010.

Where disposals have already exceeded the limit before that date, the excess will not qualify for the relief, but the individual will be able to claim ER on another £1m of gains realised in future.

Furnished Holiday Letting (FHL)

As announced last year, the tax advantages of FHL businesses will be withdrawn with effect from 6 April 2010. Income from FHL will be treated in the same way as income from other property rents. This means there will be less advantageous offset of losses and a number of CGT reliefs will no longer be available. However, it appears that Entrepreneurs' Relief will apply to disposals of a FHL property within 3 years of 5 April 2010, potentially reducing the effective rate of CGT on up to £2m of gains from 18% to 10%.

INHERITANCE TAX

The nil rate band for transfers after 5 April 2010 was intended to rise from £325,000 to £350,000, as announced in 2007. In the Pre-Budget Report Mr Darling decided that the threshold would be held at £325,000 for the next year. Now he has announced that this limit will apply up to and including 2014/15, bringing more states into the charge to tax, year by year, if property values increase.

Rates of tax remain unchanged at 40% (death transfers) and 20% (lifetime chargeable transfers).

STAMP DUTY LAND TAX

From midnight on 24 March 2010, relief from Stamp Duty Land Tax will be available for first-time buyers buying a property for up to £250,000. To qualify, the purchaser must occupy the property as their only or main home, so it will not benefit buy-to-let investors. For other buyers the whole consideration paid on properties purchased for between £125,000 and £250,000 is charged to SDLT at 1%, so this is a saving of up to £2,500 for first time buyers.

To pay for this, the rate of SDLT on properties sold for more than £1m will rise from 4% to 5% for transfers on or after 6 April 2011.



Business Owners will now pay Capital Gains Tax at only 10% on the first £2 million of any gains resulting from the sale of qualifying assets.

Tax Tip

If you are buying or selling a property, watch the SDLT limits

EMPLOYMENT

Workplace canteens

Legislation will be introduced to restrict the existing tax exemption for workplace canteens. However this will only affect employees and employers who use the exemption in conjunction with salary sacrifice or flexible benefit arrangements.

These arrangements allowed some employees to purchase canteen meals out of gross pay and hence obtain a significant tax advantage over the majority of employees who purchase meals using their net pay.

The legislation will not affect canteen subsidies that are available to all employees. This will take effect from 6 April 2011.

Changes to fuel benefit tax

From 6 April 2010 employees who receive free private fuel from their employers for company cars or vans will pay more income tax on this benefit.

For company car drivers the existing figure used as the basis for calculating the benefit will be increased from £16,900 to £18,000. For company van drivers the benefit will be increased from £500 to £550.

Comment - As a result of these increases employers will suffer additional Class 1A National Insurance Contributions.

Electric cars and vans

Employees who are provided with a company car for their private use, which is propelled solely by electricity, currently pay tax on the benefit which is based on 9% of the list price of the car. From 6 April 2010 this percentage will be reduced to 0% therefore reducing the benefit calculation and tax liability to nil. This will apply for five years.

In a similar vein, employees who are provided with a company van for their private use, which is propelled solely by electricity, currently pay tax on a flat rate benefit of £3,000. From 6 April 2010 this benefit will be reduced to nil thereby eliminating the tax liability. This will also apply for five years.

In addition cars which have low CO² emissions of 75g/km or less will attract a reduced benefit charge of 5% of the vehicle's list price. Diesel cars will still attract a 3% surcharge with the result that a 8% benefit in kind charge will apply.

Company car drivers will see an increase in their taxable benefits in kind with the increase in the relevant CO₂ multiplier by 1% and the increase in the fuel benefit multiplier from £16,900 to £18,000.

TACKLING OFFSHORE TAX EVASION

The Chancellor confirmed pre budget speculation that he was to take a tougher stance with regards to individuals who fail to tax pay arising on income or capital gains arising from offshore sources. Where HMRC considers there to have been deliberate and concealed tax eva-

sion the maximum penalty will be increased from 100% of the tax involved to 200%.

The 200% penalty level will only apply to jurisdictions where there is no information exchange agreement in place.

CORPORATION TAX

Rates of tax

The main rate of Corporation Tax (for companies with profits over £1.5m) remains 28%, as it has been since 1 April 2008. The rate for the year commencing 1 April 2011 has also been confirmed at 28%.

The small companies rate (for companies with profits up to £300,000) was originally intended to rise from 21% to 22% from 1 April 2009, but this has now been deferred twice to 1 April 2011. The rate, and the marginal relief for profits between £300,000 and £1.5m, remain unchanged.

VAT

Registration threshold

From 1 April 2010, the level of taxable turnover at which a business is required to register for VAT increases by £2,000 to £70,000. The level of predicted future turnover at which a business can deregister also rises by £2,000 to £68,000. In such a case, PPR may not be available on that part of the property. Finance Bill 2010 will remove this possible restriction.

The measure will have effect for disposals on or after 9 December 2009.

Fuel scale rates

Since 1 May 2007, the scale rate which must be applied by a business which provides fuel for its employees to use for their private motoring has depended on the CO2 emissions rating of the car. The charge is not the result of a simple formula as for the income tax charge, and individual figures have

Loans to participators

Where a closely-controlled company makes a loan to one of its participators (usually a shareholder), it is required to "loan" one-quarter of the amount to HM Revenue & Customs. This is repaid to the company if the loan is repaid by the participator or is written off. If the loan is written off, the participator pays income tax as if the write-off was a dividend. It has been suggested that tax law allowed the company to deduct such a write-off as a corporation tax expense - not normally possible for a dividend - but the law has been tightened up in the Budget with effect from 24 March 2010.

to be looked up in a table published on the HMRC website (www.hmrc.gov.uk) or elsewhere. A new table of rates applies for VAT return periods commencing from 1 May 2010 onwards, representing a 12% increase in the amounts which have applied since 1 January 2010.

Postal VAT

Up to now, all postal services provided by The Post Office (Royal Mail Holdings plc) have been exempt from VAT. Following a legal challenge by private delivery companies, the rules will be changed to require VAT to be charged where Royal Mail is in direct competition with such companies. The exemption will still apply to the Royal Mail's "universal service obligation", which covers most delivery services to private customers (including postage stamps). Commercial customers who negotiate price terms may have to pay VAT from 31 January 2011.



The intended increase in the small companies rate of corporation tax from 21% to 22% has been deferred for another year.

Tax Trap

Visiting officers always look at fuel scale rates – check them!

BUSINESS TAX

Capital allowances

Traders can claim 100% relief in the year of expenditure on plant and machinery up to the Annual Investment Allowance (AIA). Up to 31 March 2010 (companies) or 5 April 2010 (income tax traders), the AIA has been £50,000. From 1 April 2010/6 April 2010, it is increased to £100,000, allowing earlier relief for capital expenditure.

There are complicated rules to calculate the amount qualifying for AIA where a trader's accounting period straddles 31 March/5 April.

For the year to 31 March 2010 (companies) or 5 April 2010 (income tax traders), first year allowances at 40% have been available on expenditure on some plant and machinery that does not already qualify for the 100% AIA. This has benefited those who spend more than £50,000 a year on plant. The FYA has not been extended into the next year, so expenditure above £100,000 will only qualify for 20% or 10% writing down allowances.

Enhanced capital allowances

100% allowances are available for "green" plant which appears on lists published by the Department of Energy and Climate Change and the Department for Environment, Food and Rural Affairs. Minor changes to the lists will take effect in Summer 2010 and will be published on the departmental websites. Permanent magnet synchronous motors and biomass-fired warm air heaters will be included, while compact heat exchangers and liquid pressure amplification will be excluded. 100% allowances will also be available for five years from 1 April 2010 (companies) or 6 April 2010 (income tax traders) for expenditure on new and unused electric goods vehicles.

Qualifying Plant and Machinery purchases up to a total of £100,000 per annum now attract a 100% writing down relief rather than the £50,000 per annum that applies currently.

Tax Tip

Consider timing of plant purchases to maximise the allowances.

BUSINESS PAYMENT SUPPORT SERVICE (BPSS)

Last year the Chancellor introduced a "time to pay" facility to help businesses with cash flow difficulties. The Budget included the announcement that this has helped 160,000 businesses defer payment of over £5 billion. The Chancellor said that he regarded the scheme as a success that should be extended for the whole of the next Parliament, although

there were no specific proposals to do so in the Budget press releases.

Businesses wishing to defer liabilities of over £1m are now required to obtain an independent report to support their application.

NON-BUDGET RELATES ISSUES

National Minimum Wage

On 25 March 2010 the Government announced that it had accepted the Low Pay Commission's recommendations on the new national minimum wage (NMW) rates.

The new rates which will come into force on 1 October 2010 will be:

- Standard adult rate (for workers aged 21 and over) - £5.93 per hour
- Development rate (for workers aged 18-20) - £4.92
- Young workers rate (workers aged 16-17) - £3.64 per hour

The Government also accepted the Commission's recommendation to introduce an apprentice minimum wage of £2.50 per hour. The new rate will apply to those apprentices who are under 19 or those that are aged 19 and over, but in the first year of their apprenticeship.

Fit Note

Currently, employers typically rely on sick notes issued by general practitioners as evidence that an employee is ill or injured and therefore unable to work. These have historically taken the form of a general statement that the employee should refrain from work.

However, from 6th April 2010 the new 'Fit Note' comes into effect, replacing the current MED3 sick note. The Fit note differs from the current sick note in that, in addition to the current categories of "Fit to Work" and "Not Fit to Work", an additional third

category of "Fit for some Work" is to be introduced, to encourage employers and employees to consider return to work on a limited or gradual basis.

A doctor will now be able to suggest ways of helping an employee get back to work. For example, this may include discussing:

- a phased return to work
- reduced hours
- amended duties
- Adaptations to the workplace

In addition, the doctor will also provide general details of the individual's condition so that the employer has more awareness of what the employee is able to do.

Right To Request Time Off For Training

From 6th April 2010 for larger business of 250 plus (this will be extended to apply to all organisations from April 2011) employees will have a new right to request reasonable unpaid time off for relevant training. Employers will have the right to refuse such requests and will have no obligation to pay for or subsidise the training.

New Rates - SSP, SMP, SPP, SAP from April 2010

- the earnings threshold for statutory adoption, maternity, paternity and sick pay to rise from £95 to £97 a week
- statutory maternity, paternity and adoption pay and maternity allowance to rise from £123.06 to £124.88 a week
- statutory sick pay will remain at £79.15 per week

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