



BUDGET ROUND UP

Welcome to this post Budget Newsletter. In this issue, we will summarise the most important aspects of last month's emergency budget, and as you can see there are still planning opportunities.

Best wishes

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CAPITAL ALLOWANCES CHANGES FROM APRIL 2012

Annual investment allowance (AIA)

The AIA is fast becoming a political football. It was £50,000 on its introduction from 1 April 2008 and doubled to £100,000 from 1 April 2010. From 1 April 2012 it will reduce to £25,000.

The amount claimable is subject to time-apportionment where the accounting period straddles 31 March (5 April for sole traders and partnerships).

The maximum AIA is tabulated below, assuming the transitional rules are applied as before when the AIA was introduced or increased:

Year end	AIA
30/6/10	£62,500
30/9/10	£75,000
31/12/10	£87,500
between 31/3/11 and 31/3/12	£100,000
30/6/12	£81,250
30/9/12	£62,500
31/12/12	£43,750
31/3/13	£25,000

Writing Down Allowance (WDA) of 20%

This reduces to 18% for an accounting period ending on or after 1 April 2012 (6 April for sole traders or partnerships). If the accounting period straddles that date, there is a hybrid rate calculated on a time-apportionment basis.

Writing Down Allowance (WDA) of 10%

This reduces to 8% in the same way and applies to:

- ◆ Cars with CO2 emissions in excess of 160 g/km
- ◆ Features integral to a building
- ◆ Long-life assets where the expected life of the plant and machinery is at least 25 years
- ◆ Thermal insulation of a building

Zero-emission goods vehicles

As announced by the previous Government, and confirmed in the Emergency Budget, a new and unused van qualifies for 100% First Year Allowance (FYA). It applies for 5 years from 1 April 2010 for companies and from 6 April 2010 for sole traders or partnerships.

To comply with EU state aid rules, a number of conditions apply to this new FYA. They are not likely to present many problems as the main conditions involve the following:

- ◆ The business must not be in difficulty
- ◆ The FYA is subject to an outstanding recovery order if there is an EC decision that the aid is illegal
- ◆ The business must not be in the fisheries and aquaculture sectors
- ◆ The business must not be the managing of waste for other undertakings
- ◆ A five year limit of expenditure under this head of €85 million for each business – this is one of those limits which is unlikely to be a problem!

CAPITAL GAINS TAX REGIME FROM 23 JUNE 2010

- ◆ Entrepreneurs' relief increased so that there is a new lifetime limit of £5 million taxed at 10%.
- ◆ Otherwise, CGT will be paid at 18% if the gains added to the taxable income do not exceed the basic rate band and 28% on any excess.
- ◆ Any gains made from 6 April 2010 to 22 June 2010 do not count as using up the available basic rate band.
- ◆ Losses can be set off against gains in the most beneficial way – as can the annual exemption, which for this tax year stays at £10,100.
- ◆ As to whether or not the 18%/28% rates will continue, it is simply stated that the 2011/12 rates will be decided in the Budget 2011. That may sound ominous, suggesting that the changes to the CGT regime are not necessarily permanent.

The following illustration of CGT rates has been taken from the HMRC press release:

In 2010/11 X's taxable income, after all allowable deductions and the personal allowance, is £27,400. The upper limit of the income tax basic rate band is £37,400. X sells an asset in May 2010 and realises a chargeable gain of £17,000. In November 2010, X sells another asset, realising a chargeable gain of £25,100. X has no allowable losses to set against these gains. Neither of the gains qualifies for entrepreneurs' relief.

X's taxable income is £10,000 less than the upper limit of the basic rate band (£37,400 - £27,400). X sets the AEA against the later gain (because part of that gain is liable to tax at the higher CGT rate), leaving £15,000 taxable (£25,100 - £10,100). The first £10,000 of the £15,000 is taxed at 18% and the remaining £5,000 is taxed at 28%. The £17,000 chargeable gain X realised in May 2010 is taxable at the old 18% rate.

CORPORATION TAX RATES AND THE IMPACT OF A REDUCTION IN THE SMALL COMPANIES RATE

Year to	Profits	
	First £300,000	Over £1.5M
31/3/11 (FY2010)	21%	28%
31/3/12 (FY2011)	20%	27%
31/3/13 (FY2012)	20%	26%
31/3/14 (FY2013)	20%	25%
31/3/15 (FY2014)	20%	24%

Any reduction in the small companies' rate is welcome, but yet again; there is no move to increase the profit level of £300,000, to which the lower rate applies. That last went up in 1994!

A fresh look needs taking when considering how to distribute profits of a limited company, given the increases in the rate of income tax and NICs and the small reduction in the corporation tax rate for small companies.

What is clear is that the overall saving in distributing profits as dividends instead of as remuneration is widening, and indeed encourages a fresh look at incorporation where the annual tax savings will be even greater than before (quite apart from the ability to sell the goodwill to the limited company and obtain a one-off tax saving). That is surprising given the previous Government's stated dislike of "tax-inspired" incorporations – a view which is not likely to be any different with the Coalition Government.



PENSION SCHEME CHANGES

Higher rate tax relief

Consideration is being given to abolishing the rules in Finance Act 2010 whereby from 6 April 2011 those with income of at least £150,000 in the tax year concerned suffer a loss of some or all of the higher rate tax relief otherwise available.

The aim is to raise at least the same amount of revenue (£3.5 billion annually) however, and this may be achieved by drastically reducing the annual allowance to in the region of £30,000 to £45,000. The lifetime allowance of £1.8 million may also be reduced.

Issues to consider include:

- ◆ How pension accrual in defined benefits schemes would be valued
- ◆ Options to protect basic rate taxpayers
- ◆ Whether and how there could be flexibility for individuals over paying any charges that arise
- ◆ How compliance and delivery would operate in practice

Anti-forestalling rules

These apply for 2009/10 and 2010/11, and will not change although any method identified which risks tax revenue will be countered.

Purchase of an annuity

The requirement to purchase an annuity by the age of 75 will cease from April 2011, and in the meantime, the age will increase to 77. That is certainly good news as it increases the flexibility available. Full details of what the options will be from 6 April 2011, are awaited with great interest.

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