

EMERGENCY BUDGET SUMMARY



22 June 2010

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This was Chancellor George Osborne's first budget. It was described as a "Fair but Tough" budget with an aim to rebalance the economy. This to be achieved by deficit reduction, enterprise and fairness.



KEY POINTS

- ◆ **VAT rate to be increased to 20% from 4 January 2011**
- ◆ **Corporation Tax rates to be reduced from April 2011**
- ◆ **Capital Gain Tax increased from 18% to 28% on Non Qualifying Assets**
- ◆ **Personal allowances to be increased by £1,000 plus RPI**
- ◆ **Decrease in Capital Allowances**

This booklet contains information announced by Mr Osborne in his budget together with the associated press releases. It also includes details of the many tax changes announced prior to budget day. Some of the contents therein may change before the Finance Bill becomes statute.

SUMMARY OF RATES AND ALLOWANCES

2010/11

Income Tax

- Personal Allowance	£6,475
- Basic Rate of Income Tax	20%
- Higher Rate of Income Tax	40%
- Additional Rate of Income Tax	50%
- Higher Tax Rate	£37,401 - £150,000
- Additional Tax Rate	Over £150,000

Rate of Tax

- For Gains to 22 June 2010	18%
- After 22 June 2010	
- Up to basic rate income tax band	18%
- Higher rate	28%
- Entrepreneurs Relief (rate of tax)	10%
- Annual Exemption	£10,100

Corporation Tax

- Small Companies Rate	21%
- Small Companies Profit Limit	£300,000
- Full Rate	28%

Inheritance Tax

- Nil Rate Band	£325,000
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Value Added Tax

- Registration Limit	£70,000
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Pensions

- Annual Contribution Allowance	£255,000
- Lifetime Allowance	£1.8m

PERSONAL TAXATION

PERSONAL TAX ALLOWANCES

	<u>2010/11</u> £
Personal Allowance* (aged 64 and under)	6,475
(aged 65-74) **	9,490
(aged 75 and over) **	9,640
Married Couples Allowance *** (If born before 6 April 1935)**	6,965
Minimum amount	2,670
Blind Persons Allowance	1,890
Age Allowance Income Limit	22,900

* If an individual's gross income is above £100,000 the basic personal allowance will be reduced by £1 for every £2 above the income limit up to a maximum of the allowance.

** There is a reduction of relief for age allowance by £1 for every £2 over the Income Limit.

*** This allowance attracts relief at a rate of 10%.

Allowances for 2011/12 will be increased for those aged 65 and under by £1,000 to £7,475 plus any changes for RPI.

INCOME TAX RATES

<u>Rate</u>	<u>2010/11</u>
Savings rate: 10% *	£0 – £2,440
Basic rate: 20%	£0 - £37,400
Higher rate: 40%	£37,401 - £150,000
Additional rate: 50%	Over £150,000

*If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable, and the 20% rate is applied to the income up to the level of the basic rate band.

The basic rate band will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. This banding will be frozen to 2013/14.

Taxation of Dividends

Dividends continue to form the top slice of income.

	<u>2010/11</u>
Basic rate on dividends	10%
Higher rate on dividends	32.5%
Additional rate on dividends	42.5%

GH comment

The above means that individuals with income over £7,475 will benefit by £200. For higher rate taxpayers, however, this benefit will be withdrawn and the freezing of the basic rate band will mean more people will be paying higher rate tax in future years.

CAR, VAN AND FUEL BENEFITS

COMPANY CARS

Where a car is made available for an employee's private use, a taxable benefit arises.

Company car benefit is calculated by applying the Relevant Scale Percentage to the list price of the car. The percentage is based on the CO₂ emissions of the car and ranges from 10% to 35%. Most diesel cars attract a 3% supplement on petrol percentages (also capped at 35 per cent).

The car benefit tables for 2010/11 and 2011/12 are set out at the back of this booklet.

CAR FUEL BENEFIT

Car fuel benefit arises where an employee's private fuel is provided by the employer. The benefit is calculated by multiplying the Relevant Scale Percentage as used for calculating the car benefit above by £18,000 for 2010/11.

The fuel benefit does not apply if the employee makes good all the cost of fuel used for private use. Journeys between home and place of work are regarded as private motoring.

The fuel benefit is proportionately reduced if provision of private fuel ceases part way through a year.

COMPANY CAR FUEL RATES

Where an employee with a company car pays for all of their own fuel, an employer can reimburse at the following rate for business mileage.

Applicable from 1 June 2010

	<u>Petrol</u> <u>per mile</u>	<u>Diesel</u> <u>per mile</u>
Under 1400 cc	12p	11p
1400 cc – 2000 cc	15p	11p
Over 2000 cc	21p	16p

The company car fuel rates are reviewed twice a year on 1 June and 1 December or more often where there is a significant change in fuel prices.

AUTHORISED MILEAGE RATES

Authorised mileage rates are the amount an employer can pay if the employee uses their own car for business purposes.

Business Mileage

First 10,000 miles	40p per mile
Excess over 10,000 miles	25p per mile

Rates for other modes of transport:

Motor Cycles	24p per mile
Bicycles	20p per mile

If employers pay higher rates the amount paid in excess of the statutory rates will be liable to tax and National Insurance.

VAN BENEFIT

	<u>2010/11</u> £
Company Vans used for private use	3,000
Fuel in vans for private use	550

For the purpose of the van benefit (but not for cars) commuting does not count as private use.

BUSINESS TAXATION

CORPORATION TAX

Corporation Tax rates are as follows:-

	<u>1 April</u> <u>2011</u>	<u>1 April</u> <u>2010</u>
Profits up to £300,000	20%	21%
£300,001-£1,500,000	28.75%	29.75%
Then £1,500,001 onwards	27%	28%

The above profit rate bands need to be divided by the number of associated companies for tax purposes.

The Chancellor also announced that the main rate of Corporation Tax will reduce by 1% per annum to reach 24% by 1 April 2014.

GH comment

It had previously been proposed to increase the small companies rate to 22%, therefore the decision to reduce the rate to 20% is very welcome. The case for incorporation should continue to be considered with the benefit of the lower rate.

CAPITAL ALLOWANCES

Plant and Machinery

Annual Investment Allowance

This is to be decreased from £100,000 to a new limit of £25,000. This decrease will have effect from April 2012.

Writing Down Allowance (WDA's)

The rate of WDA's for new and unrelieved expenditure on plant and machinery will reduce from 20% to 18% for expenditure allocated to the main pool and from 10% to 8% for expenditure allocated to the special pool.

These changes will again take effect from April 2012.

GH comment

The reduction in the annual investment allowance is very significant and businesses should consider the timing of their capital expenditure.

FURNISHED HOLIDAY LETTINGS

Proposals to repeal the favourable regime for holiday lettings announced in the March 2010 budget are scrapped. The definition of holiday lettings may be revised but not until April 2011.

RESEARCH AND DEVELOPMENT

As announced in the 2009 Pre Budget Report small and medium sized enterprises claiming enhanced tax relief for Research and Development expenditure will now not need to be the owner of any intellectual property derived from such expenditure. This is applicable for Research and Development incurred in any accounting period ending on or after 9 December 2009.

INDUSTRIAL & AGRICULTURAL BUILDINGS ALLOWANCES

This is an allowance available for buildings used for manufacturing, agriculture and for hotels. The rate is being reduced as follows:

2009/10	2%
2010/11	1%
2011/12 onwards	0%

NEW BUSINESS NATIONAL INSURANCE RELIEF

The Government is to announce a three year scheme to exempt new businesses in targeted regions from up to £5,000 of Class 1 employer NI payments for each of their first 10 employees hired in their first year of business. It is hoped to have the scheme up and running in September, but any qualifying new business set up from today will also benefit.

CAPITAL GAINS TAX

ANNUAL EXEMPTION

Although there was expectation that the annual exemption would be reduced, it remained unchanged.

	<u>2010/11</u>
Individuals	£10,100
Trusts	£5,050

RATE FOR INDIVIDUALS & TRUSTEES

For the first time since its introduction in 1965 we now have different rates of Capital Gains Tax (CGT) for the same tax year. This is only possible because CGT is determined by a date not a year.

The rates are:

Non qualifying assets	6 April 2010 – 22 June 2010	18%
Non qualifying assets	23 June 2010 – 5 April 2011	18% or 28%
Qualifying assets	6 April 2010 – 5 April 2011	10%

Qualifying assets are those that qualify for Entrepreneurs Relief (see below). To determine whether the gain is taxable at 18% or 28% an individual's total income is calculated. That part of the gain which falls in an individual's unused basic rate band is subject to 18%, the balance is at 28%.

RATE FOR COMPANIES

The rate of CGT for Companies depends on the company's rate of Corporation Tax. The gain is calculated as the selling price less the cost price (or 31 March 1982 value) with full adjustment for the change in the retail price index from acquisition (or 1982) to the date of sale.

ENTREPRENEURS RELIEF (ER)

Since its introduction the lifetime limits for ER are:

6 April 2008 - 5 April 2010	£1m
6 April 2010 - 22 June 2010	£2m
23 June 2010 onwards	£5m

Qualifying disposals are:

- (a) Shares in a trading company where an individual owns 5% of the shares and is an employee or an officer of the company
- (b) Sale of an unincorporated business
- (c) Sale of assets at the same time as “a” or “b” or on cessation.

Certain time limits apply

INHERITANCE TAX

RATES

<u>Tax Rate on Death</u>	<u>2010/11</u>
Nil	£
40%	0 – 325,000
	over 325,000

Potentially Exempt Transfers are available for lifetime gifts to individuals. Lifetime chargeable transfers above the nil rate band to most trusts are taxed at 20%.

Annual gifts of capital not exceeding £3,000 or small gifts of £250 per annum remain exempt.

The transferable allowances regime, where the unused nil rate band of the first deceased spouse can often be passed to the surviving spouse, gives an effective double nil rate band for most married couples.

GH comment

Despite campaigning on the promise of increasing the Inheritance Tax nil rate band to £1m, the Chancellor managed to deliver his budget without mentioning this tax at all.

VALUE ADDED TAX

STANDARD RATE

From 4 January 2011 the Standard Rate will increase from 17.5% to 20%.

REGISTRATION

No amendments were announced in relation to the annual registration limit which remains at £70,000 from 1 April 2010. A trader is required to register if

- a) Turnover of £70,000 is expected within the next thirty days.
- or b) The trader at the end of any month has exceeded turnover of £70,000 in the past twelve months.

For those considering cancellation of their registration the turnover limit within the last 12 months is £68,000.

CASH ACCOUNTING SCHEME

The annual turnover limit below which businesses can start to use the scheme is £1.35m. The limit above which businesses must leave the scheme is £1.6m.

FUEL SCALE CHARGE

The VAT fuel scale charges apply where cars have private use and where input tax is claimed on any fuel. The basis of calculating the charge is based on carbon dioxide emissions.

The fuel scale charge table is set out at the back of this booklet.

Rates for monthly returns or other non regular VAT periods are adjusted pro-rata.

FLAT RATE SCHEME

Businesses with an annual turnover of up to £150,000, tax exclusive, can use the VAT Flat Rate Scheme. Changes to the percentages used will take effect on 4 January 2011. Full details of the rates used in the Flat Rate Scheme can be found on our website at www.georgehay.co.uk.

NATIONAL INSURANCE

2010/11

Class 1	Weekly £	Monthly £	Yearly £
Lower Earnings Limit	97	420	5,040
Earnings Threshold	110	476	5,715
Upper Accruals Point	770	3,337	40,040
Upper Earnings Limit (UEL)	844	3,656	43,875
	Employees' contributions	Employers' contributions	
Not contracted out			
Earnings between Earnings Threshold and Upper Earnings Limit	11%	12.8%	
Earnings above Upper Earnings Limit	1%	12.8%	
Contracted out			
Earnings between Earnings Threshold and Upper Accruals Point	9.4%	12.8%	
Earnings between Upper Accruals Point and Upper Earnings Limit	11%	12.8%	
Earnings above Upper Earnings Limit	1%	12.8%	
Class 1A on Benefits in Kind	Nil	12.8%	

Class 2 (Self-employed) Flat rate	£2.40 per week
Small earnings exception	£5,075 per year

Class 3 (Voluntary)	£12.05 per week
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Class 4 (Self-employed)	
Lower Annual Profits Limit	£5,715
Upper Annual Profits Limit (UPL)	£43,875
Profits between Lower and Upper Limit	8%
Profits above Upper Limit	1%

From 2011/12 the main rates of Class 1 and Class 4 NI will be increased by 1% to 12% and 9% respectively. The Class 1 & 1A employer rate will increase by 1% to 13.8%. The rate for earnings/profits above the upper limits will increase from 1% to 2%.

The secondary threshold, which is the point at which Employers start paying Class 1 NI is to be increased by £21 per week above indexation from 2011/12.

From 2011/12 the UEL & UPL will be reduced to keep the alignment with the higher rate tax threshold.

GH comment

Surprisingly the increase of 1% in Employer's National Insurance for 2011/12 has not been withdrawn.

MISCELLANEOUS

INDIVIDUAL SAVINGS ACCOUNTS (ISA'S)

	<u>2010/11</u>
Overall annual investment limit	£10,200
of which can be saved in cash	£5,100

From 6 April 2011 ISA limits will be increased in line with the Retail Price Index (RPI) on an annual basis rounded to a multiple of £120.

STAMP DUTY LAND TAX (SDLT)

<u>Rate</u>		
Zero	£0 - £125,000 £0 - £150,000	Residential Commercial & Residential in disadvantaged area
1%	£125,001 - £250,000 £150,001 - £250,000	Residential Commercial & Residential in disadvantaged area
3%	£250,001 - £500,000	All property
4%	Over £500,000	All property

First time buyers can claim relief from SDLT on residential transactions up to £250,000 between 25 March 2010 and 25 March 2012.

From 6 April 2011 all residential property above £1m will be subject to a new higher rate of SDLT of 5%.

LANDFILL TAX

The standard rate of landfill tax is £48 per tonne from 1 April 2010 this will increase by £8 to £56 from 1 April 2011.

INSURANCE PREMIUM TAX

The standard rate of Insurance Premium Tax will increase from 5% to 6% from 4 January 2011. This applies to most insurances such as general, motor and medical. The higher rate of IPT which applies to travel insurance and certain insurances sold alongside vehicles and consumer goods will increase from 17.5% to 20% in line with VAT.

REQUIREMENT TO BUY ANNUITIES

The Government has announced that from 2011/12 it will end the effective requirement to use a pension fund to buy an annuity by the age of 75.

Pending implementation of the necessary changes, legislation will be introduced in the next Finance Bill to increase to 77 the age by which members of registered pension schemes have to buy an annuity or otherwise secure a pension.

PENSIONS – ANNUAL ALLOWANCE

The Government has announced it is considering restricting pensions tax relief from 6 April 2011 by reforming the existing pension saving allowance, principally by significantly reducing the annual contribution allowance.

The annual contribution allowance is currently £255,000. The Government has indicated this will be reduced and be in the region of £30,000 to £45,000.

The reformed allowance would replace the proposed high income excess relief charge currently due to come in from 6 April 2011.

GH comment

The new legislation, commencing 6 April 2011, restricting tax relief on pension contributions by high earners, is extremely complex. The Chancellor is proposing a much simpler regime. This will significantly reduce the amounts that can be contributed to a pension scheme.

CO₂ EMISSIONS TABLE

CO ₂ emissions in grams per kilometre	CAR BENEFIT SCALE		FUEL BENEFIT SCALE			
	2010/11	2011/12	2010/11		2011/12	
	Percentage of car's list price taxed		Percentage applied to £18,000	Fuel Benefit £	Percentage applied to £18,000	Fuel Benefit £
120	10%	10%	10%	1,800	10%	1,800
125	15%	15%	15%	2,700	15%	2,700
130	15%	16%	15%	2,700	16%	2,880
135	16%	17%	16%	2,880	17%	3,060
140	17%	18%	17%	3,060	18%	3,240
145	18%	19%	18%	3,240	19%	3,420
150	19%	20%	19%	3,420	20%	3,600
155	20%	21%	20%	3,600	21%	3,780
160	21%	22%	21%	3,780	22%	3,960
165	22%	23%	22%	3,960	23%	4,140
170	23%	24%	23%	4,140	24%	4,320
175	24%	25%	24%	4,320	25%	4,500
180	25%	26%	25%	4,500	26%	4,680
185	26%	27%	26%	4,680	27%	4,860
190	27%	28%	27%	4,860	28%	5,040
195	28%	29%	28%	5,040	29%	5,220
200	29%	30%	29%	5,220	30%	5,400
205	30%	31%	30%	5,400	31%	5,580
210	31%	32%	31%	5,580	32%	5,760
215	32%	33%	32%	5,760	33%	5,940
220	33%	34%	33%	5,940	34%	6,120
225	34%	35%	34%	6,120	35%	6,300
230 or above	35%	35%	35%	6,300	35%	6,300

- Diesels attract a surcharge of 3% subject to a maximum of 35%. For Vehicles registered prior to 1 January 2006 which meet the Euro IV emissions standard no surcharge is applied, however from 2011-12 the surcharge will apply.
- CO₂ emissions are rounded down to the nearest 5 grams, except between 121-124 in which case they are rounded up to 125g
- For cars which are too old to have CO₂ emissions figures, HMRC have prescribed a level of emissions by reference to the vehicle's engine capacity (c.c.)

VAT FUEL SCALE CHARGES

CO ₂ emissions in grams per kilometre	VAT FUEL SCALE CHARGES			VAT FUEL SCALE CHARGES		
	For 3 month periods on or after 1 May 2010			For 3 month periods on or after 4 January 2011		
	VAT fuel scale charge £	VAT £	VAT exclusive £	VAT fuel scale charge £	VAT £	VAT exclusive £
120 or less	141.00	21.00	120.00	141.00	23.50	117.50
125	212.00	31.57	180.43	212.00	35.33	176.67
130	212.00	31.57	180.43	212.00	35.33	176.67
135	227.00	33.81	193.19	227.00	37.83	189.17
140	241.00	35.89	205.11	241.00	40.17	200.83
145	255.00	37.98	217.02	255.00	42.50	212.50
150	269.00	40.06	228.94	269.00	44.83	224.17
155	283.00	42.15	240.85	283.00	47.17	235.83
160	297.00	44.23	252.77	297.00	49.50	247.50
165	312.00	46.47	265.53	312.00	52.00	260.00
170	326.00	48.55	277.45	326.00	54.33	271.67
175	340.00	50.64	289.36	340.00	56.67	283.33
180	354.00	52.72	301.28	354.00	59.00	295.00
185	368.00	54.81	313.19	368.00	61.33	306.67
190	383.00	57.04	325.96	383.00	63.83	319.17
195	397.00	59.13	337.87	397.00	66.17	330.83
200	411.00	61.21	349.79	411.00	68.50	342.50
205	425.00	63.30	361.70	425.00	70.83	354.17
210	439.00	65.38	373.62	439.00	73.17	365.83
215	454.00	67.62	386.38	454.00	75.67	378.33
220	468.00	69.70	398.30	468.00	78.00	390.00
225	482.00	71.79	410.21	482.00	80.33	401.67
230 or above	496.00	73.87	422.13	496.00	82.67	413.33

- For Bi-fuel vehicles, which have two CO₂ emissions figures, the lower of the two figures is used for VAT purposes

TAX CALENDAR 2010/11

2010		
April	1	Start of Corporation Tax financial year
	5	Last day of Tax Year
	6	New Tax Year begins
	19	Deadline for the payment of any outstanding 2009/10 PAYE and Class 1 NIC via post or interest will be charged
	22	Deadline for payment of any outstanding 2009/10 PAYE and Class 1 NIC electronically or interest will be charged (electronic payments must have reached HMRC bank account)
May	1	Change in VAT Scale Charges for private motoring
	19	Last day for filing 2009/10 PAYE Returns P14, P35, P38 and P38A Last date for filing 2009/10 Contractors Return including CIS36
	31	Last day for the issue of Forms P60 to employees
June	23	New Rate for some Capital Gains Tax disposals
July	5	Last date for the Revenue to receive the Tax Credit claim to enable a full years credit to be given for 2009/10 (The Inland Revenue will only backdate a claim by three months)
	6	Last day for Employers to send Forms P9D and P11D to Revenue and issue copies to employees
	19	Payment of Class 1A NIC due on relevant benefits provided to employees for the year 2009/10
	31	Income Tax - Second payment on account due for 2009/10 Tax and Class 4 NIC liability
October	5	Individuals/Trustees to notify HMRC of new sources of income in 2009/10 tax year if no Tax Return has been issued.
	19	Payment of any tax due on PAYE Settlement Agreements due for 2009/10 tax year.
	31	Deadline for manual submission of 2009/10 Tax Return using the HMRC's preprinted form.
December	31	Deadline for electronic submission of 2009/10 Tax Return if the Revenue are to calculate the tax due, or if an employee wishes their balancing payment to be collected by next years tax code.
2011		
January	4	VAT increase to 20%
		Insurance Premium Tax increase to 6%
	31	Deadline for electronic submission of 2009/10 Tax Return
		Income Tax - Balancing payment due for 2009-10 Tax and Class 4 NIC liability
		Income Tax - First Payment on account due for 2010-11 Tax and Class 4 NIC liability
	Capital Gains Tax Payable for Gains in 2009-10.	
February	1	Penalty of £100 levied if 2008-09 Tax Return not filed
	28	Deadline for payment of Balancing Payment of 2008-09 Income Tax to avoid 5% Surcharge.
March	31	End of Corporation Tax financial year