



tax | budget newsletter 2010

team



Anne Gregory-Jones
Head of Tax
020 7969 5520
agregory-jones@haysmacintyre.com



Neil Simpson
Partner
020 7969 5512
nsimpson@haysmacintyre.com



Graham Elliott
VAT Partner
020 7969 5610
gelliott@haysmacintyre.com



Nigel Landsman
Partner
020 7969 5549
nlandsman@haysmacintyre.com

With an Election imminent, tax rises largely pre-announced (in Budget and PBR 2009) and the spending review deferred until the Autumn this was always likely to be a Budget designed to avoid scaring the electorate and to calm the markets. The Chancellor pointedly announced the absence of any new changes to rates of income tax, NIC and VAT. He also teased the Opposition benches when resisting the temptation to steal their clothes by reducing the rate of corporation tax. More surprisingly, he did not increase the rate of Capital Gains Tax where the differential between marginal rates of income tax of, prospectively 52%, and current rate of Capital Gains tax of 18% looks increasingly unsustainable. This, however, may be a matter for later in the year! Funds were found for such sweeteners as the SDLT relief for first time buyers and, more unexpectedly, a doubling of the entrepreneurs' lifetime limit providing a favoured 10% capital gains tax rate for the first £2,000,000 of such qualifying gains.

The main tax changes announced are summarised below:

business tax changes

corporation tax rates

The main rate of corporation tax remains unchanged for the financial years 2010/11 and 2011/12 at 28%. The small companies' rate of corporation tax will remain at 21% for the financial year 2010/11, to be increased to 22% in financial year 2011/12.

Measures are to be introduced from 1 April 2011 to simplify the associated company rules as they apply to the small companies' rate of corporation tax.

intellectual property

As announced at the 2009 Pre-Budget Report (PBR), a Patent Box is to be introduced applying a 10% rate of corporation tax to income from patents from 1 April 2013.

Again as announced in the 2009 PBR, legislation will be introduced to abolish the condition requiring any intellectual property deriving from R&D to be owned by the company making the claim. The change will be effective for expenditure incurred by an SME on R&D in an accounting period ending on or after 9 December 2009.

other corporation tax changes

Legislation is to be introduced to clarify the treatment of capital distributions, to restore the position as previously understood prior to the introduction of the dividend exemption.

As a result of further consultation on the practical working of the worldwide debt cap rules, further minor changes are to be made to the draft legislation effective from 1 January 2010.

Legislation is to be introduced to enable amendments to be made to the corporation tax rules dealing with financial instruments when necessitated by changes to accounting standards (the prospective introduction of IFRS for SMEs).

Amendments are to be made to the Consortium Relief rules to permit EU and EEA resident companies engaged in UK consortia to pass the losses of those consortia to their UK resident subsidiaries.

small business rate relief

The level of small business rate relief in England is to be temporarily increased for one year from 1 October 2010 to give full relief for eligible businesses premises with a rateable value up to £6,000 and tapering relief to £12,000.

capital allowances

The 100% Annual Investment Allowance (AIA) on qualifying capital expenditure has been doubled to £100,000 from April 2010 (effective 1 April for companies, 6 April for individuals/partnerships). A new 100% First Year Allowance (FYA) will be introduced for business expenditure on new and unused (i.e. not second hand) zero-carbon emission goods vehicles.

New anti-avoidance legislation will be introduced to prevent income tax relief on property losses arising through the use of AIAs.

employment taxes

enterprise management incentives (EMI)

As announced in PBR 2009, legislation is to be introduced removing the requirement that the company granting EMI options operate "wholly or mainly" in the UK. The grantor will now simply require a "permanent establishment" in the UK.

company car benefits on zero and low emission cars

Changes to company car tax benefits were announced with a new 0% tax rate for zero carbon emission cars provided to employees. Cars with CO2 emissions of less than 75g/km will be charged at 5%.

employer-supported childcare

The rules on childcare schemes provided by or supported by employers will be relaxed to allow low-paid employees to take part where they would otherwise be prevented from doing so by the National Minimum Wage legislation.

value added tax (VAT)

The VAT registration threshold has increased by £2,000 to £70,000. The de-registration threshold increases by the same amount to £68,000.

There will be a change in the liability of some postal services. At present these are all exempt from VAT when supplied by the Royal Mail. The exemption will be restricted to postal services that the Royal Mail is obliged to provide under its licence as a Universal Service Provider. Supplies which it is not required to provide, such as Parcelforce, and services provided on terms and conditions that have been freely negotiated will be subject to VAT at the standard rate. This could result in an increase in costs for organisations which cannot recover all of their VAT. Legislation will be introduced after the Election but is likely to go ahead as it is based on EU law.

HMRC announced in January the withdrawal of the Lennartz provisions for the non business use of assets such as buildings. This mainly affects charities. It was announced in the Budget that detailed legislation will be brought in and will be treated as always having had effect.

December's PBR contained draft legislation regarding a change to the penalty regime for late filing of VAT returns, which effectively replace the Default Surcharge regime. Following consultation it was announced that the change would go ahead and legislation will be introduced after the Election. The changes will be phased in but are unlikely to take effect until 2013/14.

personal tax changes

income tax and national insurance

Having already announced most of the income tax changes at the PBR in December 2009, there were no additional surprises in the Budget. The new 50% tax rate on income over £150,000 will take effect from April 2010. The tax-free personal allowance will be abated for those with incomes over £100,000 and will therefore be fully withdrawn for income above £112,950.

Other rates and thresholds have not been increased in line with inflation, so the personal allowance for 2010/11 (for those who are still entitled to it) will remain at £6,475.

National Insurance will increase by 1% for employees, employers and the self-employed from April 2011. An exemption from this increase was announced to protect those earning less than £20,000.

capital gains tax (CGT)

In a somewhat surprising move, the Chancellor announced no changes to the CGT rate which will remain at 18% for 2010/11. However he did double the lifetime limit for Entrepreneurs' Relief to £2m for gains incurred from 6 April 2010 onwards.

inheritance tax

The Chancellor reversed his previous plan to increase the inheritance tax threshold and announced that it will remain frozen at £325,000 until April 2015.

other taxes

A 50p monthly tax on landline telephones will be introduced to pay for the expansion of the nationwide high speed broadband network. It will take effect from October 2010.

pensions

From April 2011 tax relief on pension contributions will be restricted for those individuals whose income exceeds £150,000 (including the value of employer pension contributions and charitable donations).

The effect will be that higher rate tax relief will be gradually reduced for those with income between £150,000 and £180,000 and above £180,000 the higher level relief will only be available at the basic rate of tax.

Unlike the "Anti Forestalling" provisions in force for high earners for this year and next year, this new measure will apply to all high earners, including members of group defined contribution and defined benefit schemes.

savings & investments

ISA investment rates will increase to £10,200 for everyone from April 2010. The Chancellor announced that in future the rates will increase annually in line with inflation. The cash limit will always be half the stocks and shares limit (so the maximum cash investment for 2010/11 will be £5,100).

UK Real Estate Investment Trusts (REITs) are required to distribute 90% of the profits from their property rental business to shareholders by way of a dividend. Legislation will be introduced to allow them the option to pay these Property Income Distributions as stock dividends as well as in cash.

enterprise investment scheme (EIS)

Minor changes to the EIS are to be introduced as a condition of their approval by the Commission as approved State Aid. Relief will not be available where the company would be treated as an "enterprise in difficulty". The requirement that a qualifying trade is carried on "wholly or mainly" in the UK is removed and replaced by a requirement that the company must simply have a "permanent establishment" in the UK.

venture capital trust

As announced in PBR 2009, changes to the VCT scheme as agreed with the European Commission as a condition of their approval as approved State Aid is to be legislated for. Shares in the VCT must be admitted for trading on any EU regulated market rather than simply the Official UK List. The new legislation will increase the eligible shares holding requirement to 70% (from 30% of the VCTs qualifying holdings) but will change the definition of "eligible shares" to allow VCTs to include shares which may carry certain preferential rights to dividends.

gift aid

Income tax relief will be extended to donations to charities and certain similar organisations in the EU, Norway and Iceland. Previously relief was restricted to UK charities only.

trusts

The tax rate applicable to trusts increases to 50% from April 2010 along with the increase to personal tax rates. However, it was also announced that settlors who receive a tax repayment because their own tax rate is less than 50% will be required to repay the refund back to the trustees. Such repayments will be disregarded for Inheritance Tax.

stamp duties

stamp duty land tax (SDLT) and stamp duty reserve tax (SDRT)

first time buyers

A new relief for first time buyers is introduced with effect from Budget Day for purchases of residential property to be occupied as the only or main home where the consideration does not exceed £250,000.

new 5% rate

A new 5% rate of SDLT is to be introduced from April 2011 for transactions in residential property where the consideration for the transaction exceeds £1m.

haysmacintyre t 020 7969 5500
Fairfax House f 020 7969 5600
15 Fulwood Place
London e marketing@haysmacintyre.com
WC1V 6AY w www.haysmacintyre.com

Other minor changes include a measure to facilitate the recovery of overpayments of SDLT where there is no other statutory route and powers to make regulations to remove multiple charges to Stamp Duty or Stamp Duty Reserve Tax will be clarified.

anti-avoidance measures

loans to participators

Legislation is to be introduced effective from Budget Day to deny a corporation tax deduction involving the release of loans to shareholders by close companies.

SDLT and partnerships

The perceived exploitation of the SDLT partnership rules to reduce SDLT payable on certain land transactions is to be introduced from Budget Day. The rules are directed at "notional land transactions" created by way of a "contrived" partnership relationship.

company share option plans (CSOP)

Legislation is introduced with effect from Budget Day to prevent the use of options over shares in companies under the control of a listed company in a CSOP.

transaction in securities

The transaction in securities legislation is to be redrafted with a view of providing clearer, more targeted legislation.

offshore tax havens

Increased penalties have been announced for individuals who avoid tax by hiding money away in countries which do not share information with the UK. The penalties could be up to 200% of the tax due.

about haysmacintyre

haysmacintyre, Chartered Accountants and tax advisers, comprises 24 partners and 160 staff based in Holborn, London. It provides high quality auditing and assurance, business and personal taxation, corporate finance, financial planning and other business support services.

Around 50% of the firm's business is within the corporate sector – small and medium sized enterprises many of which are within the property, media and entertainment, sports, motor trade and manufacturing sectors, 35% is for charitable and not for profit organisations and the remainder is for professional practices and private individuals. haysmacintyre currently acts for nine listed companies and assists many new companies achieve initial funds and listings on the capital markets.



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