

# Budget 2010

## Budget report - 24 March 2010...

As usual there was quite a lot of speculation in advance of this year's budget – with a general election on the way, would Alistair Darling opt for a safe and non contentious announcement or would he use this as a last ditch attempt at securing the voters' favour? The speech itself created quite a bit of noise in Parliament, the stamp duty land tax changes and the offshore tax evasion elements receiving the loudest reactions. Were the politicians' noise levels representative of the wider impact of these announcements? We will let you decide!

There were (as is almost expected now) further anti-avoidance measures, increased penalties and, as mentioned above, tightening up on tax evasion - all of course aimed at increasing the tax take.

Due to the close proximity of the election, we can almost certainly expect to be distributing another budget briefing later in the year regardless of whichever party forms the next government. However, within this document we have aimed to provide a summary of what we think are the salient points from the budget for our clients and contacts. Although we are moving offices as this document reaches you, our contact numbers and emails will remain the same so please get in touch to discuss anything in more detail.

---

## Personal tax matters

### Capital gains tax

Potentially a big surprise in this budget is the fact that not only has capital gains tax remained at 18% but Entrepreneur's Relief (which reduces the capital gains tax on certain business disposals from 18% to 10%) has been doubled so that each person now has a lifetime limit of £2m.

**This is great news for any business owners who are considering a sale, particularly when the top rate of income tax is 50%. It may also be an incentive to take less out of the business (at income tax rates) and hold off to sell or liquidate at capital gains rates. However, see the section we have included on Anti-avoidance for a note of caution.**

### Income tax from April 2010

It was reconfirmed that the previously announced 50% income tax band will commence on 6 April 2010 for those with income over £150,000. For those with income over £100,000, the personal allowance will be lost at a rate of £1 for every £2 of income above this level. So, if your income is approximately £113,000 you will have no personal allowance at all. The personal allowance and the level at which income tax moves from 20% to 40% will remain at the 2009/10 levels for 2010/2011.

**These changes are as previously announced but it re-emphasises the need to take specific advice if you are likely to be affected. Keeping the personal allowance and higher rate tax bands at the same level for two years will in itself represent a cost to taxpayers because these bands usually increase by at least the RPI each year.**

### Anti-avoidance

Further rules are being introduced to stop the "conversion" of income into capital, by means of "transactions in securities". There are some anti-avoidance provisions that have been around for many years but these rules are being rewritten and extended so that they have more of a focus on owner managed businesses for tax advantages gained on or after 24 March 2010.

## National insurance

**As previously announced, the rate of national insurance will increase by 1% from 6 April 2011.**

# Inheritance tax allowances

An unpleasant inclusion in the Chancellor's budget was the announcement that the inheritance tax (IHT) threshold will remain at £325,000 until 6 April 2015. Although previous announcements indicated that it would remain at this level for 2010/11, a figure of £350,000 was set out in 2007.

Historically the IHT nil rate band has increased year on year. Most people would expect their estate to increase in value each year, so by freezing the threshold at £325,000 there is effectively an increase in the amount of IHT payable in future. If you do expect your assets to increase over the next five years, now may be a good time to think about IHT planning.

# Inheritance tax schemes

A further announcement stated the intention to include IHT within the disclosure of tax avoidance (DOTAS) regime. Further changes to the DOTAS regime are likely to be implemented soon and may include a requirement for scheme promoters to give the Revenue a list of all clients to whom they have provided the scheme registration number (so this could include someone who does not ultimately go ahead with it!).

The aim of the DOTAS regime is to identify and speed up the Revenue's ability to close down marketed tax avoidance schemes. The proposed changes will enable the Revenue to assess the likely tax loss of a scheme earlier on so that they can stop it faster. You must ensure that you take professional and specific advice in relation to your own circumstances if you are considering entering into any such schemes.

# Pensions

There were major changes to the pensions tax relief position in the April 2009 budget, amended again in December 2009. This budget set out further details about the regime from 6 April 2011. In broad terms, the rules may be relevant to you if you are an employee whose annual earnings (before pension contributions or donations) are at least £130,000 or you have income of £150,000 or over. The effect is to only give basic rate tax relief on pension contributions for those affected. There is a band of income (between £150,000 and £180,000)

where the restriction will be gradually tapered. If you have large employer pension contributions paid on your behalf, you may find yourself paying tax personally on those contributions.

*If you are not currently affected by the changes to the pension regime and can still claim full tax relief on pension contributions, it may be worth maximising your ability to do so whilst you still can. If you are either unsure of your position or want to check before making any pension contributions, please speak to your usual Sagars contact.*

# ISA limits

For 2010/11 the ISA investment limit is £10,200 of which £5,100 can be in cash. From 6 April 2011 the limit will change annually in line with the RPI.

*If you maximise your ISA allowance each year, make sure you check future annual limits so that you don't miss out.*

# Tax relief on donations

The impact of the EU on domestic tax law has been evident once again; legislation is being brought in to extend the current gift aid scheme so that if you make donations to the equivalent of qualifying UK registered charities or amateur sports associations in a member state of the EU, you will get the same tax relief as you would on a donation to a UK charity.

For donations by individuals, the new rules should apply from 6 April 2010 but there are a lot of anti-avoidance regulations to implement before then to ensure the system is not abused, as well as harmonisation of the definition of a charity.

*If you want to be sure that your donation abroad will qualify in the UK for gift aid, you should check before you make it.*

# Business tax matters

## Corporation tax

The budget reconfirmed that corporation tax rates will remain at 21% and 28% depending on the level of profits and number of associated companies.

## Capital allowances

From 1 April 2010 (for companies) or 6 April 2010 (for other businesses), if you are entitled to an Annual Investment Allowance (AIA), it will double from £50,000 to £100,000 per annum. For eligible businesses who invest up to £100k a year in plant or machinery, this means that 100% tax relief will be available in the year of purchase.

*As we noted in our recent Tax News and Tips bulletin, the current enhanced first year capital allowance of 40% for plant and machinery will end on 31 March (for companies) or 5 April (for other businesses).*

## Environmental capital allowances

There have been some further changes to the list of qualifying energy saving and water efficient assets for the purpose of 100% tax relief under the environmentally beneficial category.

Perhaps of more assistance to businesses is the introduction of a new 100% allowance for the acquisition of new zero emission goods vehicles, acquired from 1 April 2010 (companies) or 6 April 2010 (other businesses).

*Do beware before you rush out to buy them in bulk though – in order to comply with EU state aid regulations, you will be limited to relief on €85 million over a 5 year period!*

*Realistically, this does provide a further incentive for businesses to look at the environmentally friendly alternatives when replacing business vehicles.*

## Environmentally friendly low emission vehicles

A further introduction in this budget means that if you are provided with a company car or van that cannot under any circumstances produce CO<sup>2</sup> emissions, you will be exempt from a benefit in kind charge.

In addition there will be a new 5% benefit in kind charge levied on cars with “ultra low” CO<sup>2</sup> emissions of 75g of CO<sup>2</sup>/km or under. These provisions will be effective from 6 April 2010.

*If you own a company and want a tax friendly “run around” then an ultra low emissions car or a zero emissions car would be worth considering. If you can persuade your employees to use them, its a highly tax efficient form of remuneration. Whether they can go from 0 to 60 in under an hour may be an issue for some.....*

## Business payment support service

Some good budget news – the service which businesses can call to arrange extra time to pay their taxes is to remain available for the foreseeable future.

*It is reported that negotiations are becoming tougher but, if you are genuinely facing difficulties with your tax bill, it's worth giving the service a call to try arranging instalment payments.*

## Anti-avoidance

If a company has made a loan to a “participator” (broadly a shareholder, director or associate) and then written that loan off, it was potentially possible to claim corporation tax relief on that write off. This was being exploited as part of a tax avoidance scheme and, whilst the Revenue were challenging it, new law is being introduced from 24 March 2010 to prevent corporation tax relief being available under such circumstances.

*This change in law aligns the company tax position on loan write-offs with that of a dividend - i.e. no corporation tax relief will be available on either. The income tax position for the participator is unchanged.*

## Small business credit adjudicator

The budget also announced the creation of the new small business credit adjudicator. The adjudicator will work closely with a newly enhanced business link financial intermediary service in order to ensure that small businesses

are treated fairly when applying to their bank for finance. The adjudicator will be given statutory powers as soon as possible to ensure that the judgments it makes are enforceable.

## Other tax and duties

### Stamp duty land tax (SDLT)

The SDLT holiday for properties under £175,000 ended in December. However, it was announced that from 25 March 2010 (and for a period of two years), first time buyers acquiring property with a value up to £250,000 to occupy as their main residence will have an exemption from SDLT. The budget note

makes it clear that the purchasers all have to be first time buyers.

At the other end of the property scale, if you are buying a house that is valued over £1m, you may want to buy it before 6 April 2011 because purchases on or after that date will face SDLT of 5% rather than the current top rate of 4%.

**If you are buying your first property this could save you up to £2,500 in SDLT which will be beneficial if you are taking your first step onto the property ladder. However, if you are a parent helping your adult child to acquire their first home, you may have to give or loan them the cash and not take a share in the property if you want to qualify for this relief.**

### Stamp duty land tax avoidance

Schemes were available that aimed to avoid SDLT charges by using partnership arrangements. It was announced in the budget that these would no longer be effective due to new legislation taking force from 24 March 2010.

### Landline duty

A new "landline" duty was announced in the budget – it's due to be effective from 1 October 2010 at a rate of 50p per month per line.

**This relates to high speed internet broadband and will ultimately be paid by the end users which will include businesses and individuals.**

## VAT

Despite the pre-election speculation, the rate of VAT has not changed from its current 17.5%. The VAT-related changes announced in the budget included the registration threshold increasing to £70,000,

the issuing of new fuel scale charges and the announcement of some simplification due to take effect from 1 April 2010 in relation to the option to tax rules and the partial exemption de minimis.

Other VAT changes were incorporated but tended to be more specialist in nature so we have not covered them here.

[www.sagars.co.uk](http://www.sagars.co.uk)

Sagars LLP, Gresham House, 5-7 St Pauls Street, Leeds LS1 2JG  
T: 0113 297 6789 F: 0113 297 6790

The briefing is for general information only and does not constitute specific advice. You should not rely on this information to make (or refrain from making) any decisions. You should ALWAYS obtain detailed professional advice in relation to your own particular affairs.

Sagars LLP is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

An independent member of HCWA with associated firms throughout the United Kingdom and Worldwide.

Sagars LLP is a limited liability partnership registered in England and Wales with registered number OC310488