



UK EMERGENCY BUDGET 2010 - 22 JUNE 2010

SUMMARY OF MEASURES

On 22 June UK Chancellor, George Osborne delivered his first Budget to the House of Commons. This Budget takes the first steps of the Coalition Government's aim to reduce borrowing by 2014/15 in the form of public spending cuts (77%) and tax increases (23%). The points which may be of most interest to Irish advisors are highlighted below:-

Income tax:

- Personal allowances for the under 65s will increase by £1,000 to £7,475 from 6 April 2011. This increase will be available to basic rate taxpayers only and not to high rate taxpayers.
- The basic rate income tax threshold will reduce for 2011/12 and will then remain frozen to 2013/14.
- The 50% income tax rate for income in excess of £150,000 which was introduced from 6 April 2010 remains in place.
- There have been a number of announcements in the area of pensions including; a proposed simplification of the pension relief restriction for higher rate taxpayers and a deferment of the age threshold beyond 75 at which annuities must be purchased.

Capital gains tax (CGT):

- From midnight 22 June, CGT will become a two-tiered system again for individuals. Gains arising will be taxed at 18% for basic rate taxpayers and 28% for higher rate taxpayers. Where, the total income and chargeable gains exceeds the basic rate limit (£37,400 for 2010/11), the excess, to the extent that it comprises chargeable gains will be charged at 28%. In arriving at the total of income and chargeable gains, any gains realised on disposals in the period 6 April to 22 June 2010 are ignored; these remain taxable at 18%.
- For Trustees and Personal Representatives the CGT rate will increase from 18% to 28%.
- Entrepreneurs' relief reduces the effective rate of CGT to 10% on lifetime gains on the disposal of certain qualifying business assets. The lifetime limit for Entrepreneurs' Relief on the disposal of qualifying business assets was increased to £2m from 6 April 2010 (a limit of £1m was in place before 6 April 2010), With effect from 23 June this will increase to £5m.
- The CGT annual exemption remains at £10,100 (£5,050 for Trustees).

Corporation tax:

- The current Corporation tax headline rate of 28% (applicable for profits over £1.5m) will be cut by 1% p.a. over 4 years starting with a 1% cut from 1 April 2011. (There is an exception for ring-fenced industries which remain liable at 30%. The Small Companies rate (applicable for profits below £300,000) will decrease from 21% to 20% from 1 April 2011. (There is an exception for ring-fenced industries which remain

liable at 19%).

The Government has confirmed its desire to move to a more territorial basis in relation to the taxation of foreign profits of companies and to consider options for retaining foreign branch loss relief. Over the summer, consultation is to take place in relation to the Controlled Foreign Company regime to make the rules easier to operate in the interim. Interim measures developed will be legislated for in early 2011 with more significant reform to follow in 2012.

Capital allowances:

- A reduction in the annual Writing Down Allowances (WDA) from 20% to 18% for “main pool” assets, i.e. general plant and machinery from April 2012.
- A reduction in the annual WDA for the “special rate pool” assets i.e. longer life assets, integral assets of a building, thermal insulation, cars with CO₂ over 160g/km, from 10% to 8% from April 2012.
- The Annual Investment Allowance (AIA) allows businesses to reduce their taxable profits by the amount of their annual capital expenditure on certain plant or machinery up to a specified maximum amount. From April 2010 the maximum AIA was increased from £50,000 to £100,000. This effectively is 100% relief on the first £100,000 of qualifying expenditure. This is to be reduced to £25,000 from April 2012.
- A 100% First Year Allowance on new and unused zero-emission goods vehicles commencing from April 2010 for 5 years (assets for leasing are excluded).

National insurance rates:

- New businesses set up after Budget Day in targeted regions (outside London, the South East and the East) will be exempt of Employer’s NIC up to £5,000 for each of the first 10 employees for a period of 12 months from the commencement of the employment, during the first year of business. The scheme is expected to operate for 3 years. Employer, Employee and Self employed NIC will all increase, as previously announced, by 1% from 6 April 2011. It has been announced however that the threshold for Employer’s NIC will increase by £21 per week above the normal inflationary increase.

VAT

- The standard rate of UK VAT will increase from 17.5% to 20.0% with effect from 4 January 2011. No changes apply to exempt, zero rated or reduced rate (5%) supplies. The VAT flat rate scheme will be updated accordingly.
- Anti-forestalling legislation will be introduced to combat businesses which enter into arrangements to incorrectly avail of the 17.5% rate instead of the new 20.0% rate.

Other issues:

- HMRC reinforced its commitment to address anti-avoidance within the UK tax system. The Budget specifically mentions a number of areas and also indicates an intention to reconsider the introduction of a General anti-avoidance regime
- Furnished holiday lettings which qualify for the favourable trading rules and reliefs will not to be abolished for tax year 2010/11. Consultation will take place over the summer months to consider changes to the tax treatment of FHLs.
- A White Paper will be published over the summer on tackling regional economic differences in Britain followed by a paper on rebalancing the economy of Northern Ireland.

- Welfare - A commitment to overhaul the current welfare system including: tax credits, DLA, housing benefit, etc.
- Banking levy – from 1 January 2011 a banking levy of 0.04% (increase to 0.07% in 2012) on the balance sheet of consolidated balance sheets of UK bank groups and building societies, standalone UK banks and UK branches of foreign banks is to be introduced. This levy will be non-deductible for corporation tax.
- Currently, in order to qualify for R&D tax credits, SMEs have to own the Intellectual Property (IP) to which the R&D expenditure is attributable. This condition is to be abolished. In addition, a consultation has been announced in relation to the review of the taxation of IP and the role R&D tax credits can play in innovation.
- The Government has noted its intention to consult and consider a number of initiatives e.g. a review of the taxation of non-domiciled individuals, etc.

The above summary has been prepared in conjunction with Farrell and Farrell Chartered Accountants, in County Down. For more information see www.farrellca.com It is intended as a general summary to the measures announced in UK Emergency Budget 2010. All changes announced are subject to being enacted in the forthcoming Finance Bill. It is possible that the measures described above may be modified prior to enactment. No action should be taken on the basis of the above without obtaining professional taxation advice