BUDGET 2011

BULLIMORES' NOTES AND COMMENTARY

ON THE CHANCELLOR'S STATEMENT 23 MARCH 2011

The New 3 Rs – Rescue, Reform and Recovery

The Office of Budget Responsibility was given a statutory footing on Tuesday night to help with one of the seemingly long forgotten disciplines of Chancellors gone by – arithmetic. It is debatable whether this body can remain truly independent of the Government, especially since the original chairman left so quickly after its formation. So the true test will be how often we see the OBR disagree with the Government in the future.

The reduction in corporation tax rates for large companies to make us more competitive in the world will attract the headlines. But what about the small companies Mr Osborne? The small company corporation tax rate is to be lowered by 1% on 1 April 2011 but there were no plans for further reductions. Is the writing on the wall for the small company rate? Maybe the long awaited small business tax review will provide some answers.

Encouragement for investment was a central theme and the extension of entrepreneurs' relief to £10m of capital gains in a lifetime shows a very positive intention. It was a sound idea to increase EIS relief and to increase the eligible companies that can attract EIS and VCT investment. However, the previously announced general reduction in capital allowances and additional investment allowances for plant and machinery seem at odds with the intent for future growth. We were particularly interested to see that energy efficient hand dryers will now qualify for enhanced capital allowances – the influence of Mr Dyson perhaps?

The increase in the mileage allowance to 45p per mile is long overdue given the fuel price increases since it was first introduced, although for those travelling over 10,000 business miles the 25p rate has remained unchanged. It is difficult to see how asking the oil companies to pay for the delays in duty will have much effect at the pumps since the oil companies will just put prices up to cover their loss!

Once again there was reference to cutting the red tape involved in planning applications. Our developer clients have heard this only too often and given the forecast shortages in housing, this project must be followed up.

There was a return to the popular theme of attacking tax avoidance and putting a stop to all the naughty schemes. It is impossible to close all the loopholes in the tax law, since whenever there are rules or laws, there will be those who want to push the boundaries. More thought needs to be given to tax legislation before it reaches the statute book. The much lauded tax simplification has only tinkered around the edges with luncheon vouchers and suchlike and needs more substance to really make a difference.

In summary, there was no real money in the pot to make changes and whilst there were no new tax rises, there are rises that take effect from 1 April 2011 that were previously deferred. The lowering of the expected rates of growth in the UK economy in 2011 and the inflation projections are concerning; however, as the Chancellor was keen to point out, lower growth this year provides more scope for an increase thereafter!

Don't ask me what I want it for
If you don't want to pay some more
'Cause I'm the taxman, yeah, I'm the taxman. *Taxman by George Harrison*

The taxman's taken all my dough,
and left me in my stately home,
lazing on a sunny afternoon. *Sunny Afternoon by The Kinks (Davies Raymond Douglas)*

Believe in all the good things that money just can't buy,
then you won't get no bellyache from eating humble pie. *Eat the Rich by Aerosmith*

Bullimores LLP

Income tax and National Insurance Contributions

- Personal allowance will be £7,475 for 2011/12 and increased to £8,105 for 2012/13.
- Employer supported childcare - from 6 April 2011 tax relief for higher and highest tax payers restricted.
- CPI indexation of National Insurance Contributions rates, limits and thresholds in 2012/13.
- Maximum pension contribution available for tax relief is £50,000 from 6 April 2011 with new carry back provisions.
- Furnished holiday letting rules brought in from April 2011 as previously announced. Loss relief restricted and letting conditions increased.
- Income tax and National Insurance reform announced. Consultation stage only!

Foreign tax

- Proposed increase to charge made for non domiciles claiming the remittance basis to £50,000 when resident more than 12 years (effective April 2012).
- Statutory residence test to be introduced to replace incomplete guidance in HMRC manuals and case law (anticipated April 2012).

Personal Savings

- From 6 April 2011 ISA limits to be increased in line with Consumer Prices Index (CPI) on an annual basis.
- Junior ISAs will be introduced in Autumn 2011 for children who do not have a Child Trust Fund.

Our sister company, Edwards Securities Ltd, is registered as an ISA provider.
Junior ISA's may be a tax efficient way to save for future university fees or similar.

Inheritance Tax

- NIL rate band £325,000 frozen until April 2015. CPI to be the basis for rises thereafter.
- Reduced rate of 36% (from 40%) if over 10% of the estate is given to charity.

Capital Gains Tax

- Increase in tax exempt threshold to £10,600. CPI used as the default indexation increase April 2012.
- Entrepreneurs' lifetime allowance doubled to £10m (effective April 2011).
- No changes to the 18% or 28% rates.
- Single payment scheme assets to continue as qualifying assets for business roll over relief.

Business tax and investments incentives

- Corporation tax reduced for large businesses to 26% (effective 1 April 2011) – previously announced 27%. Proposed reductions to 23% over next 3 years.
- Small companies' rate 20% (effective 1 April 2011). No further proposed reductions.
- Extension to short life asset rules to 8 years (effective April 2011). Potentially increases capital allowances available.
- Increased research and development tax credits available for small businesses (April 2011) – potentially giving 200% relief for qualifying activities (up from 175% relief). Further review promised for April 2012 with less restrictions.
- Small business rate relief holiday extended to 1 October 2012.
- Extension to availability of EIS and VCT to encourage investors in small business (effective April 2012). Qualifying company change and increase in limit for individuals to £1m. Income tax relief to 30% from 20% (effective 6 April 2011).
- New enterprise zones to be created. Proposed site in London to be announced after consultation with the Mayor.
- IR35 not to be abolished but simplifications and clarifications to be announced.
- Reform of REITS to reduce barriers to entry and regulation April 2012.

The lowering of corporation tax on 1 April 2011 means that it may be tax efficient to accelerate necessary expenditure. This is especially important for companies paying bonuses as the National Insurance Contributions on bonuses will also rise from 6 April 2011.

General Anti Avoidance

- More detailed rules regarding the sale of lessor companies and capital allowances. Prevention of double allowance claims when plant is leased.
- Clamp down on stamp duty and tax schemes already in the public domain.
- Complex degrouping arrangements involving capital gains tax and associated companies.
- Claims to capital allowances to be restricted when the sole or main purpose of the transaction is to obtain an allowance.
- Disguised remuneration – third party arrangements that avoid or defer income tax and National Insurance tacked (often use Employee Benefit Trusts or similar).

Ensure at least the same level of safeguards for electronic payments as when you paid by cheque

VAT

- Registration threshold increased to £73,000 (Deregistration limit £71,000).
- Fuel scale charges change from 1 May 2011.
- Will legislate for extra statutory concession to ensure that groups with foreign branches are treated equally for services bought in from third parties.
- Electronic filing and payment of VAT mandatory from 1 April 2012
- Samples – more than one can be supplied VAT free.
- Public bodies supplying their statutory duties in competition with private sector will be in the same VAT position.
- Academies – rules introduced 1 April 2011 to ensure VAT treatment on similar basis to LEA maintained schools.

VAT Anti Avoidance

- Online notification system for road vehicles brought into UK from 2013 to combat fraud.
- Low value consignment relief threshold to be reduced from £18 to £15 from November 2011 for goods from outside EU.
- Split supply of printed matter (zero VAT) where supply is ancillary to separately supplied vatable services will now be chargeable at rate applicable to service.

Duties

- Mostly as previously announced
- Alcohol duty increased by inflation. 4p on a pint and 15p on a bottle of wine. New duty rates for beer dependent on strength in October 2011.
- Tobacco duty 2% increase over inflation. Increased tax on roll ups and cheaper cigarettes.
- Cut in fuel duty by 1p and planned rise of 4p delayed until 2012. Fuel escalator scrapped whilst oil remains over $75 a barrel.
- Air passenger duty frozen. Your private jet will now have to pay.

Recommendations for a good tasting low strength beer would be much appreciated!

Cars & Environment

- Higher emission company car tax rates increased April 2013 and reduced for energy efficient.
- Fuel benefit charge increased multiplier to £18,800 April 2011.
- Mileage rate 6 April 2011 increase to 45p first 10,000 miles and 25p thereafter. Additional passengers 5p per mile. To be available for volunteers.
- Landfill tax to increase by £8 per tonne (effective April 2012).
- Carbon price floor to tax fossil fuels used in electricity generation.
- Business premises renovation allowance to continue for a further 5 years.

Company cars once again a target. Higher mileage allowances affect computations on whether a company car is tax efficient

Charities

- Future plans to simplify Gift Aid claims for charities.
- Donating works of art to the State may soon attract a tax deduction.
- Removal of 'donate the refund to charity' box on the self assessment tax return because under used.

Further issues

- Increases in gaming duties – bad news for the casinos if anyone had money to spend in them.
- Time to pay service extended by HMRC – although in our experience much greater evidence is needed to support the application.
- Non cost effective or under used reliefs abolished – including luncheon vouchers (15p), Millennium Gift Aid and provision of meals for employees cycling to work.
- Enterprise zones created with 100% business rate relief. Boris to decide where in London.
- SDLT calculation revised on bulk purchasers of residential property.
- Security can be required by HMRC for PAYE and NICs when serious risk of non payment.
- Bank levy designed so that the banks do not benefit from the reduction in corporation tax.
- New data powers for HMRC to conduct risk assessment. Penalties for non compliance.
- Dishonest tax agents to be named and shamed on HMRC website!

This Budget Report was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Act receives Royal Assent. This Report is for guidance only, and professional advice should be obtained before acting on any information contained herein.