Budget review
March 2011

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In a bold Budget address to the nation, the Chancellor George Osborne focused on the future, highlighting a number of reforms that he hoped would prove a catalyst to a private-sector led economic recovery. Beneath the usual array of macro-economic facts and forecasts there was some small support for lower income families in the face of high inflationary pressures.

There was also a significant amount of good news for owner managed businesses. If the lingering memory of recent Budgets was tax hikes, then this Budget will surely be remembered for tax incentives.

The Chancellor may have placed responsibility for achieving growth firmly at the door of the private sector; but with that responsibility comes reward. The extension or improvement of some already lucrative tax reliefs, and a higher than anticipated reduction in the headline rate of corporation tax, means there is good reason for individuals and businesses to be cheerful.

Mark Tuckwell
Director, Tax planning

A boost for business

Overall it's been a pretty positive Budget for businesses. The Chancellor has announced his intention to create the most competitive tax system in the G20 and make the UK a place to which businesses want to come, not one they want to leave.

Corporation tax
At 28%, we currently have the sixth highest corporation tax rate in Europe but this will be reduced from April 2011 by 2%, instead of the planned 1%, taking it down to 26%. The rate will then continue to decrease by 1% each year for the next three years, to 23%. This will leave us with the lowest CT rate in the G7.

Entrepreneurs' Relief
To encourage investors and entrepreneurs, the lifetime limit for Entrepreneurs' Relief has been increased from £5m to £10m. This means that the first £10m of capital gains on the disposal of a qualifying asset will be taxed at 10% rather than 28%. In general terms, trading businesses or trading company shares are qualifying assets provided you have held them for at least 12 months and own at least 5% in the case of shares.

Encouraging innovation
Alongside the £100m of additional funds pledged for Science and Innovation, the Government has recognised that more innovation is needed in the UK. The Research and Development (R&D) tax credits available to small and medium sized enterprises have therefore been increased from a 175% deduction to a 200% deduction with effect from 6 April 2011.

In addition to this, it is proposed that the deduction be extended further to 225% from April 2012. R&D tax credits are available for expenditure on innovative work to achieve an advance in a field of science or technology through the resolution of scientific or technological uncertainty. R&D tax credits are currently restricted to the amount of PAYE/NIC that is owed by the business, but it is also proposed that this restriction be abolished from April 2012. Good news for trailblazing businesses.

Savvy investor opportunities

The Budget has brought a number of welcome changes to the tax reliefs for investors designed to encourage investment.

Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT)
The income tax relief for individuals investing in an EIS will rise from 20% to 30% from 6 April 2011, whilst the amount an individual can invest and receive EIS tax relief on will also rise from £500,000 to £1m.

From 6 April 2012, there will be changes to qualifying conditions that companies need to satisfy in order to raise finance under the EIS and VCT schemes. The companies qualifying for finance can be much larger, with the gross assets limit rising from £7m to £15m, and the employee limit rising from 50 to 250. The amount companies can raise each year will also rise from £2m to £10m.

Enterprise Zones
The Government has announced the creation of 21 new Enterprise Zones which will attract business rate discounts and special tax reliefs. The 100% capital allowances available for the construction of commercial buildings in an Enterprise Zone will cease on 5 April 2011. However, the Business Premises Renovation Allowance will be extended for a further five years from 2012. This allows investors to claim 100% capital allowances for the cost of renovating an existing building in an Enterprise Zone.

ISAs
Junior ISAs will be available from the autumn of 2011 for children under the age of 18 who don't have a Child Trust Fund account. The main ISA limit will rise from £10,200 to £10,680 from 6 April 2011.

It is not too late to beat the 5 April 2011 deadline for making investments and receiving tax relief this year. If you are interested in receiving further details about tax efficient investment opportunities, please contact us.

Mixed news for taxpayers

The basic personal allowance, which is to rise to £7,475 on 6 April 2011, is increasing further than expected from 6 April 2012 to £8,105, as part of the Coalition's longer term goal of upping it to £10,000 by 2015.

However, the rate at which direct tax rates and allowances rise or fall with inflation is changing - from April 2012 it will be based on the Consumer Price Index (CPI), rather than the Retail Price Index (RPI). The concern here is that traditionally CPI rates rise less quickly than RPI rates. This means thresholds staying lower for longer, which would increase the amount of tax paid to HMRC. Certain increases including the employer NIC threshold and age related allowances will still be indexed according to the RPI.

The Chancellor made it clear that he wishes the UK tax system to be competitive for higher-earning individuals and that he sees the 50% rate of tax as a temporary measure, albeit one that will remain for the time being.

Gift aid and charitable donations
Much was made of simplification to the Gift Aid scheme and abolition of the outdated Millennium Gift Aid. The critical change for charities and most taxpayers is that Gift Aid forms will no longer be required for donations up to £5,000 for any one charity, bringing adhoc charitable gifting within the scope of the relief. Gifting of certain works of art and other treasures will also qualify for tax relief.

Continuing the Coalition's 'Big Society' theme, the Budget also encourages the gifting of at least 10% of estates to charity; where this occurs, the Inheritance Tax Rate (IHT) on the remainder of the estate will be reduced from 40% to 36%. Meanwhile, the IHT nil rate band will remain frozen at £325,000.

Non-doms
Whilst the contribution made by non-UK domiciled UK residents was acknowledged from 6 April 2012, the £30,000 remittance basis charge will be increased to £50,000 for individuals who have been in the UK for more than 12 years. More positively, there will be no tax charge on the remittance of offshore income and gains remitted for commercial investment in UK businesses. There was also the welcome announcement that a statutory residence test will be introduced.

Revving up

A widely anticipated move on fuel duty was announced to alleviate pressure from rising oil prices. Fuel duty was cut by 1p per litre from 6pm on Budget day and the planned rise in April has been delayed until 2012. In addition, the 'fuel duty escalator' will be abolished and replaced with a 'fuel duty stabiliser' limiting fuel duty rises where oil prices are high. This will be welcome news to consumers and businesses alike.

The tax free mileage allowance payable to employees for using their own car for business purposes has been increased from 40p to 45p for the first 10,000 miles. This is the first rise in the allowance since 2002. Air passenger duty has been frozen, but those lucky enough to own a private jet may have to pay air passenger duty for the first time.

Losing the loopholes

A key theme underlining the Budget is that the UK is 'open for business but not tax avoidance'. Having inherited a system with a 'tax gap' of £40 billion, the Coalition is keen to take a more 'strategic' focus on tackling avoidance. The Budget releases include further details of this strategy and the key themes, which are envisaged to raise over £1 billion per year.

There is a continued focus on identifying schemes earlier, which has been enhanced by the disclosure regime (DOTAS). A need to make legislation more robust is highlighted, which does not rule out the possibility of a General Anti-Avoidance Rule (GAAR). There is also greater emphasis on 'challenge and litigation', which has become increasingly evident to taxpayers over recent periods. Finally, a consultation will take place on removing the cash-flow benefits of avoidance schemes, by requiring taxpayers to pay tax earlier where the tax scheme remains under dispute.

In addition to taking a more strategic approach to avoidance, several 'targeted measures' were highlighted, most notably in relation to Stamp Duty Land Tax (SDLT) planning schemes and new legislation to counter 'disguised remuneration' through the use of Employee Benefit Trusts (EBTs) and Remuneration Trusts.

What we already knew…

- National Insurance Contributions will rise by 1% from 6 April 2011.
- There will be a 1% reduction in the small company's rate of corporation tax to 20% from April 2011.
- The pension annual allowance will fall to £50,000 from 6 April 2011 and from 6 April 2012 the lifetime allowance will be reduced to £1.5 million.
- A new 5% stamp duty land tax charge will apply to properties sold for more than £1m from 6 April 2011.

Round-up

Merging Income Tax and NIC
In amongst the plans for tax simplification, a consultation has been announced to look at merging income tax and National Insurance Contributions (NIC). It's not yet clear how this might work, but the Chancellor did assure us that it would not result in people who don't currently pay NIC being worse off (e.g. those over state pension age) or in other forms of income (such as property income) becoming chargeable to NIC.

Controlled Foreign Companies
It is proposed that changes will be introduced in the Finance Bill 2012 to make the Controlled Foreign Companies regime more competitive. Currently a CFC (in general terms, an overseas subsidiary of a UK company) is taxed at the top rate of UK corporation tax. The new rules will include a partial exemption for overseas group financing arrangements, with more details to be announced in May 2011.

Foreign branches
The Chancellor has confirmed a change in the taxation of foreign branches, where companies can elect to no longer be taxed in the UK on the foreign branch profits. This mitigates the need to claim double tax relief in relation to the overseas tax paid. However, the election is irrevocable and the risk is that losses arising in the branch would normally be relievable against the UK company's profits but if chosen, no relief will be available for the losses. Consideration should therefore be given to whether it is the right course of action for your company.

Capital allowances
A minor change in capital allowances may cause businesses to claim some of their capital expenditure as "short life assets" (SLA). Currently the limit for a SLA is four years, but this will be increased to eight years in April 2011. The benefit of electing SLA is being then able to claim a balancing allowance on the asset on sale, where it would not be available as a "pooled asset".

Tax on high value property
The Chancellor also announced the Government's intention to redouble efforts to ensure that individuals with high value property pay their fair share of tax. At this stage no further details have been given on how this might be achieved.

The "green" theme
An additional consultation was announced on feed-in tariffs and renewable heat incentives. There is currently some uncertainty around the amount of relief and capital allowances available and this may be dependent on the site of installation and circumstances of the business. A consultation document should be published in May 2011.

This month's Budget brings some welcome changes for entrepreneurs and investors alike. For more information on how you can benefit from the new opportunities, or to review your tax position, please don't hesitate to contact us.

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