

TAX E-NEWS

Monthly Update – July 2010

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CLIFTON HOUSE
PARTNERSHIP

CHARTERED
ACCOUNTANTS

Incorporating Susan J Arthur & Co

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

CAPITAL ALLOWANCES CHANGES FROM APRIL 2012

Annual investment allowance (AIA)

The AIA is fast becoming a political football. It was £50,000 on its introduction from 1 April 2008 and doubled to £100,000 from 1 April 2010. From 1 April 2012 it will reduce to £25,000.

The amount claimable is subject to time-apportionment where your accounting period straddles 31 March (5 April for sole traders and partnerships).

The maximum AIA is tabulated below, assuming the transitional rules are applied as before when the AIA was introduced or increased:

Year end	AIA
30/6/10	£62,500
30/9/10	£75,000
31/12/10	£87,500
between 31/3/11 and 31/3/12	£100,000
30/6/12	£81,250
30/9/12	£62,500
31/12/12	£43,750
31/3/13	£25,000

WDA of 20%

This reduces to 18% for an accounting period ending on or after 1 April 2012 (6 April for sole traders or partnerships). If your accounting period straddles that date, there is a hybrid rate calculated on a time-apportionment basis.

WDA of 10%

This reduces to 8% in the same way and applies to:

- ◆ Cars with CO2 emissions in excess of 160 g/km
- ◆ Features integral to a building
- ◆ Long-life assets where the expected life of the plant and machinery is at least 25 years
- ◆ Thermal insulation of a building

Zero-emission goods vehicles

As announced by the previous Government, and confirmed in the Emergency Budget, a new and unused van qualifies for 100% FYA. It applies for 5 years from 1 April 2010 for companies and from 6 April 2010 for sole traders or partnerships.

To comply with EU state aid rules, a number of conditions apply to this new FYA. They are not likely to present many problems as the main conditions involve the following:

- ◆ the business must not be in difficulty
- ◆ the FYA is subject to an outstanding recovery order if there is an EC decision that the aid is illegal
- ◆ the business must not be in the fisheries and aquaculture sectors
- ◆ the business must not be the managing of waste for other undertakings
- ◆ a 5 year limit of expenditure under this head of €85 million for each business – this is one of those limits which is unlikely to be a problem!

CAPITAL GAINS TAX REGIME FROM 23 JUNE 2010

- ◆ Entrepreneurs' relief increased so that there is a new lifetime limit of £5 million taxed at 10%.
- ◆ Otherwise, you will now pay CGT at 18% if the gains added to your taxable income do not exceed the basic rate band and 28% on any excess.
- ◆ Any gains made from 6 April 2010 to 22 June 2010 do not count as using up the available basic rate band.
- ◆ Losses can be set-off against gains in the most beneficial way – as can the annual exemption, which for this tax year stays at £10,100.
- ◆ As to whether or not the 18%/28% rates will continue, it is simply stated that the 2011/12 rates will be decided in the Budget 2011. That sounds ominous, and suggests that the changes to the CGT regime are not necessarily permanent.

The following illustration of CGT rates has been taken from the HMRC press release:

In 2010/11 X's taxable income, after all allowable deductions and the personal allowance is £27,400. The upper limit of the income tax basic rate band is £37,400. X sells an asset in May 2010 and realises a chargeable gain of £17,000. In November 2010 X sells another asset, realising a chargeable gain £25,100. X has no allowable losses to set against these gains. Neither of the gains qualifies for entrepreneurs' relief.

X's taxable income is £10,000 less than the upper limit of the basic rate band (£37,400 - £27,400). X sets the AEA against the later gain (because part of that gain is liable to tax at the higher CGT rate), leaving £15,000 taxable (£25,100 - £10,100). The first £10,000 of the £15,000 is taxed at 18% and the remaining £5,000 is taxed at 28%. The £17,000 chargeable gain X realised in May 2010 is taxable at the old 18% rate.

CORPORATION TAX RATES AND THE IMPACT OF A REDUCTION IN THE SMALL COMPANIES RATE

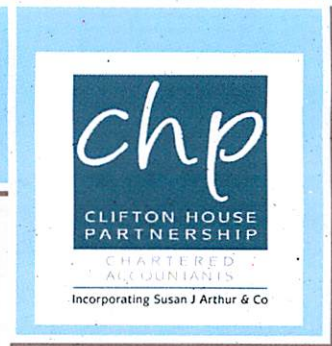
Year to	Profits	
	First £300,000	Over £1.5M
31/3/11 (FY2010)	21%	28%
31/3/12 (FY2011)	20%	27%
31/3/13 (FY2012)	20%	26%
31/3/14 (FY2013)	20%	25%
31/3/15 (FY2014)	20%	24%

Any reduction in the small companies rate is welcome, but yet again there is no move to increase the profit level of £300,000 to which the lower rate applies – that last went up in 1994!

A fresh look needs to be taken when considering how to distribute profits of a limited company, given the increases in the rate of income tax and NICs and the small reduction in the corporation tax rate for small companies.

What is clear is that the overall saving in distributing profits as dividends instead of as remuneration is widening, and indeed encourages a fresh look at incorporation where the annual tax savings will be even greater than before (quite apart from the ability to sell the goodwill to the limited company and obtain a one-off tax saving). That is surprising given the previous Government's stated dislike of "tax-inspired" incorporations – a view which is not likely to be any different with the Coalition Government.

As there is a review about to start on the overall tax regime for small businesses, it makes sense to consider your options now and we are ready to help in this. By the way, that review promises to include a look at the notorious IR35 legislation which can apply where services are provided via a personal service company. Hopefully there will be good news in the not too distant future.



PENSION SCHEME CHANGES

Higher rate tax relief

Consideration is being given to abolishing the rules in Finance Act 2010 whereby from 6 April 2011 those with income of at least £150,000 in the tax year concerned suffer a loss of some or all of the higher rate tax relief otherwise available.

The aim is to raise at least the same amount of revenue (£3.5 billion annually) however, and this may be achieved by drastically reducing your annual allowance to in the region of £30,000 to £45,000. The lifetime allowance of £1.8 million may also be reduced.

Issues to consider include:

- ◆ how pension accrual in defined benefits schemes would be valued
- ◆ options to protect basic rate taxpayers
- ◆ whether and how there could be flexibility for individuals over paying any charges that arise
- ◆ how compliance and delivery would operate in practice

Anti-forestalling rules

These apply for 2009/10 and 2010/11, and will not change although any method identified which risks tax revenue will be countered.

Purchase of an annuity

The requirement to purchase an annuity by the age of 75 will cease from April 2011, and in the meantime the age will increase to 77. That is certainly good news as it increases the flexibility available to you. Full details of what the options are from 6 April 2011 are awaited with great interest.

VAT INCREASE FROM 4 JANUARY 2011

The new 20% standard rate applies to goods or services to be delivered or performed on or after 4 January 2011.

Anti-forestalling rules will apply to artificial arrangements involving a VAT invoice being issued, or payment being made in advance, where the goods or services are not due to be delivered or performed until on or after 4 January 2011.

It creates a supplementary charge to VAT at 2.5% where the customer cannot recover all the VAT and at least one of the following conditions are met:

- ◆ the supplier and customer are connected persons
- ◆ the value of the supply, and any related supplies made under the same scheme, exceeds £100,000 unless the prepayment or issue of an advance invoice is normal commercial practice
- ◆ the supplier or connected person funds a prepayment for the goods or services
- ◆ an advance VAT invoice is issued where payment is not due in full within 6 months (except HP invoices issued in accordance with normal commercial practice)

Flat rate scheme

The percentages are recalculated to reflect the VAT increase to 20%. The new rates need careful scrutiny and we can undertake that exercise for you. This scheme is available to a VAT-registered business with annual turnover up to £150,000.

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REGIONAL EMPLOYER NICs HOLIDAYS FOR NEW BUSINESSES

This special scheme is aimed at helping new businesses in targeted areas of the UK that need it most. During a three year qualifying period, new businesses which start up in these areas will get a substantial reduction in their employer NICs.

Within the qualifying period, the employer will not have to pay the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for each of the first 10 employees hired in the first year of business and will operate in selected countries and regions. It is worth a maximum of £50,000 for each business.

Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June which meets the criteria will benefit from the scheme.

The countries and regions which will benefit are based on where the proportion of jobs in the public sector is higher than in London, South East and East. They are therefore as follows:

- ◆ Scotland
- ◆ Wales
- ◆ Northern Ireland
- ◆ North East
- ◆ Yorkshire and the Humber
- ◆ North West
- ◆ East Midlands
- ◆ West Midlands
- ◆ South West

A Q & A paper was issued on 22 June, and further scheme details are expected soon. We will be pleased advise on the opportunities available to those of you looking at starting up a new business.

FURNISHED HOLIDAY LETTINGS REVISITED

1. This tax-favoured investment provides the following main advantages where the property is in the UK or the EEA. They were planned to end on 5 April 2010 but that did not get through the debate on the Finance Bill 2010 so the opportunities are still there:

- ◆ CGT entrepreneurs' relief as a qualifying business disposal
- ◆ CGT roll-over relief
- ◆ Income tax relief on losses against general income – TO BE REVIEWED WITH CHANGES FROM 6 APRIL 2011 SUBJECT TO CONSULTATION
- ◆ Pension scheme funding on the profits
- ◆ Capital allowances claimable for plant and machinery, even though used in a dwelling house (this is instead of the 10% wear and tear allowance); the £100,000 AIA is therefore available to this "business" although if you are an owner you may well not plan to spend anything like that amount!

2. The requirements are as follows:

- ◆ Commercial letting, which means on a commercial basis and with a view to the realisation of profits.
- ◆ Let furnished, so that tenant is entitled to use the furniture.
- ◆ Available for commercial letting to the public as holiday accommodation for at least 140 days in a 12 month period (which is the tax year, unless not let furnished in the preceding tax year in which case the period is the 12 months from the first letting; or where not let furnished in the next tax year in which case the period is the 12 months up to cessation) – these requirements are to change from 6 April 2011 subject to consultation, with an increase in the number of days.
- ◆ Actually so let for 70 days in the 12 month period.
- ◆ Not normally in the same occupation for over 31 consecutive days during a period of seven months in the 12 month period.

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OTHER CHANGES

Income tax allowances and rates

- ◆ personal allowance for the under 65's increasing by £1,000 to £7,475 for 2011/12, but with the basic rate band reduced so that higher rate taxpayers do not benefit (they of course gradually lose their personal allowance if annual taxable income exceeds £100,000)
- ◆ higher rate band level frozen to 2013/14

ISAs

From 6 April 2011 the annual Individual Savings Account limit (currently £10,200, of which a half can be in cash) will increase in line with the RPI, and rounded to a convenient multiple of 120 for the ease of monthly savers.

Non-domiciled individuals

The tax treatment is to be reviewed. This will consider whether changes can be made to the current rules "to ensure that non-domiciled individuals make a fair contribution to reducing the deficit in return for greater certainty and stability for those bringing skills and investment to the UK".

Deduction of tax at source by individuals and non-corporate entities

Currently the requirement is to deliver an account to HMRC for income tax deducted at source from interest and royalty payments they make, and HMRC can then assess the amount of tax due to them. There is no set form for submitting an account and the new Finance Bill will allow HMRC to issue regulations specifying how and when an individual or other non-corporate should account for, and pay, income tax deducted at source.

PAYE system

This is being reviewed, to see how the system could be improved so as to reduce costs and make it easier to administer for both employers and HMRC. Initially there will be consultation with employers and payroll providers on mechanisms which could support more frequent or real time PAYE data.

Anti-avoidance

The old issue of whether or not there is a need for a general anti-avoidance rule is on the agenda again. Consultation will take place later in 2010 to consider the case for developing such a rule.

Tax policy making

Proposals will be published involving how to improve the way tax policy is made. There is also a stated intention to create an independent Office of Tax Simplification.

Please contact a member of our Tax Team if you would like to discuss any of the issues raised.



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