



Emergency Budget Report 2010:

Summary of the main taxation
provisions announced by the
Chancellor of the Exchequer on
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Chancellor's Main Points

BBC News summarised the main points from Chancellor George Osborne's Emergency Budget Report as follows:

- "I'm not going to hide hard choices from the British people or bury them in the small print of the Budget document," said the Chancellor.
- Mr Osborne said everyone will be asked to contribute to reducing the deficit and that everyone will "share in the rewards when we succeed".
- "In this parliament we will ensure that debt is falling as a percentage of GDP by 2015/16," said the Chancellor.
- The Government is planning for a sustainable private sector based on economic growth, rather than "pumping the debt bubble back up", said Mr Osborne.
- The coalition believes that the bulk of the deficit reduction must come from lower spending rather than higher taxes, Mr Osborne confirmed. Research shows, he said, that spending cuts are a more effective way of reducing the deficit.
- Public sector net debt will start to fall by 2014/15, thanks to today's actions, Mr Osborne said.
- Current spending will rise to £711bn in 2015/16, thanks largely to a rapidly rising bill for debt interest, which Mr Osborne calls "the price of economic failure".
- Expenditure on Royal activities through the civil list will remain static at £7.9m a year, said Mr Osborne. It will be scrutinised by the National Audit Office in future, he added.
- There will be a two-year pay freeze for public sector workers, says Mr Osborne, although the 1.7 million lowest paid will get a flat £250 pay rise.
- "It is simply not possible to deal with a budget deficit of this size without undertaking lasting reform of welfare," said Mr Osborne.
- From next year, with the exception of pension and pension credit, benefits, tax credits and public service pensions will rise in line with consumer prices rather than retail prices - saving over £6bn a year by the end of the parliament, the Chancellor said.
- "We will expect lone parents to look for work when their first child goes to school," said Mr Osborne.
- Child Benefit will be frozen for the next three years, said the Chancellor.
- A medical assessment will be applied to new disabilities living allowance claimants from 2013, said Mr Osborne.
- Housing benefit will be limited to a maximum of £400 per week for a four-bedroom house under radical reforms, Mr Osborne said.
- Corporation tax will be cut by 1% per year for four years from next year, bringing it down to 24%, while the employers' National Insurance threshold is to rise.
- Small companies' corporation tax will be cut to 20% next year, said the Chancellor.
- VAT is to rise from 17.5% to 20% from 4 January next year, the Chancellor announced.
- There will be no new increases in duties on alcohol, tobacco or fuel, Mr Osborne said. He added that he will report back in the autumn on possible health-related measures on alcohol and on the possible per-plane, rather than per-passenger, levies on flights.
- From midnight, higher-rate taxpayers will pay 28% on their capital gains.
- The higher rate income tax threshold will remain frozen to 2013/14, with a long-term objective to increase the personal allowance to £10,000 - that was one of the Liberal Democrats' key election pledges.
- The tax-free personal allowance on income tax will be increased by £1,000 in April, giving 23 million people up to an extra £170 per year and taking 880,000 out of the tax system altogether, the Chancellor said.

Summary of the Proposals

The personal allowance, basic rate limit and national insurance thresholds for

2011-12

The measure will affect income tax payers, employers, employees and the self employed.

Legislation will be introduced to provide for the following income tax and National Insurance Contributions (NICs) changes for 2011-12:

- the personal allowance for those aged under 65 will be increased by £1,000 to £7,475;
- the basic rate limit will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. The exact figure will be confirmed when September's Retail Prices Index (RPI) is known;
- the alignment of the Upper Earnings/Profits Limit (UEL/UPL) with the higher rate threshold (the total of the personal allowance for those aged under 65 and the basic rate limit) will be maintained by reducing the UEL/UPL; and
- the secondary threshold, which is the point at which employers start to pay Class 1 NICs, is to be increased by an extra £21 per week above indexation.

These changes will have effect on and after 6 April 2011.

Corporation tax main rates

The measure will affect Companies with profits above the upper limit (£1.5 million).

Legislation will be introduced in Finance Bill 2010 to set the main rate of corporation tax (CT) at 27 per cent on and after 1 April 2011. The main rate of CT for companies with profits, arising on and after 1 April 2011, from oil extraction and oil rights in the UK and the UK Continental Shelf ("ring fence profits") will remain at 30 per cent.

This change in the main rate of CT will have effect on and after 1 April 2011.

Corporation tax small profits rates

The measure will affect Companies with profits below the lower limit (£300,000).

Legislation will be introduced in Finance Bill 2011 to set the small profits rate (SPR) of corporation tax (CT) at 20 per cent on and after 1 April 2011.

The SPR for companies with profits, arising on and after 1 April 2011, from oil extraction and oil rights in the UK and the UK Continental Shelf ("ring fence profits") will remain at 19 per cent.

The change in the SPR will have effect on and after 1 April 2011.

Capital allowances: rate and annual investment allowance changes

The measure will affect Businesses investing in plant and machinery.

Legislation will be introduced in a future

Finance Bill to make the following changes:

- first, to reduce the rates of writing-down allowances (WDAs) for new and unrelieved expenditure on plant and machinery:

- from 20 per cent to 18 per cent per annum for expenditure allocated to the main rate pool; and
- from 10 per cent to 8 per cent per annum for expenditure allocated to the special rate pool; and

- second, to reduce the maximum amount of the annual investment allowance from the current limit of £100,000 to a new limit of £25,000.

The first measure will have effect for the calculation of WDAs for chargeable periods ending on or after 1 April 2012 for businesses within the charge to corporation tax (CT) and on or after 6 April 2012 for businesses within the charge to income tax.

The second measure will have effect from April 2012. Details of the transitional arrangements will be published, along with the relevant draft legislation, in good time before the reduction takes effect.

Capital gains tax: rates and Entrepreneurs' relief

The measure will affect individuals, trustees and personal representatives of deceased persons who pay capital gains tax (CGT).

Legislation will be included in Finance Bill 2010 to introduce a new rate of CGT of 28 per cent. For individuals, the rate of CGT remains 18 per cent where total taxable gains and income are less than the upper limit of the income tax basic rate band. The 28 per cent rate applies to gains (or any parts of gains) above that limit. For trustees and personal representatives of deceased persons, the rate is increased to 28 per cent (previously 18 per cent).

The rate of CGT for gains qualifying for entrepreneurs' relief remains as 10 per cent.

The lifetime limit on gains qualifying for entrepreneurs' relief is increased from £2 million to £5 million.

The annual exempt amount (AEA) for 2010-11 remains at the level set previously, £10,100.

The new rates of CGT and lifetime limit for entrepreneurs' relief have effect on and after 23 June 2010.

Review of HMRC powers, deterrents and safeguards: penalties for late filing of returns and payment of tax

The measure will affect taxpayers who do not file their tax returns on time or pay their tax liabilities in full and on time for:

- VAT and insurance premium tax;
- aggregates levy, climate change levy and landfill tax;
- air passenger duty, alcoholic liquor duties, tobacco products duty,
- hydrocarbon oil duties, general betting duty, pool betting duty, bingo duty, lottery duty, gaming duty and remote gaming duty; and
- other excise duties.

This measure will not have effect for tax credits.

This measure will complete the reform of the penalty regimes for late filing of tax returns and late payment of tax. The reform began when legislation for certain taxes was enacted in the Finance Act (FA) 2009 including income tax, corporation tax, inheritance tax and other direct taxes.

The Government will legislate for this measure in a Finance Bill to be introduced as soon as possible after the summer recess.

Implementation of new penalties for late filing and late payment requires changes to HM Revenue & Customs' (HMRC) internal systems and processes and is to be staged over a number of years. This will also allow for the substantial education and preparatory period that will be necessary for both taxpayers and their agents. The new provisions will be brought into effect by Treasury Orders which will specify the dates from which they have effect.

VAT: change of standard rate

The measure will affect all VAT registered businesses.

Legislation will be introduced in Finance Bill 2010 to increase the standard rate of VAT from 17.5 per cent to 20 per cent.

The 20 per cent rate will have effect for any supply made on or after 4 January 2011 and any acquisition or importation taking place on or after that date.

Section 2 of the VAT Act 1994 specifies the standard rate of VAT to be charged on the supply of goods or services, the acquisition of goods from another Member State and the importation of goods from outside Member States. This measure amends the standard rate to 20 per cent with effect from 4 January 2011.

Zero-rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the 5 per cent reduced rate, such as domestic fuel and power, are not affected by this change.

VAT flat rate scheme: changes to the flat rate thresholds and percentages

The measure will affect small businesses that currently use, or are considering using, the VAT flat rate scheme.

This measure recalculates percentages used in the flat rate scheme to reflect the increase in the standard rate of VAT to 20 per cent. The Table in BN45 shows the new flat rates: see www.hmrc.gov.uk/budget2010/bn45.pdf

The VAT inclusive thresholds applicable to the scheme have also been recalculated to reflect the increase in the standard rate of VAT to 20 per cent.

The recalculated flat rate percentages will have effect on and after 4 January 2011 until further notice. The recalculated thresholds will also have effect on and after 4 January 2011 until further notice.

Pensions - Annual Allowance

- The Government has announced that it is considering restricting pensions' tax relief from 6 April 2011, by reforming the existing pension savings allowances, principally by significantly reducing the annual allowance. The Government will discuss the changes with interested parties but provisional analysis has suggested that the level of a reformed annual allowance may be in the region of £30,000 to £45,000.

- The reformed allowances would replace the high income excess relief charge, which currently is due to come into force on 6 April 2011. Legislation will be brought in to allow the high income excess relief charge legislation to be repealed.

Holiday Lettings

- Holiday lettings are generally taxed under the property income rules. The Furnished Holiday Lettings (FHL) rules allow holiday lettings of UK properties that meet certain conditions to be treated as a trade for some specific tax purposes.
- Holiday lettings of properties situated elsewhere in the European Economic Area (EEA) could not qualify for this treatment. They were instead taxed under the normal property income rules. This difference may not be compliant with European law.
- At Budget 2009 the previous Government announced that the FHL rules would be withdrawn from 6 April 2010 (1 April 2010 for companies). That change will not now take place. Instead, the FHL rules will continue to apply during 2010-11, and the Government will consult over the summer about plans to change the tax treatment of furnished holiday lettings from 6 April 2011 (1 April 2011 for companies).