

## A Budget for growth

Described by George Osborne as a Budget for growth, the Chancellor gave a rousing performance setting out his plans for the 2011 Budget. With much of the Budget previously announced, there were few major shocks announced. There will be a reduction in Corporation Tax, relief for Entrepreneurs' will be increased and the high rates of Income Tax previously imposed are here to stay, although only 'temporarily'.

George Osborne set out his aims for making the UK Tax System the most competitive in the G20 and said that this Budget would fuel Britain to move forwards, with the Budget built on sound money. However, with growth targets revised downwards many pundits will ask where the growth in the "growth Budget" is? With Budget cuts and a decline in estimated growth, it comes as no surprise that VAT, Income Tax and National Insurance are staying at the levels previously set.

The Chancellor made it clear that the way forward will be to bring Britain back to its former economic strengths by focusing on business and attracting companies to stay in the UK. The way he aims to do this is by decreasing the main rates of Corporation Tax to 23% by 2014/2015 and increasing the reliefs for Research and Development in the UK. Another measure will be to change the Capital Allowances regime to attract businesses to spend more on Plant and Machinery.

With over 240 pages of Budgetary notes from HMRC, countless press releases and critics and advocates alike voicing their opinion, it can be hard to know what is happening. We have prepared a summary of the main changes that you need to be aware of and provide helpful tips for saving Tax.

## Capital Gains Tax

This Budget once again saw the limits for Entrepreneurs' Relief increased, this time from £5 million to £10 million from 6<sup>th</sup> April 2011. The impact of this is that obtaining Entrepreneurs' Relief could now save you up to £1.8 million. The Annual Exemption has also been increased to £10,600 for 2011/2012.

### T Tip

If you are looking to sell your business in the coming years then it may be possible to take action now to reduce the Capital Gains Tax further or merely ensure that we secure Entrepreneurs' Relief for you, as the rules are complex and include many traps for the unwary. The planning could include transferring shares to your spouse to make full use of their allowances and if possible double the amount of Entrepreneurs' Relief available. However, careful planning would be needed to make sure that the transfer was beneficial.

## Company Car Changes and Approved Mileage Allowance Payments (AMAP)

Once again the Chancellor took the opportunity to make changes to the Company Car Tax Regime. The following changes are being implemented:

- 1) The percentage charged for Benefits in Kind on Company Cars will be reduced by 1% for cars with emissions between 95g/km and 220g/km, effective from April 2013.**
- 2) The Fuel Scale Charges for Benefits in Kind will be changed from £18,000 to £18,800 from 6th April 2011.**
- 3) The Approved Mileage Allowance Payments made by employers will be increased to 45p per mile from 6th April 2011.**

With a raft of changes already announced prior to the 2011 Budget, you should act now to ensure that the Company Cars you drive are not costing you more than they should. As an employer you can also use the AMAP to compensate employees for the cost of business mileage and, as the AMAP is free of Income Tax, increasing the amount that you pay is a Tax efficient way of rewarding employees for travel.

### T Tip

Review the Tax cost of the Company Cars that you have and are considering purchasing. Have you considered which cars fall under the lower emissions bands and will save Tax? Is it worth replacing some of the higher emission company vehicles with lower emission ones? Have you reviewed the most Tax efficient options for cars?

## Anti - Avoidance

Following the announcements and draft legislation introduced on 9th December 2010, further Anti - Avoidance was introduced by the coalition government. The areas that have been targeted are as follows:

- 1) Stamp Duty Land Tax targeting three specific Tax avoidance schemes.**
- 2) Disguised remuneration, targeting Employee Benefit Trusts, Employer Financed Retirement Benefit Schemes, and similar vehicles.**
- 3) Corporate Capital Gains.**
- 4) The sale of lessor companies.**

The biggest impact of the Anti - Avoidance legislation will be upon the use of loans from Trusts, which were being used as lifetime loans to reduce the levels of Tax payable. These will now be caught as 'disguised remuneration' and PAYE will be operable on such loans from 6th April 2011.

## **T** Tip

If you are considering using a Tax avoidance strategy, speak with us to ensure that the plans you have are not caught by the new Anti-Avoidance measures.

## Personal Taxation

With debt levels high, a Budget to balance, and pressure to bring in investment into the UK, it was never going to be easy to reduce Income Tax or National Insurance for individuals. The main rates for 2011-2012 were set out in the June Budget 2010 and have not been changed.

The Personal Allowance for individuals has been raised to £7,475, an increase of £1,000 combined with a reduction in the basic rate band by £2,400 to £35,000. This means that you will only pay higher rate Tax if your income for the Tax year exceeds £42,475 which is compared to £43,875 in 2010/2011.

The changes to National Insurance Contributions (NIC) mean that the levels at which NICs will be payable have been aligned with Income Tax. With an increase in NIC payable by employers to 13.8%, employees paying 12.8% and 2% above £42,475, the amounts payable will be noticeable. The same can be said of the rates paid by the self-employed, rising to 9% and 2% for profit levels above £42,475.

## **T** Tip

Where both spouses receive income from a joint property, consider whether it would be beneficial for the spouse with lowest income to receive the property income.

## Individual Savings Accounts (ISAs)

ISAs continue to be a great way to save money free of Tax. For 2011/2012 the amounts you can invest into an ISA Tax free are as follows:

- **Cash ISAs only - £5,340**
- **Stocks and Shares - £10,680**

The maximum that can be invested in ISAs is restricted to £10,680 for the 2011/2012 Tax year. The government have also confirmed that Finance Bill 2011 will introduce the Junior ISA available for all UK resident children under the age of 18 and will be available in both Cash ISAs and Stocks and Shares ISAs. It is expected that these will be available from October 2011.

## **T** Tip

Make use of your ISAs by ensuring that each family member with an ISA contributes up to the annual limits. Consider taking out an ISA for each child that you have once junior ISAs become available.

## Tax Simplification

The government announced that the UK Tax System is the most detailed and complex in the world, which will not come as a surprise to many. They have promised to make the Tax System simpler and to reduce the size of the Tax legislation to make it easier to understand, follow and administer reducing the costs paid by the Tax payer for administering such a burdensome beast.

As part of this review, there have been a number of reliefs which have been withdrawn as a result of them either being obsolete or ineffective. From 6th April 2011, for National Savings Bank Ordinary accounts, the first £70 of interest received will no longer be free of Income Tax.

There are also a number of reliefs which were announced to be abolished from 2012/2013 some of which are as follows:

- **Exemption from Benefit in Kind Charge for Late Night Taxis**
- **Exemption from Benefit in Kind Charge for Luncheon Vouchers**
- **Exemption from Income Tax on meals provided by the employer when the employee cycles to work.**

## Stamp Duty Land Tax

The coalition government have carried through with the changes to Stamp Duty Land Tax to introduce a 5% rate of SDLT for 2011/2012 for residential properties above the value of £1 million.

Additional legislation will be introduced in Finance Bill 2011 to provide a relief for purchasers of residential property. This will mean that the rate of Tax paid will be based on the mean cost of the properties and not the aggregate price of the properties.

## Pensions Planning

On 14th October 2010 the rates of Annual Allowances for pensions were reduced for 2011/2012, from £255,000 to £50,000. In addition to this, the amount that can be contributed to a pension over a lifetime is going to be reduced from £1.8 million to £1.5 million from 6th April 2012.

Where your income has reached £130,000 per annum, the amount of pension contribution that you can get Tax relief on is usually restricted to £20,000. However, where there is a long established pattern of contributions higher than £20,000, you will normally be able to receive higher rate Tax relief on these amounts. Similarly, if you have contributed more than £60,000 between 6th April 2006 and 5th April 2009 then you will be able to receive relief for the amount contributed divided by 3, up to a maximum of £30,000.

## **T** Tip

Before making any pension contributions, speak with a financial adviser and us to ensure that the amounts you are contributing are Tax efficient.

## Employer Provided Childcare

From 6th April 2011 the changes previously announced will be brought in, restricting the amount of relief available for higher rate Tax payers who receive Childcare Vouchers from their employers. This will mean that the amount of benefit received by basic rate, higher rate and additional rate Taxpayers is the same (£11). The limits for relief will be as follows:

- **Basic rate Tax payers - £55 a week**
- **Higher rate Tax payers - £28 a week**
- **Additional rate Tax payers - £22 a week**

Those employees who are already receiving Childcare Vouchers before 6th April 2011 will not be affected by the new legislative changes.

## Gift aid

As part of the raft of incentives introduced to help charities in the Budget, there will be changes to the amount of benefit that can be obtained from a charity after making a donation. The limits for 2010/2011 have been increased from a maximum of £500 to £2,500 where donations of more than £10,000 are made. The effective date for this change will be from 6th April 2011 for individuals and 1st April 2011 for Corporate Donors.

## Enterprise Investment Schemes (EIS)

The coalition government have made investing in EIS schemes even more rewarding from 6th April 2011, with an increase in Income Tax relief from 20% to 30%. The limit for investment is currently set at £500,000, meaning that the change in rates could potentially save you up to £150,000 in a single Tax year!

The government will also be looking at raising the amounts available for relief for future years, in addition to changing the levels at which companies will be able to qualify as EIS companies, so investing in an EIS scheme could be a great way to reduce the levels of Income Tax Payable, as well as securing an Investment.

### **T** Tip

If you are considering an investment in an EIS scheme advice should be sought from a financial adviser to ensure the correct type of investment is chosen.

## Corporation Tax

One of the biggest changes announced in the 2011 Budget was that the Corporation Tax main rate will be reduced not to 27% from 1st April 2011, but to 26%. The Corporation Tax main rate will also reduce by 1% annually until 2014/2015 when the main rate reaches 23%. From 1st April the Corporation Tax for smaller companies falls to 20%.

This will increase the amount of profits available to pay out to business owners, or reinvest, after paying the lower Corporation Tax bill.

### **T** Tip

If you have been considering whether or not to incorporate your business, reduced Corporation Tax rates including a small company's rate of Tax of 20% may mean that now is the time to do so.

If you are looking at paying remuneration to employees and directors you should consider which is the most Tax efficient way of doing so with higher Income Tax Rates and lower Corporation Tax Rates. We can help you with this using our Remuneration Planner software.

## Research and Development

One of this year's most generous changes has been to increase the amount of relief available for small and medium sized companies engaging in Research and Development. The amount of relief previously available of 175% has now been increased to 200% from 1st April 2011.

### **T** Tip

We offer a health check to see if your expenditure on research and development activities qualifies for the enhanced reliefs.

## Capital Allowances - Short Life Assets

Short Life Assets have often been seen as more of an administrative burden than an opportunity to save Tax. However, the coalition government have now gone some way to addressing this difficulty. By extending the period of 'Short life' from 4 years to 8 years, many more assets could qualify providing you with valuable extra capital allowances.

### **T** Tip

Consider the life of plant and machinery purchased by the business to see if it is likely to have a useful life of less than 8 years and let us know.

## Fuel Duty

Much publicised is the reduction in Fuel Duty by 1p from 6pm on 23rd March 2011. With many retailers opting to put up prices by an equal amount before the reduction, many people will see no reduction in petrol prices. More importantly perhaps is that the Fuel Duty Escalator has been replaced with a Fair Fuel Stabilizer. The impact of this is that the Fuel Duty will not rise as expected by 5p, rather fuel duty will next increase by 3.02p on 1st January 2012.

## Tax Credits

From 6th April 2011 the new rates set out in the June 2010 Budget and December announcements will come into force. The amounts available for Working Tax Credits and Child Tax Credits will be increased, however where the income of the claimants is increased the reduction in Tax Credits will be significantly higher than in 2010/2011.

### T Tip

If you are considering the amount of remuneration for the 2011/2012 to be paid, consider how this impacts upon your Tax Credits Claim as you could lose more in Tax Credits than you gain in Income.

## VAT

With VAT at a level of 20%, many people may have been hoping that this would be set to reduce; unfortunately this is not the case. The Chancellor announced that the threshold for registration for VAT has increased to £73,000. At the same time the low value consignment relief for goods imported from outside the EU has reduced from £18 to £15, meaning that VAT may become payable on more goods imported.

## Inheritance Tax (IHT)

Once again, the Increase in the IHT nil rate band has been frozen and will remain at £325,000 for the 2011/2012 Tax year. The rate of Tax payable will also remain at 40% for estates with a value of more than £325,000. It was also announced that from 6th April 2012 there will be a Tax rate of 36% available to those individuals who leave more than 10% of their net estate to a charity.

### T Tip

If you think that your estate is going to exceed the nil rate band of £325,000 any assets left to a spouse will be free from IHT. Investing in assets which qualify for Business Property Relief will mean that you do not have to pay IHT on these on death, provided that you have held the assets for two years before death. You will also retain control of these assets up until death so there is no loss of access or decision making.

## Other issues for businesses

### Time to Pay

This year's Budget confirmed that the time to pay scheme operated by HMRC for businesses that are struggling will continue through the Business Payment

Support Service. This advisory service covers a range of Taxes from Corporation Tax, National Insurance, VAT and Income Tax.

### Income Tax and National Insurance Contributions

It was also announced that consultation with businesses will begin to look at the administration and collection of Income Tax and National Insurance Contributions. The measures which are not expected to come into force for several years are expected to reduce the administrative burden placed on businesses without reducing the Taxes payable.

### Plumbers Tax Safe Plan

In the first amnesty of its kind focusing specifically on trades people, HM Revenue and Customs (HMRC) are offering a 'now or never' opportunity for Plumbers, Gas Fitters and Heating Engineers to declare 'cash in hand' receipts for the last 5 years.

Provided this income is declared and the Tax paid by 31st August 2011 HMRC will charge a penalty, in almost all cases, limited to 10% with a maximum penalty of only 20% of the Tax evaded.

HMRC are reported as having a large amount of intelligence on the undisclosed receipts within this sector and see this as the first in a series of similar amnesties. When the disclosure window closes on 31 August 2011 those found to have undeclared income could face penalties ranging from 30% up to 100% of the Tax lost.

Declarations can be made by Sole Traders, Partnerships, Directors of Limited companies and Trustees of Estates of those previously employed in the industry. The intention to make a declaration must be lodged by 31st May. HMRC offers similar terms to anyone who wishes to make a voluntary disclosure.

### T Tip

If you think that this may apply to you then contact us to make a disclosure of income before 31st May 2011 to significantly reduce any penalties that may be due.

## We can help

With so many changes outlined in the 2011 Budget, now is the time to act to ensure that you don't pay a penny more Tax than you need to. We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

### McDade Roberts

316 Blackpool Road, Fulwood, Preston,  
Lancashire PR2 3AE

Tel: 01772 717110 Fax: 01772 712523 Mob: 07970 505550

### Simon Denye

Email: [simondenye@mcdaderoberts.co.uk](mailto:simondenye@mcdaderoberts.co.uk)  
[www.mcdaderoberts.co.uk](http://www.mcdaderoberts.co.uk)

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