

paylesstax

2010 emergency budget

George says “The country has overspent; it has not been under-taxed”

Despite the new Chancellor, George Osborne, telling us that the country has been over taxed and that he is going to raise £13 billion per annum by increasing the standard rate of VAT to 20%, he didn't scrap any of the labour tax increases announced just 3 months ago. We are still going to endure the 50p income tax rate, the loss of personal allowance at incomes in excess of £100,000 and the National Insurance increases from 2011 to name but a few.

Whilst the headline changes are the increase in VAT, a new Capital Gains Tax Rate of 28%, the phased reduction in corporation tax rates and the spending cuts, there were a number of measures that are worth knowing about so that appropriate action can be taken now to save tax.

Company Tax Rates to fall

The rates at which companies pay Corporation Tax are set to fall from 1st April 2011 by 1%, irrespective of the size of the company. This is a u-turn on the previous Governments' intention to increase the rate for small companies.



T Tip

If you run a sole trader business or are in a successful partnership then it may be worth reviewing how the changes will affect you and whether it is worth changing the structure of your business to enjoy significant annual tax savings. For example a sole trader could transfer their business into a limited company and save thousands in tax in each. We offer a full review service and would be delighted to discuss it further.

Annual Investment Allowance to reduce

From 2012 the Annual Investment Allowance is to be reduced from £100,000 to £25,000. This reduction in a valuable allowance will impact on businesses of all sizes. The allowance allows businesses to claim the full amount of their capital expenditure on most plant or machinery up to the maximum in the year when it is incurred.

Businesses are free to allocate the Annual Investment Allowance in any way they wish, leaving them free to maximise their tax savings by ensuring that the allowance is allocated against assets that would normally qualify for the lowest reliefs.

T Tip

As the current level of allowance (£100,000) is with us until 2012, then businesses should consider planning their capital expenditure to maximise the Annual Investment Allowance available to them over the next two years. Some companies may prefer to bring forward expenditure prior to April 2011 to maximise their tax savings before company tax rates decrease.

Capital Allowance rates to decrease

The Writing Down Allowances available on assets are set to decrease from April 2012. What it means is that less of the capital expenditure will be allowed against tax each year on certain assets acquired and not already covered by the Annual Investment Allowance. In theory the business will still get tax relief for the full cost of the asset over a longer period as follows;

- The main plant and machinery writing down rates will reduce from 20% to 18% p.a.
- Longer life and special rate plant writing down rates will reduce from 10% to 8% p.a.

The immediate impact will be cash flow and an increase in Corporation Tax bills for those businesses that heavily invest in plant and Machinery.

T Tip

Businesses should plan their capital expenditure carefully over the next couple of years to maximise their tax savings. Companies may wish to bring forward investment in plant and machinery prior to April 2011 when Corporation Tax rates will fall.

VAT rate to increase in January 2011

The standard rate of VAT is set to increase from 17.5% to 20% from 4th January 2011. This will have a significant impact on many businesses and individuals; From the retailer that will incur costs changing their prices next January, the businesses that operate the Flat Rate scheme and will need to use different flat VAT rates for their businesses, to the businesses or individuals that are buying or selling commercial property on which VAT is chargeable.

T Tip

If you are looking to buy or sell commercial property on which VAT is chargeable then you may wish to consider the impact of the VAT change and whether it is worth negotiating the price to bring forward the transaction.



T Tip

Where you are having work undertake for you personally or you cannot reclaim input VAT, then you may wish to ensure that the work is undertaken and you are billed prior to the change or you at least pay for the service by then.

New Capital Gains Tax rate

With immediate effect, gains arising on assets disposed of from 23rd June 2010 will be liable to be taxed at either 18% or 28%, depending upon the individual's level of income. If their total income and gains (or part gains) exceed the higher rate threshold then the gains will be taxed at 28%, otherwise gains will continue to be taxed at 18%.

Gains arising as a result of disposals prior to 23rd June 2010 will continue to suffer Capital Gains Tax at 18% prior to any relief available, including Entrepreneurs Relief.

T Tip

If you are looking at disposing of any assets in the near future, the first step is to confirm whether Entrepreneurs Relief or any other appropriate reliefs are available. These could reduce the tax liability to 10% or less respectively. The rules are complicated and action may be required to be taken a good 12 months or more in advance of a disposal to secure significant tax savings. There may well be some advanced planning opportunities to meet your circumstance and we would be delighted to discuss these further.

Entrepreneurs Relief increases

With immediate effect, the lifetime limit for Entrepreneurs Relief has been increased from £2 million to £5 million. Where individuals or trustees make qualifying gains on or after 23rd June 2010, they will be entitled to the new £5 million lifetime limit.

Where Entrepreneurs Relief does apply, the effective rate of Capital Gains Tax remains at 10%, irrespective of the level of an individual's personal income.

T Tip

If you are looking to dispose of a business interest, business assets or shares in the near future the rules for the relief are complicated and we should ensure that you do currently and will contain to meet the criteria for at least 12 months prior to the disposal. The disposal itself may or may not qualify for the relief and we may need to undertake some planning now to secure it.

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