

EMERGENCY CORPORATE AND BUSINESS BUDGET UPDATE



EMERGENCY BUDGET 2010

The “Unavoidable” Budget

George Osborne’s eagerly anticipated Emergency Budget finally made its way into the public domain at 12.30pm yesterday. He announced his plan to close 77% of the deficit in the Public purse through spending cuts and 23% through tax rises. However with spending cuts already inevitable, Mr Osborne’s carefully chosen adjective refers to the rise in the standard rate of VAT, the announcement which has stolen the headlines. Other noteworthy announcements include welcome cuts in Corporation tax rates, an extension of the entrepreneurs’ relief lifetime allowance, and less welcome reductions in capital allowance rates and the annual investment allowance.

It is clear that the budget seeks to place the majority of the additional tax burden required to close the deficit on individuals, rather than businesses. However the impact of the changes is difficult to predict. In particular it will be interesting to see to what extent businesses absorb the VAT increase by reducing their margins.

The budget also included various changes announced by the previous government, the aim of which is to align UK tax policy with EU requirements. Further details are given below and in our complementary private client budget update.

VAT and IPT

From 4 January 2011, the standard rate of VAT will rise from 17.5% to 20%. Anti-forestalling measures will be introduced to prevent businesses charging 17.5% on supplies of goods or

services to be delivered or performed on or after 4 January. The measures are very much in line with those introduced to deal with the return to a 17.5% standard rate on 1 January this year.

The reduced VAT rate of 5% is unchanged, and there will be no changes to the types of supply that qualify for zero or reduced rate, or VAT exemption.

The rates of Insurance premium tax will also increase on 4 January. The standard rate will increase from 5% to 6% and the higher rate will increase from 17.5% to 20%.

Corporation tax

The Chancellor announced a series of reductions to the main rate of corporation tax starting on 1 April next year. The main rate will fall from 28% to 24% over four years, starting with a 1% reduction to 27% in April 2011 and a further 1% annually thereafter.

The small profits rate of 21% will receive a one-off reduction to 20% with effect from 1 April 2011.

Certain companies involved in the UK oil industry will not be affected by these changes.

Capital allowances and the annual investment allowance

The current rates and allowances remain intact in 2011/12 but will be reduced with effect from 1 April 2012 for businesses subject to corporation tax and 6 April 2012 for those not. At that time the annual writing-down allowance for most plant and machinery will fall from 20%

to 18%. The special rate of 10% for integral features, long life assets and high emission cars will be reduced to 8%.

At the same time the annual investment allowance, which only increased from £50,000 to £100,000 in April this year, will fall back sharply to £25,000.

Capital gains tax

Prior to yesterday’s budget, there was a great deal of speculation over the changes that would be made to the capital gains tax regime, both in terms of rates and the date from which changes would take effect. A two-tier system for business assets, improvements to entrepreneurs’ relief and rates much nearer income tax for non-business assets seemed likely outcomes. It was not clear from when the changes would take effect but following yesterday’s announcements, the changes detailed below came in at midnight last night.

There were no changes to the regime which applies to capital gains realised by companies.

However whilst retaining and improving entrepreneurs’ relief, the Chancellor has set different rates of CGT for personally held non-qualifying assets dependent on taxpayers’ combined level of taxable income and gains. Broadly, basic rate taxpayers will be subject to the existing 18% rate whilst higher rate taxpayers will pay at 28%.

The lifetime allowance for entrepreneurs’ relief has been increased from £2 million to £5 million and will fix the tax rate on qualifying gains at 10%, regardless of the taxpayer’s level of income and gains.

Bank levy

A levy based on bank's balance sheets will be introduced from 1 January 2011. The precise terms have not been revealed but it is understood there will be some relief for tier one capital. Details will be subject to the scrutiny of parliament before being finalised. The Chancellor anticipates this generating £2 billion each year once it is fully up and running.

Employers' National Insurance Contributions

From 6 April 2011, the employers' NIC threshold will rise by £21 a week above the level which is automatically included through indexation. This threshold change is in addition to the increase in the primary (employee) threshold already planned for 2011/12, and the 1% rise in Class 1 and 4 NIC rates.

The Government will also introduce NIC breaks for employers setting up business in certain areas of the UK outside the South East of England. The scheme will be started as soon as possible and any business set up after 22 June meeting the scheme conditions will qualify. For a limited number of employees, qualifying businesses set up within the next three years will not have to pay the first £5,000 of Class 1 employers NIC due in the first twelve months of employment. This will apply to up to ten employees so long as they are hired within the first year of business.

Employer Funded Retirement Benefit Schemes (EFRBS) and Employee Benefit Trusts

It has been confirmed that EFRBS and trust based remuneration planning will be legislated against from April 2011.

Other announcements

A number of other changes announced by the previous government's final budget earlier in the year have been confirmed, several of which align UK tax law with recent developments in EU law.

These include changes to:

- The tax treatment of capital distributions;
- 100% first year allowances: zero-emission goods vehicles;
- Venture Capital Schemes;
- Enterprise Management Incentives;
- The worldwide debt cap;
- Consortium relief; and
- Research and development tax relief

Commentary on these changes can be found in our Corporate and Business Budget Update from March this year and our Pre-budget report update from December last year.

Of the other announcements, there are number of more detailed changes to VAT law as well as targeted anti-avoidance provisions which look to remove tax advantages obtained by large companies from schemes that exploit the loan relationship rules and close a loophole in the taxation of authorised investment funds.

The most notable of the VAT changes are the application of the standard rate of VAT to certain services provided by Royal Mail, such that the tax advantage it currently has over its competitors in these areas is removed, and a significant change to the Lennartz input VAT recovery mechanism which businesses can apply to assets which are acquired for both a business and private purpose. Previously the Lennartz mechanism allowed businesses to reclaim input VAT on certain capital assets in full and account for output VAT based on their use. From 1 January 2011, businesses will no longer be able to reclaim the input VAT they estimate to relate to private use when acquiring relevant assets, and will revise that estimate based on actual usage in subsequent years.

This budget summary is provided for general information only and is not intended to constitute professional advice. Any opinions stated should not be relied upon. Readers should seek professional advice before taking any action based on this budget summary.

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