



Emergency Budget 2011

So after just seven weeks in office, the new Chancellor, George Osborne, has unveiled the biggest package of tax increases and spending cuts in a generation. The main issues and changes in this 'unavoidable' Budget are set out below:-

Business

Tax Rates The main rate of corporation tax will reduce by 1% to 27% with effect from 1 April 2011 and by 1% per annum for the next 3 years to 24% from 1 April 2014. The planned increase in the rate for small companies has been withdrawn and replaced with a reduction to 20% from 1 April 2011.

Capital Allowances The WDA applicable to the main plant and machinery pool is to be reduced from 20% to 18% and that used in the special rate pool (including integral features and cars with emissions >160g/km) is to be reduced from 10% to 8%.

The new rates apply to chargeable periods ending on or after 1 April 2012 (6 April 2012 for income tax) and hybrid rates will apply for periods spanning this date.

The maximum amount of Annual Investment Allowance (100% first year capital allowance for certain plant and machinery) which can be claimed is to reduce from £100,000 to £25,000 with effect from April 2012.

Consideration should be given to accelerating planned capital expenditure to utilise the higher AIA before April 2012, although transitional arrangements are yet to be announced.

National Insurance The increase of 1% to Employers' National Insurance will go ahead from 6 April 2011. But to counter this, the starting level at which employers pay National Insurance is to increase in line with indexation plus £21 per week.

Indirect Taxes

VAT Standard rate to increase to 20% with effect from 4 January 2011. Legislation is to be introduced to prevent those businesses that are not able to recover all of their VAT from using certain schemes to avoid the increase. Payments on accounts scheme threshold applicable to larger businesses to be revised to take account of the increase in rate. Flat rate scheme percentages used by smaller businesses are to be revised to allow for the increase in rate.

Insurance Premium Tax Standard rate to increase to 6% with effect from 4 January 2011. Higher rate which applies to travel insurance and insurance for certain consumer goods to increase to 20% with effect from the same date.

Penalties for late payment and filing of returns. As part of an ongoing review of HMRC powers and deterrents the penalty regime is to be changed so that penalties for late filing and late payments are treated separately. The effective date for the changes is to be announced in the future.

Anti avoidance and future reform The Government intends to set out a more detailed programme for Corporation Tax reform in the Autumn, after greater consultation with multinational businesses via a business forum. Watch this space....Consultation will also take place over the Summer to make the current Controlled Foreign Company (CFC) regime easier to operate, with the intention to legislate reform in Spring 2012.

The Government intends to introduce legislation from 6 April 2011 to tackle planning arrangements which use trusts and other vehicles to avoid, defer or reduce liabilities to income tax and national insurance contributions on earnings. This is a clear reference to EBT and EFRBS type planning but does offer a reasonable window of opportunity over the coming months.

Wealth Strategies

Capital Gains Tax From 23 June 2010 there will be two rates of capital gains tax: 18% and 28% (although for assets which qualify for Entrepreneurs' Relief see below). The 18% rate will apply for individuals where their total income and gains are less than the upper limit of the income tax basic rate band, currently £43,875. Any gain over this limit will be subject to the 28% rate. Gains which arose before 23 June 2010 will not be taken into account when calculating the total income and gains.

Trustees and personal representatives will be liable to a flat rate of 28%.

The annual exemption remains unchanged at £10,100 for individuals (£5,050 for trustees).

Entrepreneurs' Relief From 23 June 2010 the lifetime limit on gains qualifying for Entrepreneurs' Relief, which results in a 10% rate of capital gains tax, will increase from £2 million to £5 million.

Personal Allowances From 6 April 2011, the basic personal allowance will increase by £1,000 to £7,475 which creates a tax saving for basic rate tax payers of £200. However, to ensure those who pay higher rate tax do not benefit from this increase, the basic rate limit is reduced by £2,500.

Pensions Contributions With effect from 22 June 2010 the maximum age to purchase an annuity is increased to 77 years from previously 75 years. The rules for alternatively secured pensions previously applicable from age 75 years will also now apply from age 77 years. This is a temporary measure, before new legislation is introduced next year abolishing the compulsory annuity purchase rules.

The previously announced changes to restrict tax relief on pension contributions for high earners with total income exceeding £150,000, effective from 6 April 2011, are to be reviewed. HMRC is to consult with interested parties and possibly introduce a reduced level of annual allowance in the region of £30,000 to £45,000.

Furnished holiday lettings The withdrawal of the furnished holiday letting rules from 6 April 2010 will not go ahead and therefore the existing rules will apply for the current tax year for qualifying lettings situated in the UK or EEA.

However there are proposed changes to the rules from 6 April 2011 which would ensure the same rules apply to properties in the EEA, increase the number of days that qualifying properties have to be available for and actually let and, more importantly, a change to the way the loss relief is currently given.

Contact

If you would like further information on the above issues please call your usual contact or ring **Freephone 0800 0665 894** and speak to: -

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Alternatively, please visit www.cooperparry.com/budget-june-2010 or download your copy of **Tax Facts June 2010** here



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