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Budget Summary 2010 22 June 2010

Summary of Changes Affecting Business Clients

During the election campaign, George Osborne nailed his colours firmly to the mast of a deficit reduction strategy. He has not disappointed in that, but questions remain over whether the effect of the expenditure cuts and the mixture of tax increases and decreases in the Budget will be to depress growth and to stymie the desired effect in the medium term. Time will tell.

Corporation Tax

The main rate of Corporation Tax (CT), applicable to companies with taxable profits over £1.5 million, will be reduced from 28 per cent to 27 per cent on 1 April 2011. Thereafter, it will fall a further 1 per cent each year until reaching 24 per cent on 1 April 2014.

The CT rate for small companies (those with taxable profits below £300,000) will decrease from 21 per cent to 20 per cent from 1 April 2011.

The general thrust of the changes is to make trading by means of a limited company, and basing a company in the UK, more attractive. With the recent Companies Act (2006) now fully implemented, the UK now has a much more attractive legislative and tax regime than previously.

A small change has also been made to the rules for consortium relief, whereby control and voting rights are a factor in determining the percentage of a loss that can be claimed from a consortium company. However, a company will no longer have to be UK resident to transfer its share of the consortium's losses to another consortium member.

Further CT reforms are expected to be announced this autumn.

Capital Allowances

From 1 April 2012 for companies, and 6 April 2012 for unincorporated businesses, the rate at which capital expenditure attracts CT relief will be reduced, from 20 per cent to 18 per cent annually in the case of items allocated to the 'main rate pool' and from 10 per cent to 8 per cent in the case of items in the 'special rate pool' (such as long-life assets, integral features etc.)

The annual investment allowance will also be reduced from April 2012, from £100,000 to £25,000.

Businesses considering major capital investments should consider the implications of the changes carefully.

General

From 23 June, the rate of Capital Gains Tax (CGT) applying to any gains above the basic rate Income Tax band (£37,400 for 2010-11) increases from 18 per cent to 28 per cent. However, business investors will be cheered by the fact that the lifetime limit for Entrepreneurs' Relief has been increased from £2m to £5m. The rate of CGT on gains qualifying for Entrepreneurs' Relief remains at 10 per cent.

Many new businesses located in most regions of the UK will benefit from a 'National Insurance Contributions (NICs) Holiday', whereby qualifying employers will not have to pay the first £5,000 of Class 1 employer NICs due in respect of the first 52 weeks of employment of each employee (up to a maximum of 10) hired in the first year of business. The scheme is expected to run for three years and will cover any Class 1 employer NICs that fall due during this time.

The scheme is due to start in September 2010, although this is yet to be confirmed. Businesses that commence trading on or after 22 June will be able to enjoy the benefits of the scheme: they will have to pay Class 1 employer NICs until the scheme is introduced but will receive a holiday of equal duration once the scheme commences.

The scheme is intended to promote private enterprise in areas where there are currently a large number of public sector employees. It will therefore not cover London, the South East and the East.

Full details of the scheme will be published before its introduction. There will be restrictions on the types of eligible businesses: the Government intends to restrict the scheme to 'businesses which undertake a sufficient degree of new economic activity'. What this will mean in practice will be revealed when full details of the scheme are published.

VAT

The standard rate of VAT is set to rise from 17.5 per cent to 20 per cent on 4 January 2011. Items which are exempt or zero-rated for VAT purposes, or upon which VAT is charged at the reduced rate of 5 per cent, are unaffected.

The rates applicable to businesses using the flat-rate scheme for VAT will also change, and can be found at http://www.hmrc.gov.uk/budget2010/bn45.pdf. The turnover threshold above which businesses must leave the flat-rate scheme will be increased from £225,000 to £230,000, inclusive of VAT. This change is designed to help businesses which would otherwise no longer be eligible to participate in the flat-rate scheme.

Anti-avoidance legislation has been introduced to combat schemes which attempt to apply the current VAT rate to goods or services which will be delivered on or after 4 January 2011.

If any of the items in this bulletin apply to you and you would like advice, please get in touch. The end of the tax year is 5 April for individuals and 31 March for companies.

For further information, see http://www.hmrc.gov.uk/budget2010/supplementary.htm#technotes.