



Emergency Budget Report

22 June 2010

This Report is intended to be a general overview of the main announcements – please contact us for advice specific to your circumstances.

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Contents

Budget Highlights	Page 3
Income Tax & Personal Savings	Page 4
Capital Taxes	Page 6
Business Tax & Investment Incentives	Page 7
Tax & Travel	Page 9
Value Added Tax	Page 12
Duties	Page 13
National Minimum Wage	Page 14
National Insurance Contributions.....	Page 15
Other Measures Announced	Page 16

Budget Highlights

- VAT to rise to 20% from January 2011
- Personal allowance rising to £7,475 in April 2011
- Tax Credits cut for households earning over £40,000
- New 28% top rate of capital gains tax
- Corporation tax rate cut by 1% a year to reach 24% in 2014 and by 1% for small companies
- Capital allowances reduced
- National Insurance increase to go ahead
- National Insurance holiday for new businesses outside London and the South East

Income Tax & Personal Savings

From 6 April 2010 income in excess of £150,000 is subject to a new 50% additional rate of income tax (42.5% on dividends)

	2010/11
Basic rate band – income up to	£37,400
Starting rate for savings	*10%
Basic rate	20%
Dividend ordinary rate	10%
Higher rate – income over	£37,400
Higher rate	40%
Dividend upper rate	32.5%
Additional rate – income over	£150,000
Additional rate	50%
Dividend additional rate	42.5%

*Starting rate is for savings income up to the starting rate limit of £2,440 within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.

The Chancellor announced that the basic rate band for 2011/12 will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. The exact figure will be announced later.

Personal allowances (ages are as at the end of the tax year)

		2010/11
Personal Allowances (PA)	Under 65	£6,475
	65 to 74	£9,490
	75 and over	£9,640
Married Couples Allowance (MCA)		
	Either born before 6 April 1935 (relief restricted to 10%)	£6,965

Age-related allowances are reduced by £1 for every £2 that adjusted net income exceeds £22,900, to a minimum PA of £6,475.

The MCA is reduced by £1 for every £2 by which the income of the spouse or civil partner with the most income exceeds £22,900, subject to a minimum of £2,670 (highest income counts for the reduction).

Where income exceeds £100,000, the PA, including the minimum age-related allowances, is reduced by £1 for every £2 that net adjusted income exceeds £100,000.

For 2011/12, the PA for those aged under 65 will be increased to £7,475. The basic rate limit will be reduced so that higher rate tax payers do not benefit from the increase in the PA.

Individual Savings Accounts (ISAs)

Changes to the way the annual ISA limit is set were announced on 24 March 2010, but were not included in the original 2010 Finance Act. The Chancellor has confirmed those changes will be carried through.

Furnished Holiday Lettings (FHL)

The Chancellor announced that the proposed withdrawal of the FHL rules from 6 April 2010 will not take effect.

A consultation will take place over the summer of 2010 about plans to change the tax rules for FHL from April 2011. The consultation will specifically look at:

- ensuring the FHL rules apply equally to properties in the European Economic Area (EEA)
- increasing the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- changing the way in which FHL loss relief is given.

Non-domiciliaries

As announced in the Coalition Agreement, the Government is to review the taxation of non-domiciled individuals.

Managed Payment Plans

The Chancellor has announced a deferral, from the proposed date in 2011, of the implementation of Managed Payment Plans (MPPs).

MPPs will allow taxpayers to pay self-assessed income tax and corporation tax in a series of monthly payments either side of the theoretical due date.

Income tax adjustments between settlors and trustees

A measure announced on 24 March 2010, which would require settlors to pay to the trustees of trusts certain repayments of tax received on or after 6 April 2010 was not enacted in the original 2010 Finance Act. This will be legislated for in the next finance bill.

Pension savings

The Government proposes cancelling the introduction of the high income excess relief charge, which would apply from 6 April 2011, and replacing it, principally, with a reduced annual allowance as a means to restrict pensions tax relief.

The requirement to buy an annuity by age 75 is to end, with effect from 2011/12. In the interim, the age by which an annuity must be bought or an income secured is increased, with effect from 22 June 2010, to 77, so long as the individual had not reached the age of 75 before 22 June 2010. The same changes will also apply for inheritance tax (IHT) purposes to members who die on or after 22 June 2010.

Capital Taxes

Capital gains tax (CGT)

The annual exempt amount remains at £10,100 for 2010/11.

For gains arising up to and including 22 June 2010, the rate of CGT is 18%. For gains arising on or after 23 June 2010 the rate remains 18% for those whose total taxable income and gains are less than the income tax basic rate upper limit. For gains, including parts of gains, above that limit, the rate is 28%. Gains arising before 23 June 2010 are not taken into account in determining the rate (or rates) at which gains arising on or after 23 June will be charged.

The Chancellor also announced that taxpayers will be able to deduct losses and the annual exempt amount in the way which minimises the tax payable.

Entrepreneurs' Relief

Entrepreneurs' Relief has until now reduced the effective rate of CGT charged on certain qualifying gains to 10%, subject to a lifetime limit. The lifetime limit was increased to £2 million with effect from 6 April 2010.

The Chancellor announced that for gains arising on or after 23 June 2010 the rate of CGT on gains qualifying for Entrepreneurs' Relief would be 10%, and that with effect from the same date the lifetime limit would be increased to £5 million.

Trusts

The rate of CGT for trusts and personal representatives is also increased to 28%, for gains arising on or after 23 June 2010, except where Entrepreneurs' Relief applies.

Inheritance Tax (IHT)

The IHT threshold is frozen at £325,000 from 2010/11 to 2014/15.

The rate of IHT remains 20% for lifetime transfers and 40% for death estates (including transfers within seven years before death brought back into the estate for the purpose of calculating the tax due at death).

Business Tax & Investment Incentives

Corporation Tax

Corporation tax rates and bands are as follows

Financial Year to	31 March 2011	31 March 2012
Taxable profits		
First £300,000	21%	20%
Next £1,200,000	29.75%	28.75%
Over £1,500,000	28%	27%

The main rate of corporation tax will be reduced to 27% for the financial year commencing 1 April 2011 (FY 2011). There will be further reductions (by 1% per annum) to take the rate down to 24% by 1 April 2014. The small profits rate will be reduced to 20% for FY 2011.

Capital allowances

The rates of writing down allowances (WDAs) for new and unrelieved expenditure on plant and machinery will be reduced from 20% to 18% per annum for expenditure allocated to the main rate pool, and from 10% to 8% per annum for expenditure allocated to the special rate pool. This will have effect for chargeable periods ending on or after 1 April 2012 for businesses within the charge to corporation tax and on or after 6 April 2012 for businesses within the charge to income tax.

The Annual Investment Allowance (AIA) will be reduced from the current limit of £100,000 to a new limit of £25,000. This will have effect from April 2012.

Consortium relief

In certain circumstances, a member of a consortium may transfer its share of the consortium's unused losses to another member of its group. The member making the transfer is known as the "link company" and under current rules it must be UK resident. For accounting periods commencing on or after the date the legislation is published, the rules will be extended to allow any company established within the European Economic Area to be a link company.

The legislation will also provide an additional test for determining the maximum amount of losses that may be claimed from a consortium company. This test will be based on the proportion of voting rights and the extent of control the member holds in the consortium.

Corporation tax reform

The Government is to consult on:

- changes to the rules for foreign branches
- the reform of the controlled foreign company (CFC) rules
- the taxation of intellectual property
- the support research and development (R&D) tax credits provide for innovation.

It also intends to simplify the capital gains rules for groups of companies.

In the autumn the Government will set out a more detailed programme for the reform of the whole corporate tax system.

Business finance

A new Enterprise Capital Fund of £37.5 million will be introduced to provide additional equity finance for small businesses.

The Enterprise Finance Guarantee will be increased to provide £200 million in additional lending for small businesses until 31 March 2011.

Anti-avoidance

Anti-avoidance legislation will be introduced in respect of:

- use of authorised investments funds (AIFs)
- the 'derecognition' of income of a loan or derivative.

Carers

The Chancellor has confirmed the Government's intention to legislate a number of changes previously announced, affecting:

- special guardians orders and certain kinship carers – measures to ensure that payments to qualifying guardians will be exempt from income tax
- shared lives carers, including adult placement carers, staying put carers and certain kinship carers – to allow qualifying shared lives carers to claim the same income tax relief as foster carers. The new relief will be known as the qualifying care relief
- individuals who set aside part of their house exclusively for use under a local authority adult placement scheme – to ensure that entitlement to private residence relief (PRR) is preserved where an adult placement carer uses part of their home exclusively for the purposes of their business as a carer; and
- foster carers and shared lives carers – to correct technical anomalies in the special capital allowances rules for foster carers, to ensure that the rules operate as intended when individuals start, or finish, qualifying or electing for foster-care relief.

Office of Tax Simplification

The Government has announced its intention 'to restore the UK tax system's reputation for predictability, stability and simplicity'. It has published a discussion document setting out a number of proposals designed to improve the framework for developing, legislating and implementing tax policy.

The Government has also confirmed its intention to create an independent Office of Tax Simplification. More details about this will be published shortly.

The Government also proposes a review of IR35 and small business tax. Further details will be released after the Budget.

Tax & Travel

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO₂ emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage' as shown in the table below. The first two lines of figures in the table relate to qualifying low emissions cars (QUALECs).

The car fuel benefit is calculated by applying the same percentages to the fuel multiplier, which for 2010/11 increases from £16,900 to £18,000.

The percentages are reduced for cars (except QUALECs) that can be driven on alternative fuels by:

- 2% for cars manufactured to be capable of being run on E85 fuel
- 2% for bi-fuel cars or those which run on LPG only
- 3% for hybrid electric and petrol cars.

For cars which cannot produce CO₂ engine emissions under any circumstances when driven, the appropriate percentage is reduced to 0%, thereby reducing the car benefit charge to nil.

For cars emitting between 1 and 75g/km the appropriate percentage is reduced to 5% for 5 years from 6 April 2010.

Future changes

With effect from 6 April 2011, the list price cap of £80,000 is being withdrawn. This will increase substantially the tax charge for drivers of very expensive cars. For example for a car with a list price of £170,000 and CO₂ emissions of 320g/km, the annual taxable benefit will increase from £28,000 to £59,500.

For each of the two next tax years, the CO₂ emissions thresholds will be shifted down by 5g/km and from 6 April 2012 the table of tax bands will be extended down to a new 10% band for cars emitting up to 99g/km. This will replace the existing 10% band, so that QUALECs will no longer exist as a separate category.

Mileage rates

Changes to the HMRC business mileage rates are announced from time to time. The rates at the time of the Budget are as follows:

Vehicle	First 10,000 miles	Thereafter
Car / Van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

Car - fuel only advisory rates			
Engine Capacity	Petrol	Diesel	LPG
Up to 1400cc	12p	11p	8p
1401 - 2000cc	15p	11p	10p
Over 2000cc	21p	16p	14p

VAT on fuel for private use in cars

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT on a scale charge.

The table shows the VAT chargeable for quarters commencing on or after 1 May 2010. The last column takes account of the change in the standard rate of VAT from 17.5% to 20% with effect from 4 January 2011.

CO ₂ emissions (g/km)	Appropriate percentage		Fuel scale charge £	Quarterly VAT	
	Petrol %	Diesel %		£ (17.5%)	£ (20%)
Up to 75	5	8	141	21.00	23.50
76 to 120	10	13	141	21.00	23.50
121 – 134	15	18	212	31.57	35.33
135 – 139	16	19	227	33.80	37.83
140 – 144	17	20	241	35.89	40.17
145 – 149	18	21	255	37.97	42.50
150 – 154	19	22	269	40.06	44.83
155 – 159	20	23	283	42.14	47.17
160 – 164	21	24	297	44.23	49.50
165 – 169	22	25	312	46.46	52.00
170 – 174	23	26	326	48.55	54.33
175 – 179	24	27	340	50.63	56.67
180 – 184	25	28	354	52.72	59.00
185 – 189	26	29	368	54.80	61.33
190 – 194	27	30	383	57.04	63.83
195 – 199	28	31	397	59.12	66.17
200 – 204	29	32	411	61.21	68.50
205 – 209	30	33	425	63.29	70.83
210 – 214	31	34	439	65.38	73.17
215 – 219	32	35	454	67.61	75.67
220 – 224	33	35	468	69.70	78.00
225 – 229	34	35	482	71.78	80.33
230 and above	35	35	496	73.87	82.67

The fuel only advisory rates relate to company cars only. They can be applied as a tax-free maximum rate for employees claiming for petrol used on business journeys and for employees reimbursing their employers with the cost of petrol used for private journeys.

HMRC will consider claims for a higher maximum rate, if it can be demonstrated that it is necessary for an employee to use a car with higher than average fuel costs.

Car costs – Vehicle Excise Duty (VED) rates

Vehicle Excise Duty ('Car Tax') rates also reflect emissions, with lower scale rates for cars using alternative fuels. The following table shows the rates which apply from 1 April 2010 for cars registered on or after 1 March 2001:

VED Band	CO ₂ emissions (g/km)	First Year Rate £	Standard Rate	
			Petrol & Diesel £	Alternative Fuels £
A	Up to 100	0	0	0
B	101 – 110	0	20	10
C	111 – 120	0	30	20
D	121 – 130	0	90	80
E	131 – 140	110	110	100
F	141 – 150	125	125	115
G	151 – 165	155	155	145
H	166 – 175	250	180	170
I	176 – 185	300	200	190
J	186 – 200	425	235	225
K*	201 – 225	550	245	235
L	226 – 255	750	425	415
M	Over 255	950	435	425

* includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,000. There is a further £550 taxable benefit if the employer provides fuel for private travel.

Van and fuel charge	Van	Fuel	Total
Tax (20% taxpayer)	£600	£110	£710
Tax (40% taxpayer)	£1,200	£220	£1,420
Tax (50% taxpayer)	£1,500	£275	£1,775
Employer's Class 1A NICs	£384	£70.40	£454.40

The flat rate of £3,000 is reduced to nil for vans emitting zero CO₂. There will be no fuel benefit for such vans.

Value Added Tax (VAT)

From	4 Jan 2011	1 Jan 2010
Standard rate	20%	17.5%
VAT fraction	1/6	7/47
Reduced rate	5%	5%
Current Turnover Limits		
Registration - last 12 months or next 30 days over	£70,000 from 1 April 2010	
Deregistration - next 12 months under	£68,000 from 1 April 2010	
Annual Accounting Scheme	1,350,000	
Cash Accounting Scheme	1,350,000	
Flat Rate Scheme	£150,000	

Change to the standard rate of VAT

The standard rate of VAT will increase to 20% on 4 January 2011.

Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the reduced 5% rate, such as domestic fuel and power, are not affected by this change.

There are no changes to the Cash Accounting or Annual Accounting Schemes.

Anti-forestalling legislation will be included in the Finance Bill 2010 to prevent the 17.5% rate applying to supplies of goods or services that are provided on or after 4 January 2011, subject to certain conditions.

VAT flat rate scheme

As a consequence of the increase of the standard rate of VAT from 17.5% to 20%, the flat rate scheme sector flat rates have also been recalculated to reflect the increase.

The VAT flat rate scheme was introduced in 2002 with the objective of simplifying VAT for businesses with an annual turnover up to £150,000, tax exclusive. That threshold remains unchanged.

Lennartz accounting

Under existing arrangements, VAT on immovable property, boats and aircraft is recoverable upfront and in full on both the business and private use of the asset (subject to any partial exemption restriction). VAT is then payable over subsequent years in respect of the private use of the asset. This is known as 'Lennartz' accounting. The changes introduced in this Budget will ensure that VAT recovery is restricted only to the business use of the asset, excluding any private use by the taxpayer or the taxpayer's staff. Changes to the capital goods scheme will also be introduced so that it will take account of changes in private use over subsequent years. The changes will have effect on and after 1 January 2011.

Duties

Aviation taxation - per plane duty

The Government will explore changes to aviation tax, including switching from a per-passenger to a per-plane duty. Major changes will be subject to consultation.

Cider duty

The 10% above inflation increase in cider duty announced at the March 2010 Budget is being reversed so that cider duty increases match those of other alcohol products. However, a review of alcohol taxation due in the autumn may amend the definition of 'cider'.

Landline duty

The duty on landlines (local loops) announced in the Pre-Budget Report 2009 will not proceed.

National Minimum Wage (NMW)

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From 1 October 2010 the main adult rate of the NMW will rise to £5.93 per hour.

Currently, those aged 22 and over are entitled to a minimum hourly rate of £5.80. With effect from 1 October 2010, 21 year olds will also be included in this rate.

In addition, apprentices will become entitled to a minimum wage rate for the first time in October, following the Government's acceptance of recommendations from the Low Pay Commission. The new wage will apply to apprentices who are under the age of 19, or those aged 19 and over who are in the first year of their apprenticeship.

The current and future NMW rates are set out in the table below.

	22 and over*	18-21*	16 and 17	Apprentices
From 1 October 2009	£5.80	£4.83	£3.57	n/a
From 1 October 2010	£5.93	£4.92	£3.64	£2.50

*Main rate applies to those aged 21 and over from 1 October 2010.

National Insurance Contributions (NICs)

2010/11		Employer	Employee
Class 1 - not contracted out			
Payable on weekly earnings of			
Below £97 (lower earnings limit)		Nil	Nil
£97 to £110 (earnings threshold)		0%	0%
£110.01 - £770 (upper accrual point)		12.8%	11%
£770.01 - £844 (upper earnings limit)		12.8%	11%
Over £844		12.8%	1%
Over state retirement age, the employee contribution is generally nil			
Class 1A	On relevant benefits	12.8%	Nil
Class 2	Self employed	£2.40 per week	
	Limit of net earnings for exception	£5,075 per annum	
Class 3	Voluntary	£12.05 per week	
Class 4*	Self employed on profits		
	£5,715 - £43,875	8%	
	Excess over £43,875	1%	

*Exemption applies if state retirement age was reached by 6 April 2010

Changes to NICs – What lies ahead?

As previously announced, from April 2011 rates will rise by 1% to:

Employee Class 1	12%
Employer Class 1 and Class 1 A/B	13.8%
Self-employed Class 4	9%
Class 1/4 additional rate	2%

The March Budget raised the employees' earnings threshold and lower profit limits. The Emergency Budget announced a rise in the employers' earnings threshold of £21 a week above indexation, and a reduction in the upper earnings limit to maintain the alignment with the basic rate income tax limit.

Regional employer NICs holiday for new businesses

Details of a scheme to assist new businesses in targeted areas of the UK will be announced soon. Within a three year qualifying period, employers eligible for the scheme will not have to pay the first £5,000 of Class 1 employer NICs due in the first 12 months of employment. This will apply for each of the first 10 employees hired in the first year of business. Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June 2010 which meets the criteria set out in the forthcoming announcement will be eligible for the scheme.

The targeted countries and regions will be: Scotland, Wales, Northern Ireland, the North East, Yorkshire and the Humber, the North West, the East Midlands, the West Midlands and the South West.

Other Measures Announced

Child Trust Fund

The Coalition has already announced its intention to reduce and then stop all government contributions to Child Trust Funds. Subject to legislation, the Government intends to reduce government contributions at birth, and to stop government contributions at age 7, from August 2010. It is intended that HMRC will stop issuing new Child Trust Fund vouchers from 1 January 2011.

Until legislation is in place Child Trust Funds will continue as usual.

Saving Gateway

The proposed Saving Gateway will not be introduced in July 2010.

Bank Levy

A levy based on banks' balance sheets will be introduced from 1 January 2011, intended to encourage banks to move to less risky funding profiles. Final details will be published later this year, following consultation.

Health in Pregnancy Grant

The Health in Pregnancy Grant is a £190 one-off payment to all expectant mothers that is made irrespective of income. The Government proposes to abolish the grant from 1 January 2011. Women who reach the 25th week of pregnancy before 1 January 2011 will still be entitled to the grant providing they satisfy the conditions.

Penalties for late filing of returns and payment of tax

Legislation will be introduced in the autumn that will bring VAT, insurance premium tax, aggregates levy, climate change levy, landfill tax and excise duties within the late filing and late payment penalty regimes. This will complete the legislative programme started in Finance Act 2009.

PAYE was the first tax to which the late payment penalties regime applied. This started in April 2010.

Council Tax

Local authorities will be encouraged to implement a freeze in council tax in England in 2011/12. The Government will clarify in due course the terms under which local authorities that commit to freeze or reduce their council tax will be compensated.