



UK Budget Report, June 2010

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## UK Budget Report

On 22 June 2010 the UK Chancellor George Osborne delivered his emergency budget aimed at tackling the significant budget deficit. Mr Osborne announced a five year plan intended to encourage economic growth, create a fairer tax system and reduce Government borrowing. Much of the finance required to cover the deficit will be generated from public spending cuts rather than significant increases in taxes. Businesses have fared better than individuals which is to be expected if the government are keen to encourage enterprise. This note summarises the key issues that may be relevant for our clients.

### Direct tax changes

- The capital gains tax rate has been increased from 18% to 28% effective from 23rd June 2010.
- The 18% rate remains in force for basic rate taxpayers.
- The current annual exemption of £10,100 has not changed.
- The lifetime entrepreneurs relief threshold has been extended from £2 million to £5 million.
  
- The personal tax allowance will be increased by £1,000 to £7,475 for 2011/12, however the basic rate threshold will reduce to ensure that higher rate taxpayers do not benefit.
- The additional rate of tax of 50% will remain in place.
- The previously announced NI increase is to proceed, but to reduce the impact on businesses with lower paid employees, the threshold at which employers contributions start is to be increased.
- New businesses will benefit from an NI payment holiday.
- New legislation is to be introduced to limit planning techniques involving trusts (including Employer Financed Retirement Benefits Schemes) to remunerate employees from April 2011.
- Enterprise Management Incentive rules will be introduced for qualifying share options granted in non-UK companies which have a permanent establishment in the UK.
- The rules requiring individuals and other non-corporate entities to withhold tax from interest, royalties and other annual payments are to be amended.
- The requirement to buy an annuity at 75 will be changed to an age limit of 77.
- The seafarers earnings deduction will be extended to seafarers resident in EEA or EU countries.
- A further review of the tax regime applying to UK resident non-domiciled individuals will take place.
  
- The main rate of corporation tax will reduce to 27% with effect from 1 April 2011. Further reductions will be introduced so that by April 2014, the main rate of corporation tax will be 24%.
- The small companies rate is reduced to 20% from April 2011.
- To fund the reductions in corporation tax rates, capital allowances will be reduced from 20% to 18% and the annual investment allowance will be cut from £100,000 to £25,000 per annum.
- Capital distributions from companies will now also fall within the exempt distributions regime introduced in July 2009.
- Changes are to be made to the rules for corporate investors holding authorised investment funds to restrict the availability of UK tax credits where no UK tax has been paid.
- Anti-avoidance rules are introduced to counter the avoidance of corporation tax in conjunction with the loan relationships rules.
  
- Consideration is to be given to introducing a general anti-avoidance rule.
- From 2011, the Government will introduce a bank levy based on the bank's balance sheet.

## Indirect tax changes

- An increase in the standard rate of UK VAT from 17.5% to 20% will take effect from 4 January 2011.
- Following on from the increase in the standard rate of UK VAT, percentages used in the Flat Rate Scheme will also increase.
- Anti-forestalling provisions used for the recent reversion to 17.5% following the temporary reduction of the standard rate to 15% have already been announced, which will ensure businesses do not artificially advance tax points such that VAT at 17.5% is charged rather than the increased rate.
- The introduction of changes to the zero rating of aircraft has been delayed until 1 January 2011 (from 1 September 2010) in response to industry pressure.
- The penalty regime for late filing of returns and late payment of indirect taxes is to be revised.
- Few other changes have been announced to the other indirect taxes, although one of the main changes has been an increase in the standard rate of insurance premium tax to 6% (from 5%) and an increase in the higher rate in line with VAT to 20%. These changes will be applied to premiums received or written on or after 4 January 2011.
- There are no further changes to Stamp Duty Land Tax.

## SMP Partners view

Overall this budget is viewed as less onerous than it may have been. We welcome the reduction in corporation tax which will make the UK a more attractive place to do business. The retention of the National Insurance increase is not a positive move and although the increase in the employer's threshold will be of some benefit, companies employing higher paid staff will suffer.

The capital gains tax rise is not as bad as we feared and this is less likely to impact on investment in the UK. The extension of Entrepreneurs Relief will also benefit many UK taxpayers. Surprisingly, there is no major change to the availability of principal private residence relief.

The much anticipated change to the standard rate of UK VAT was perhaps inevitable and we consider it to be one of the fairest ways of raising revenue. The new UK rate is more in line with the rest of Europe and although the rate is still below many other EC countries it is slightly above the rates levied by the UK's main competitors, France (19.6%) and Germany (19%). The rate will take effect from 4 January 2011 and it is pleasing to note that the current Government have taken on board comments made following the recent increase that a change on 1 January was particularly inconvenient.

It is not clear whether the review of the taxation of non-UK domiciled individuals will lead to further changes to the legislation. Simplification would be welcome although extensive changes may complicate matters further.

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