



'Plan for Growth' or 'Del Boy Economics'

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The anticipation is over and George Osborne has delivered his 2011 budget. Whether this is a budget for growth, as Mr Osborne claims, or contains 'nothing of importance', as stated by Ed Balls, remains to be seen. The Chancellor's journey is taking us from rescuing the 'Nation's finances' to 'reforming the economy' to 'recovery' and finally 'economic stability'. Using East Coast Railways as an analogy, this budget takes us from Kings Cross to Peterborough, it remains to be seen when and whether the budget locomotive arrives at Darlington.

At a national level the Chancellor sees this as a fiscally neutral budget with the following key highlights:

- Growth projection has reduced from 2% in 2011 to 1.7%.
- Inflation, measured by the Consumer Price Index (CPI) is forecast to remain at 4.5% for this year reducing to 2.5% next year and 2% in two years time
- Borrowing this year will be £146bn reducing to £29bn by 2016

In a budget that should provide 'prosperity across all parts of the country' there is some good news for the North East Region, the key benefits which arise from the announced measures are summarised below and will be covered in more detail within this document.

Supporting Growth in the North East – how will it affect us?

- The 1% cut in corporation tax from April 2011 to 26% falling to 23% by 2014. The effect this will have on local businesses in the short term may be minimal though any reduction in tax can only be seen as a positive.
- The introduction of 21 new Enterprise Zones, based on the Local Enterprise Partnership (LEP) areas brings good news for the North East with the budget confirming that two of these are to be located in our area led by the North Eastern and Tees Valley LEP's.
- Creation of the High Value Manufacturing Technology and Innovation Centre, a network of existing high performance centres, including the Centre for Process Innovation based in Wilton and Sedgefield, enabling local businesses to access state-of-the-art equipment and technical skills.
- Extension of the current small business rate relief holiday. Eligible businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from 1 October 2011 and those with rateable values up to £12,000 will receive significant reductions. 70% of properties in the North East have a rateable value of up to £12,000 and could benefit from the measure.
- Personal Allowance changes from 2012 will, in an area where there are many low paid workers, benefit 1.02 million North East taxpayers who will gain by £48 a year in 2012-2013 and 10,000 within our region will be taken out of tax altogether.
- Funding for an additional 80,000 new work experience places for unemployed young people, ensuring that up to 100,000 places will be available over the next two years. An estimated 6,200 young people in the North East could benefit.
- National roll out of the New Enterprise Allowance (NEA) to help support up to 40,000 unemployed people start their own business. An estimated 2,100 unemployed people in the North East could benefit from the NEA.
- A 1p per litre decrease in fuel duty from 6pm tonight, abolishing the 2009 Budget fuel duty escalator and replacing it with a fair fuels stabiliser that increases tax on North Sea oil production when oil prices are high and delaying inflation increases this year and next. Whilst 1p per litre isn't going to make a massive impact on personal finances, it is a step in the right direction. A freeze on Vehicle Tax is a welcome move for us all.
- Capital Investment by way of the £4.5 billion Intercity Express Programme which will see the building of a combination of around 100 electric trains and bi-mode intercity trains, which will run to East Coast Main Line stations including Darlington and Newcastle.

In the following pages we outline the principal tax issues and where we can we will provide a local slant. Whilst we are happy to provide a commentary, much of the budget detail will follow over the next few months and therefore commentary should not be considered as advice.

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Approved Mileage Rates

Approved Mileage Allowance Payments (AMAPs) rates have increased with effect from 6 April 2011 from 40p per mile to 45p per mile for the first 10,000 miles of business travel per tax year. The rate remains at 25p for mileage over 10,000 miles per annum. This will affect employees who use their own vehicles for business mileage and employers who pay business mileage.

The passenger payments currently in place for employees at 5p per passenger will be extended to volunteers.

Income Tax Changes

Income Tax Bands are to be increased as follows. Note that future rate increases will be by reference to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). As CPI is lower than RPI this will have the effect of benefitting the exchequer by £1bn over the next 5 years.

Income tax bands of taxable income:

	2010-2011	2011-2012
Basic Rate ¹	£0-£37,400	£0-£35,000
Higher Rate	£37,401 - £150,000	£35,001 - £150,000
Additional Rate	Over £150,000	Over £150,000

¹ There is a starting rate for savings income only. If an individual's taxable non-savings income exceeds the starting rate limit, then the 10% starting rate for savings will not be available for savings income. The starting rate limit for 2010-2011 is £2,440 and £2,560 for 2011-12.

Income Tax Rates have remained the same for 2011 – 2012.

Income Tax Allowances have increased for 2011 – 2012 as follows:

Income Tax Allowances	2010 - 2011	2011 - 2012
Personal Allowance		
Age under 65 ¹	£6,475	£7,475
Age – related allowance (65 – 74) ^{1,2}	£9,490	£9,940
Age – related allowance (75+) ^{1,2}	£9,640	£10,090
Income limit for under 65 personal allowance	£100,000	£100,000
Income limit for age – related allowances	£22,900	£24,000
Married couples allowance ^{2,3}		
Maximum amount of married couples allowance	£6,965	£7,295
Minimum amount of married couples allowance ⁴	£2,670	£2,800
Blind Persons Allowance	£1,890	£1,980

¹ This allowance reduces where the income is above £100,000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.

² These allowances reduce where the income is above the income limit for age-related allowances (£24,000) by £1 for every £2 of income above the limit until they reach the level of the personal allowance for those aged under 65.

³ Available to people born before 6 April 1935. Tax relief for this allowance is given at 10%.

⁴ This is also the maximum relief for maintenance payments where at least one of the parties was born before 6 April 1935.

The main rates and allowances for income tax for 2011/12 include an increase of £1,000 in the personal allowance for those aged under 65 and a reduction of £1,400 in the basic rate limit. The NICs Upper Earnings limit remains aligned with the income tax higher rate threshold and has therefore been reduced by £2,400.

The personal allowance for under 65's will increase by £630 to £8,105 in 2012/13 and the basic rate limit will fall by £630, taking it from £35,000 in 2011/12 to £34,370 in 2012/13. This will make the tax system fairer by providing support to individuals on low and middle incomes (all changes will apply from 6 April 2012).

Vehicle and Fuel Benefits

Car Benefit

This benefit applies when an employee is provided with a company car. The benefit is based on the vehicle's list price multiplied by a percentage based on the car's CO2 emissions (grams per kilometre). The current zero emissions cars enjoy a zero percentage and ultra-low emissions cars with emissions up to 75gms/km a percentage factor of 5%. These percentage factors will remain in place up to and including 5 April 2014 although there will be increases in the higher emissions bandings.

Car Fuel Benefit

This benefit applies when an employee who is provided with a company car also receives free fuel. The benefit is calculated by multiplying a set figure by the same percentage factor as for car benefit. The set figure will rise by indexation from 6 April 2011 from £18,000 to £18,800.

Vehicle and Fuel Benefits cont...

Van Benefit

Where there is unlimited private use of a company van, a fixed benefit charge of £3,000 applies and this benefit remains unchanged from 6 April 2011.

Van Fuel Benefit

Where free fuel is provided for a company van a fuel benefit arises. This benefit of £550 has also been frozen from 6 April 2011.

Residence and Domicile

There will be a further reform to the legislation regarding those individuals who are UK resident but non UK domiciled. The existing £30,000 remittance basis charge for non domiciled individuals who have been resident in the UK for 7 of the previous 9 years remains. However, a new £50,000 charge will be introduced from 6 April 2012 for those who have been resident for 12 or more years.

There will be a consultation process to consider the removal of the annual charge when non domicile individuals remit foreign income or gains to the UK to invest in UK businesses.

The consultation process will also include the introduction of a statutory definition of residence. This has been a fundamental issue in many tax cases where taxpayers have emigrated. A statutory definition will help create certainty in a very grey area.

Corporation Tax Changes

In an effort to deliver a more competitive corporate tax system and thereby provide the right conditions for business investment the Chancellor has announced a change in the main rate of corporation tax (CT).

Budget 2011 has effectively accelerated the reductions in CT announced in the 2010 Budget and the rates are now:

Period	Main	Small Companies*	Marginal Rate**
FY 2011	26%	20%	27.5%
FY 2012	25%	TBA	TBA
FY 2013	24%	TBA	TBA
FY 2014	23%	TBA	TBA

* Small companies are those who have profits of less than £300,000

** The marginal rate is charged on profits between £300,000 and £1,500,000

Whilst the reduction in CT makes the UK one of the most attractive tax regimes in Europe for companies, the cost to the Exchequer will be £425m in 2011 and £1,075m in 2015. This will be paid for by the bank levy.

Fuel Duty Rates

The fuel duty escalator was introduced in Budget 2009 to increase fuel duty by RPI + 1 pence per litre each year until 2014-15.

The Government will abolish the fuel duty escalator and replace it with a fair fuel stabiliser.

As part of the fair fuel stabiliser, when oil prices are high, fuel duty will increase by RPI only. However, if the oil price falls below a set trigger price on a sustainable basis the Government commits itself to increasing fuel duty by RPI plus 1 pence per litre in each such year. The Government believes that a trigger price of \$75 per barrel would be appropriate, and will set a final trigger price and mechanism after seeking the views of oil and gas companies and motoring groups.

The main fuel duty rate will be cut by 1 pence per litre from 6pm on 23 March 2011. The main fuel duty rate will increase by 3.02 pence per litre on 1 January 2012. The 2012-13 increase in fuel duty will be implemented on 1 August 2012.

Enhanced Business Tax Reliefs

Capital Allowances Short Life Assets

Current legislation gives beneficial tax treatment for short life assets. If an election is made for short life asset treatment then tax reliefs are effectively given over the life of the asset, currently 4 years. The Budget announcement extends the period to 8 years thereby increasing the range of assets for which an election is beneficial.

This measure will have more effect for businesses that make substantial investments in plant and machinery.

Enhanced Capital Allowances (ECA) for Energy Saving Technologies

Allowances at a rate of 100% are available for businesses that invest in Energy Saving Technologies. The scheme has been extended to include energy efficient hand dryers.

Research and Development Tax Credit

Currently 6,500 small and medium sized companies that incur expenditure on qualifying Research and Development obtain enhanced tax relief of 175% of the spend. In order to improve competitiveness in the UK tax system the relief will be increased by 25% to 200% of qualifying spend.

In the 2012 Finance Bill the relief will be increased to 225% and 2 limits on the relief will be abolished to make it available to more companies.

Capital Taxes

Capital Gains Tax (CGT)

Individuals pay CGT on chargeable gains (net of any allowable losses and release) in excess of the annual exempt amount (AEA) for the tax year.

The annual exempt amount will increase from £10,100 to £10,600 in line with statutory indexation from 6 April 2011.

Legislation will be introduced in the Finance Bill 2011 to provide for future rises in the AEA to be in line with the consumer price index (CPI) instead of the retail prices index (RPI) as at present. The new measure will take effect for the tax year 2012/13 and later years.

The rates of CGT remain at 18% and 28%. The 18% rate applies where total income and taxable gains after taking into account all allowable deductions such as losses, personal allowances and the AEA are less than the upper limit of the income tax basic rate band.

The 28% rate applies where income tax is chargeable at the higher rate in respect of any part of an individual's income for a tax year.

Where taxable gains create a liability at the higher rate, the 18% rate applies up to the level of the basic rate band and the 28% rate on the excess. Entrepreneurs relief was introduced in April 2008 as part of a major reform of CGT to preserve an effective 10% CGT rate on "qualifying business disposals" which had been available under the former Business Assets Taper Relief provisions.

The lifetime limit for gains in respect of qualifying business disposals was increased from £1m to £2m for disposals on or after 6 April 2010; increased again to £5m for disposals on or after 23 June 2010 and from 6 April 2011 will increase to £10m.

Inheritance Tax (IHT)

The nil rate band below which IHT is not payable remains frozen at £325,000. From April 2012 a reduced rate of IHT of 36% applies where 10% or more of the net estate is left to charity.

Indirect Taxes

VAT

The Budget made no change to the rate of VAT. However there were some changes to the VAT thresholds, an important consideration for many local businesses. The registration threshold has increased from £70,000 to £73,000 with the de-registration threshold increasing from £68,000 to £71,000.

Low Value Consignment Relief

Low Value Consignment Relief on goods imported from outside of the EU will be reduced from £18 to £15 as from 1 November 2011.

Private Fuel

Scale charges will increase with effect from 1 May 2011.

Imported Road Vehicles

From 2013 vehicles entering the country for permanent use on UK roads will have to be notified to HMRC online before the vehicle is registered with the DVLA. VAT will be payable at the time of notification for individuals and non-VAT registered businesses. VAT registered businesses will make payment through their VAT return.

Online Registration and Online Filing

From 1 April 2012 all VAT registrations must be done online and tax paid electronically.

Investments and Donations

Enterprise Investment Scheme (EIS)

Under the EIS, income tax relief is given where a qualifying investor subscribes for shares in a qualifying company.

From 6 April 2011, the following changes will be made:

- Income tax relief under EIS will increase from 20% to 30%, bringing it in line with the VCT income tax relief rate
- From 6 April 2012, the annual EIS investment limit for individuals will increase from £500,000 per annum to £1m per annum
- Increase in the qualifying company limits for both EIS and VCT to 250 employees and a gross asset of £15m (currently fewer than 50 employees and gross assets of £8m)
- Increase in the annual investment limit for qualifying companies for both EIS and VCT to £10m (currently £2m for both schemes).

There will also be a consultation process aimed at the simplification of EIS rules and a refocusing of both schemes to ensure that they continue to be targeted at higher risk companies.

Introduction of Junior Individual Savings Accounts (Junior ISA)

The Finance Bill 2011 will introduce legislation in connection with the introduction of "investment plans for children" or Junior ISAs.

All UK resident children aged under 18 who currently do not have a Child Trust Fund (CTF) account will be eligible for a Junior ISA. These accounts are expected to be available from autumn 2011 and further detail will be published in the week commencing 28 March 2011 and in the Finance Bill 2011.

Annual ISA subscription limit

The annual Individual Savings Account (ISA) subscription limit will increase from 6 April 2011 from £10,200 to £10,680.

Subsequent annual subscription limits will be increased by reference to the consumer prices index (CPI) instead of the retail prices index (RPI), this taking effect from the tax year commencing 6 April 2012.

Childcare Relief and Gift Aid

Reduced Childcare Relief for Higher Earners

The level of income tax relief available to higher rate and additional rate taxpayers will be restricted so that it matches the amount available to basic rate taxpayers. The monetary value of the income tax exemption for higher and additional rate taxpayers is reduced. This applies to employees who join the employer-supported childcare (ESC) schemes providing childcare vouchers (CCVs) or directly-contracted childcare on or after 6 April 2011.

Currently basic rate taxpayers can receive up to £900 a year, whilst higher rate taxpayers and additional rate taxpayers can receive up to £1,200 and £1,500 of support through ESC respectively. The measure supports the Government's objective of making the tax system fairer by ensuring that all taxpayers receive the same amount of tax relief through ESC schemes.

Gift Aid Benefits

There are limits on the value of benefits that individuals and companies may receive as a result of making donations to charities to be eligible for Gift Aid tax relief. Legislation will be introduced in the Finance Bill 2011 to increase the benefit limit for donations of more than £10,000. The current rule that the benefit must not exceed 5% of the gift will remain the same but the overriding annual limit to the value of benefits a donor may receive will be increased from £500 to £2,500. The measure is part of a wider package designed to boost donations to charity.

SA Donate

The SA Donate scheme will be withdrawn for repayments of tax due on tax returns for 2011/12 and subsequent years and for any repayments made in respect of earlier tax years on or after 6 April 2012.

Under SA Donate, SA taxpayers who are due a repayment of tax from HM Revenue & Customs (HMRC) may direct that the repayment should be made instead to a charity of the taxpayer's choice. Taxpayers may also apply Gift Aid to the donation provided they have paid enough tax to cover the charity's repayment claim. HMRC pays the basic rate of tax due in respect of the donation, to the charity.

Anti Avoidance

This is a government which has no time for tax avoidance. A raft of measures have been introduced over recent years to block perceived loopholes in tax law.

Under the guise of ensuring a "fairer tax system" this budget introduces complex rules to prevent:

- Avoidance on the sale of Lessor companies
- Stamp Duty Land Tax avoidance
- Corporate Degrouping Charges
- Disguised Remuneration

By far the most important of these is that relating to disguised remuneration. A number of arrangements exist whereby employees are "rewarded" using loans often routed through an Offshore Trust (EBT) or Employer Financed Retirement Benefit Scheme (EFRBS). The new legislation will bring such rewards into a new employment income tax charge subject to Pay As You Earn (PAYE) and National Insurance Contributions (NIC's). This measure is expected to bring in £750m in each of the next 4 years.

A final thought...

On reflection the 2011 Budget may be seen as a Budget for Entrepreneurs. We have seen a cut in corporation tax rates with increased allowances for Research and Development and enhanced capital allowances. There are incentives for business angels via the improved Enterprise Investment Scheme and finally much improved capital gains tax relief for those selling their business. The principal downside remains the top rate of income tax but generally business movers and shakers may well reflect that there is something in this budget for them.

And finally, as a tax practitioner, let me say that the proposed tax simplification will be more than welcome but abolishing 43 out of date tax exemptions taking away 100 pages of legislation is frankly a drop in the ocean!

Tax Administration

Time to pay

The time to pay arrangements introduced in the Budget 2008 are to continue. The HMRC Business Payment Support Service gives advice and agrees a timescale for businesses to meet VAT, Corporation Tax, PAYE and National Insurance.

IR35

There are special rules to counter avoidance of PAYE and National Insurance by operating as a personal limited company rather than being employed directly by an employer. HMRC is to not only retain the IR35 legislation but will introduce a dedicated IR35 telephone helpline; publish guidance for those cases viewed as outside the scope and target high risk cases.

Furnished Holiday Lettings

From 6 April 2011, losses arising on a Furnished Holiday Letting (FHL), currently relievable against general income, will only be able to be relieved against income from the same FHL. From 6 April 2012, FHL qualifying criteria will change to availability for letting for at least 210 days and actually let for 105 days or more (currently 140 and 70 respectively). UK FHL's and European Economic Area FHL's are treated separately.

Online tax calculator

There are plans to introduce an online personal tax calculator by 2012 that will enable individuals to work out an estimate of their liability to Income tax and National Insurance.

Alcohol and Tobacco

- Wine + 15p per bottle
- Spirits + 54p per bottle
- Strong beers + 25p per 500ml can
- Lower strength beer - 18p per pint
- Premium cigarettes + 33p per packet
- Economy cigarettes + 50p per packet