

2011 Budget



2011 Budget Report from Hodgsons –
Chartered Accountants and Business Advisors

The Chancellor has delivered his second budget on the back of reduced growth forecasts and rising inflation.

As is the case with recent budgets, the devil is always in the detail. We expect more information to come to light over the next few days. An example of where clarification is awaited and most notably for customers of South West Water, is the announcement that the Government is committed to supporting households in areas with particularly high water bills.

Prior to the budget the Government had already announced that national insurance contributions will increase in April 2011 and individuals earning more than approximately £42,500 per annum will pay more income tax.

The budget also acknowledges the rising cost of motoring by reducing the tax payable at the pump and increasing the amount that businesses can pay employees using their own vehicles.

The budget reduces corporation tax for large and medium sized companies, offers greater incentives for individuals to invest in private companies and increases the tax relief available for entrepreneurs.

If you have any questions, or would like to discuss any of the points raised please do not hesitate to contact us for advice.

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Capital Gains Tax

The taxation of capital gains changed radically with the Chancellor's budget in June 2010 introducing a lower 18% and higher 28% rate for Capital Gains Tax.

These new rates remain unchanged following the latest budget with the Annual Exemption increasing for individuals to £10,600.

Trustees will continue to be taxed on Capital Gains at the higher rate and have from April 2011 an Annual Exemption of £5,300.

Income Tax

The new financial year brings an increased Personal Allowance of £7,475, set to increase further in April 2012 to £8,105.

The Age-Related, Blind Persons and Married Couples Allowances will also increase.

We will however see the Basic Rate tax band fall, initially to £35,000 from £37,400 and then on to £34,370 in April 2012.

April 2010 introduced the abolition of Personal Allowances for those with taxable income in excess of £100,000 and the additional tax rate of 50% for taxable income over £150,000. The 50% rate is set for review along with the considered reform of the entire Income Tax and National Insurance system.

Furnished Holiday Lettings

With effect from 6 April 2011 income from furnished holiday lettings will be split into two businesses, income from property in the UK and income from property in the European Economic Area.

Losses from one business will only be allowed to be offset against profits from the same business and not offset against other income such as salary or dividend income.

From April 2012 in order to qualify as a furnished holiday let, the property must be available to be let for at least 210 days and actually let for at least 105 days a year.

Although the offset of tax losses on qualifying properties is being restricted, the current Capital Gains Tax reliefs that are available will remain.

Non Domicile UK Residents

The remittance charge will be increased to £50,000 for non-domiciles who have been UK resident for 12 or more years. The £30,000 charge will remain unchanged for those who have been resident for at least seven of the past nine years but fewer than 12 years.

No other substantive changes to these rules are to be introduced for the remainder of this Parliament.

Enterprise Investment Scheme

The rate of income tax relief given under Enterprise Investment Scheme (EIS) will, from 6 April 2011, be increased from 20% to 30%.

From 6 April 2012 it is intended to increase the maximum subscription qualifying for relief from £500,000 to £1,000,000.

Entrepreneurs' Relief

The lifetime limit for Entrepreneurs' Relief increases from £5m to £10m with effect from 6 April 2011. Qualifying capital gains are taxed at a rate of 10%.

Capital Allowances: Short Life Assets

With effect from April 2011 businesses incurring expenditure on items of plant and machinery will be able to make a short life asset election if they expect to sell or scrap it within an eight year period.

This will allow businesses to claim tax relief in line with the depreciation of the asset and will be of benefit to businesses investing more than £100,000 on plant and machinery in the coming year.

Corporation Tax Rates

The corporation tax rate paid by small companies, those with profits below £300,000, is being reduced by 1% to 20% from 1 April 2011.

The marginal rate of corporation tax paid by companies earning tax profits between £300,000 and £1,500,000 falls by 2.25% to 27.5%.

The main rate of corporation tax, paid by companies with profits exceeding £1,500,000 is being reduced by 2% to 26%.

There was no mention of any future reduction on the rate payable by small companies.



Inheritance Tax (IHT)

Estates exceeding £325,000 pay IHT at 40% on the excess over this amount.

From April 2012 there is a new rate of IHT of 36% where 10% or more of the net estate is left to charity.

The new rate will be charged on the estate not given to charity.

Research & Development Tax Credits

The rate of tax relief available for qualifying expenditure on research and development by a company will be increased to 200% with effect from 1 April 2011.

Enhanced Capital Allowances

The ability to claim enhanced capital allowances on energy saving equipment will be updated to include new technologies during the summer of 2011.

The main change will see the inclusion of technology-efficient hand dryers.

VAT Registration Thresholds

The annual turnover threshold for registering for VAT will be increased on 1 April 2011 from £70,000 to £73,000.

The de-registration limits will be increased from £68,000 to £71,000.

Approved Mileage Allowance Payments

With effect from 6 April 2011 the amount that can be paid tax free to an employee using their own car for business journeys will be increased from 40p per mile to 45p per mile for the first 10,000 miles although the rate for mileage over 10,000 remains at 25p per mile.



Review of HMRC powers

Legislation is to be introduced to provide HM Revenue and Customs the power to require security from employers for PAYE and NICs, where HMRC believe there is a serious risk of non-payment.

Business Rates

Small businesses that currently benefit from small business rate relief will continue to benefit for a further year from 1 October 2011.

Fuel Benefit Charge

With effect from 6 April 2011 the taxable benefit in kind charge for being provided with private fuel will be based on a value of £18,800, an increase of £800.

Business Payment Support Service

Helpline: 0845 302 1435

The Business Payment Support Service provides advice and time to pay arrangements to businesses experiencing temporary financial difficulty. The service was originally launched in 2008 and will continue to be available to anybody having difficulty in paying their tax.

Donations under Gift Aid

Where an individual or company makes a donation to charity of more than £10,000 under Gift Aid, there is an increase to the benefits that the donor may receive as a result of making the donation. The revised limit continues to be subject to the existing rule that the benefit must not exceed five per cent of the gift.

Simplification of Gift Aid Claims

From April 2013 charities and Community Amateur Sports Clubs that receive small donations of £10 or less will be able to apply for a gift aid style repayment without the need to obtain gift aid declarations. The amount of small donations on which the new repayment can be claimed will be capped at £5,000 per year. Revised guidance is due to be published in April.

Numbers

Income Tax Allowances

	2010/11 (£)	2011/12 (£)
Personal Allowances ⁽¹⁾	6,475	7,475
Income limit for Personal Allowance	100,000	100,000
Personal Allowance aged 65-74 ⁽²⁾	9,490	9,940
Personal Allowance 75 and over ⁽²⁾	9,640	10,090
Married Couple's Allowance aged 75 and over (born before 6 April 1935) ⁽²⁾	6,965	7,295
Income limit for age-related allowances	22,900	24,000
Minimum Married Couple's Allowance	2,670	2,800
Blind Person's Allowance	1,890	1,980

1. From the 2010-11 tax year the Personal 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 income is above the Income limit for age-related allowances.

Income Tax rates and taxable bands

Rate	2010/11 (£)	2011/12 (£)
Starting rate for savings: 10%	0 - 2,440	0 - 2,560
Basic rate: 20%	0 - 37,400	0 - 35,000
Higher rate: 40%	37,401 - 150,000	35,001 - 150,000
Additional rate: 50%	Over 150,000	Over 150,000

National Insurance Contributions

2011/12	Employer	Employee
Class 1 (not contracted out)		
Up to lower earnings limit £102	0%	0%
£102.01 to £136	0%	0%
£136.01 to £139	13.8%	0%
£139.01 to £817	13.8%	12%
£817.01 and Over	13.8%	2%
Class 1A - On relevant benefits		13.8%
Class 2 - Self employed	£2.50 per week	
Limit of net earnings for exception	£5,315 per annum	
Class 3 - Voluntary	£12.60 per week	
Class 4 - On self employed profits		
£7,225 - £42,475 per annum		9%
Excess over £42,475		2%

Corporation Tax

	Main Rate Rate	Small Company Rate	Marginal Rate
From 1 April 2010	28%	21%	29.75%
From 1 April 2011	26%	20%	27.5%
From 1 April 2012	25%	20%*	26.25%
From 1 April 2013	24%	20%*	25%
From 1 April 2014	23%	20%*	23.75%

* Based on the information currently available

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