

## The Highlights

This was always going to be a difficult Budget, both for the new Chancellor and for the Country. It had been billed as an “emergency” Budget, but Mr Osborne described it at the beginning of his speech as an “unavoidable” Budget.

The level of public sector debt inherited from the previous government had reached a staggering £800 billion and it was set to continue increasing, reaching a predicted £1,618 Billion in 2014/15.

The government aims to have the structural budget deficit in balance – in other words only spending money it actually has – by 2015/16. The overall level of debt will then start to reduce. The Budget sets out to balance the books with a balance of spending cuts to tax increases of 77:23.

The Chancellor forecast that the economy would grow at 1.2% this year, 2.3% next year and by 2.8% in 2012. While inflation – measured by the CPI or Consumer Prices Index – is set to rise to 2.7% this year, the inflation target remains at 2%.

## Individuals

The personal allowance, currently £6,475 for those aged under 65, will increase to £7,475 from 6 April 2011. Higher rate taxpayers will not benefit from this increase however. The move is expected to take 880,000 people out of income tax altogether.

As announced by the last government, anyone with income in excess of £100,000 will also lose £1 of their personal allowance for every £2 of income above that amount until it is withdrawn completely. The new 50% rate of income tax for those earning in excess of £150,000 remains in place.

Some commentators had predicted that higher rate tax relief for pension premiums would be further restricted or perhaps even withdrawn. This did not happen and there was a welcome announcement that the age at which a pension fund has to be used to buy an annuity is to be raised from 75 to 77 with immediate effect and that the government aims to scrap the requirement entirely from 2011/12. The government will consult on this issue.

From April 2011, the state pension will rise in line with earnings, prices or 2.5%, whichever is the greater.

## Capital gains tax

An increase was widely expected, but very few commentators had predicted a change from midnight on Budget Day.

Disposals of assets up to midnight on Budget Day will be taxed at 18% (unless entrepreneurs’ relief applies and after deducting the annual exempt amount). After that, gains are added to income for the tax year and if the total is less than the higher rate threshold, the 18% rate still applies (again subject to entrepreneurs’ relief where appropriate and after deducting the annual exempt amount). Where the higher rate threshold is exceeded, the excess gain is taxable at a new rate of 28% (but again subject to entrepreneurs’ relief and the annual exempt amount). The annual exempt amount remains at £10,100.

Entrepreneurs’ relief is increased from Budget Day and will now restrict the tax rate to 10% on the first £5 million of gains rather than the first £2 million. Entrepreneurs’ relief does not however cover all gains on business assets: it covers gains on the disposal of the whole or part of a business, or of assets that were used in a business that has ceased and disposed of within three years of the cessation. It is also available on the disposal of shares in a trading company where the person making the disposal has owned at least 5% of the company’s shares and has been an officer, director or employee of the company for the twelve months prior to the disposal.

These changes neatly deliver the Liberal Democrats wish to see gains on non business assets taxed at rates closer to income tax rates and the Conservatives pledge to offer generous reliefs for entrepreneurial businesses.

## Businesses

The main rate of corporation tax will fall from the current rate of 28% to 27% from 1 April 2011, 26% from 1 April 2012, 25% from 1 April 2013 and then to 24% from 1 April 2014. The aim is to make the UK a more competitive environment for companies and to discourage more companies relocating overseas.

The small companies' rate – for companies with profits below £300,000 - will fall to 20% from 1 April 2011.

The rates of capital allowances will fall. Writing down allowances on plant and machinery will fall from 20% to 18% and allowances on long life assets and integral features will fall from 10% to 8%. The reduction will take effect for periods ending on or after 1 April 2012 for companies and on or after 6 April 2012 for other businesses. Accounting periods spanning these dates will mean that a "hybrid" rate has to be calculated.

The Annual Investment Allowance which gives 100% relief for the first £100,000 of expenditure on plant and machinery, integral features and vans will fall to £25,000 from 1 April 2012 for companies and 6 April 2012 for other businesses.

There is to be a 100% capital allowance for zero emission goods vehicles.

The condition limiting R & D tax relief where the company does not own the intellectual property rights deriving from the R&D expenditure is to be abolished.

Companies offering EMI share schemes will no longer have to trade wholly or mainly in the UK but will simply require a UK permanent establishment.

There is to be a review of small business taxation and this will include a review of the IR35 rules.

The secondary national insurance threshold, which is the point at which employers start to pay Class 1 NICs, is to be increased by an extra £21 per week above indexation. This honours the Conservatives commitment to scrapping the previous government's proposed "jobs tax".

The Chancellor said that the government would shortly announce a new scheme, to operate from September 2010, aimed at helping new employers in certain areas of the UK. These areas include the South West and North East. For a period of three years, new employers will not have to pay the first £5,000 of employer's class 1 national insurance due in the first year of employment. This will apply for each of the first ten employees hired in the first year of business.

## VAT

The standard rate of VAT will increase from 4 January 2011 from 17.5% to 20%. There will be corresponding changes to the percentages used in the flat rate scheme. There appear to be no current plans to extend the range of goods and services that VAT is charged on.

## Furnished holiday lettings

The furnished holiday lettings rules are to remain intact for the time being and there will be a consultation over the summer.

Currently a property has to be available for letting for at least 140 days during the season, actually let for at least 70 days and not let to the same person for more than 30 consecutive days. As long as the letting is carried out on a commercial basis, any losses are available to offset against other income. The government intends to look at how the rules could be modified, particularly with a view to increasing the number of days the property has to be both available for letting and actually let and also at the way in which losses are relieved.

There seems to be less concern over the availability of capital gains tax rollover relief and holdover relief.

## Summary

This was a necessarily harsh Budget and the pain will, as the government warned, be felt widely. The government has, however, recognised that the scale of the problem is such that tax rises and expenditure cuts alone will not be enough. Only a revival of the economy will solve the problem. To achieve that it is essential that enterprise is encouraged. The announcements relating to corporation tax will be welcomed and the reductions to capital allowances are less severe than had been feared. The changes to capital gains tax are also designed to encourage entrepreneurial activity.

If you would like to receive a copy of our Budget tax rates card, our quarterly newsletter or would like to talk about some specific tax planning – the need for which has perhaps never been greater - please contact us.



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