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Inside:
BUDGET 2011

SPRING 2011

Electronic tax payments

From 1 April 2011 HMRC will only accept payment of corporation tax electronically. Companies wishing to pay by cheque will only be able to do so at their bank, building society or at certain post offices and will have to present the cheque with the HMRC payslip from their payment reminder. This is part of an increasing trend towards electronic payment and electronic filing, reinforced by the Government's "digital by default" policy and the Budget contained an announcement that online filing of VAT returns will become mandatory for all businesses for VAT periods beginning on or after 1 April 2012.

Refund scams

As we reported in the last issue of Proactive, criminals are targeting taxpayers with very plausible emails purporting to be from HMRC. The emails bear the HMRC logo and say that the recipient is due a tax refund. If you receive such an email you should delete it immediately. HMRC never contacts taxpayers via email regarding refunds.

The Budget - previous announcements

Some Budget measures, including changes to the rules for pension contributions and furnished holiday lettings were covered in the last edition of Proactive. An electronic copy is available on our website.

Proactive e-news

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With Government borrowing at an all-time high, a lower growth forecast for the economy and rising inflation, the Chancellor had little real scope for manoeuvre.

He recognised, however, that tax hikes and expenditure cuts alone will not solve the UK's problems: a revival of the economy is what is needed. The Government's stated aim is to create the most competitive corporate tax system in the G20 and to have the lowest corporate tax rate in the G7.

In this, his second Budget, George Osborne introduced a number of reliefs and incentives for businesses and for those who invest in them. These incentives include enhancements to the Enterprise Investment Scheme and Entrepreneurs' Relief and a reduction in the rate of Corporation Tax.

Two significant steps were taken towards simplifying the UK tax system. Firstly, the Chancellor has accepted the recommendation of the Office of Tax Simplification to abolish 43 "redundant" tax reliefs. Secondly, he has grasped a nettle that his predecessors have avoided and has announced that the Government intends to consult on the options for integrating the operation of income tax and national insurance.

As the Chancellor strode away from Number 11 to deliver his Budget speech, was he heading in the right direction?

Read our analysis on the next two pages.

Encouraging entrepreneurs

For the economy to revive, entrepreneurs need encouragement to invest and to build businesses. Two measures were aimed at achieving just that.

The Chancellor recognised the contribution the Enterprise Investment Scheme (EIS) makes to start-up companies and to those looking to expand. For shares issued on or after 6 April 2011 the rate of income tax relief available to an investor will increase from 20% to 30%. From 6 April 2012, the current limit of no more than 50 employees will be lifted to 250, the limit on the amount that an individual can invest each year will increase from £500,000 to £1 million and the amount that a company can raise using EIS will increase from £2 million in a twelve month period to £10 million.

From 6 April 2011, gains of up to £10 million on the disposal of the whole or part of a qualifying business or of shares in a qualifying company in which the shareholder is a director or employee and holds more than 5% of the shares will now attract the 10% Capital Gains Tax (CGT) rate offered by Entrepreneurs Relief. The conditions have to have been met for at least twelve months and the £10 million is a lifetime limit.

Business taxation

The main corporation tax rate - applicable to companies with profits in excess of £1.5 million will fall from 28% to 26% from 1 April 2011 and then by 1% each following 1 April to 23% from 1 April 2014. The reduction will also affect the rate of corporation tax paid by companies with profits between £300,000 and £1.5 million. The small companies' rate, applying to companies with profits below £300,000 will be 20% from 1 April 2011.

Turning to capital allowances, the Annual Investment Allowance will be £100,000 for the year commencing 1 April 2011 for companies and 6 April 2011 for unincorporated businesses. This will fall to £25,000 from 1 April 2012 for companies and 6 April 2012 for unincorporated businesses. The rates of writing down allowance will remain at 20% for plant (including vans) and fixtures and at 10% for integral features until 31 March 2012 for companies and until 5 April 2012 for unincorporated businesses. These rates will then fall to 18% and 8% respectively from 1 April 2012 for companies and from 6 April 2012 for unincorporated businesses.

The rate at which business mileage can be claimed tax free will increase from the current 40 pence per mile for the first 10,000 miles to 45 pence per mile. Above 10,000 miles, the rate will remain at 25 pence per mile. There were no changes to the rates for motorcycles or bicycles.

From 1 April 2011 the VAT registration limit will increase from £70,000 to £73,000 and the de-registration limit will change from £68,000 to £71,000.

There was good news for small and medium sized enterprises engaging in research and development (R&D). They can currently claim a deduction of 175% of their qualifying R&D expenditure against their corporation tax, but this will increase for expenditure incurred on or after 1 April 2011 to 200% and from 1 April 2012 to 225%. If a company engaging in R&D makes a loss, it can surrender some of the tax relief in return for a full or partial refund of PAYE. From 1 April 2012 any refund will no longer be restricted to the amount of PAYE the company has paid and the requirement for the company to incur at least £10,000 of qualifying R&D expenditure will go.

Personal taxation

The personal allowance for those under 65 will increase on 6 April 2011 from £6,475 to £7,475. It will increase again from 6 April 2012 to £8,105.

The limit for investment in an Individual Savings Account (ISA) will increase on 6 April 2011 from £10,200 to £10,680. Interest and dividend income within an ISA is exempt from income tax and any capital gains are free of CGT. A new "Junior ISA" is to be launched this autumn for UK resident children under 18 who do not have a Child Trust Fund account. Few details are currently available but it is expected that Junior ISAs will have many features in common with existing ISAs, including the potential for cash and shares components.



Paul Aplin with BBC Somerset presenters Emma Britton and Matt Faulkner on Budget Day - Paul was BBC Somerset's resident "tax guru" for the day.

The Chancellor announced that to encourage gifts to charities, the Inheritance Tax (IHT) rate for those leaving 10% of their net estate (after deducting the nil rate band, exemptions and reliefs) to charity will be 36% rather than 40%.

There will be significant increases in National Insurance (NI) from 6 April 2011. Class 2 contributions paid by the self employed will increase from £2.40 a week to £2.50 a week. Class 4 contributions are currently charged on self-employment earnings between £5,715 and £43,875 at 8% and any excess is charged at 1%.

From 6 April 2011 Class 4 contributions will be charged at 9% on earnings between £7,225 and £42,475 with earnings above that being charged at 2%. Employers and employees will also be hit: the employee rate on earnings between the primary threshold and the upper earnings limit will increase from 11% to 12% and earnings above that rate will attract a 2% rate (in place of the current 1%). The employers' rate will rise from 12.8% to 13.8% as will the Class 1A rate.

Cash control

Until relatively recently, many businesses took their overdraft facility for granted, but unlike a loan an overdraft can be reduced or withdrawn without warning, as some businesses have found to their cost. It is more important than ever to maximise cash flow. **Here are some straightforward ideas to improve cash flow without resort to the bank:**

- Take the maximum credit your suppliers will allow: if terms are 30 days, then take the full 30 days
- Ensure that you take available discounts for prompt payment
- Consider the scope for changing your terms of business to take deposits or to reduce the period of credit you give
- Ensure that invoices are raised and sent to customers promptly

- Chase debts by letter or telephone as soon as they become due
- Make it easy for customers and clients to pay, by including a stamped addressed envelope with the invoice or by accepting debit or credit cards
- Offer an early settlement discount
- Add a credit charge that can be waived if payment is received on time
- Charge interest on overdue debts
- Make it clear that debts will be pursued

There are many ways to manage cash flow. In these difficult times, the overdraft should be the last line of defence.



Harris & Harris Construction Limited

In a long and successful career with Bridgwater and Albion RFC, Tony Harris rode some tough tackles and enjoyed some hard fought battles; his competitive spirit was well known, but he was always quick to acknowledge the contribution of the whole team.

In 2007 Tony acquired full control of Harris & Harris Construction Limited when his brother and co-founder of the company retired, the company having traded since 1991. Harris & Harris Construction Limited provides ground work and civil engineering services to a number of national house builders, as well as undertaking full design and build projects. The company built the flagship Somerset headquarters for St John's Ambulance and is currently constructing a new £1.3m office building for themselves together with adjoining office units for lease on the Woodlands Business Park adjacent to the new Morrisons regional distribution centre in Bridgwater. The company has also commenced the construction of a new £1m retail development for P & B Pyne Butchers next to Wiseman Dairies at junction 24 of the M5 in Bridgwater.

In November 2010 and on the very day the company was due to sign off its new financing facilities with the bank for the development at Woodlands one of its largest customers, the Stock Exchange listed ROK Group, went into administration. Many companies would have succumbed to the seven figure bad debt that crystallised that day, but Harris & Harris had been carefully managing and reducing its exposure in the preceding months.

Faced with such a substantial dent in its cash flow, the company needed to demonstrate quickly to its bankers the ability to manage its working capital, whilst reassuring both suppliers and customers that payment and delivery dates would be met. It then needed to secure the finance to complete the company's new offices and to focus on generating new contracts going forward.

"The key to surviving the ROK disaster," says A C Mole & Sons partner Steve Golby, "was the fact that Tony Hill and his finance team already had the management information systems in place to provide the reassurance sought by the bank. This freed Tony Harris and the contracts team to keep the existing work moving, whilst seeking and securing new contracts."

2011 saw work start on a number of new sites and in February the A C Mole & Sons tax team secured a substantial Corporation Tax refund for the company within 7 weeks of the end of its financial year. Its arrival could not have been more timely.

As spring arrives and the clocks go forward, the company can reflect on a difficult winter - one that could easily have been its last had it been unable to survive the failure of ROK. In Tony Harris's view, survival was down to teamwork and forward planning; he considers Steve Golby and his colleagues at A C Mole & Sons as an important part of the team - "their expert advice and support is invaluable in difficult times". Tony Hill concurs "Steve combines an understanding of the wider issues with an ability to identify the key actions and then deliver on them".