

proactive

Inside:
The Budget in detail

SUMMER 2010

First again

On 6 April we were the first firm in the UK to file an iXBRL company tax return and computations using Iris software.

From April 2011, all company tax returns will have to be filed electronically using iXBRL (it stands for inline eXtensible Business Reporting Language and it electronically "tags" individual figures in the return, computation or accounts). Companies will no longer be able to file their tax returns on paper.

If we prepare your company tax return we will be able to deal with the iXBRL tagging for you, but if you prepare your own return then you will need to invest in suitable software. The change is being made both to force more online filing in order to cut HMRC's costs and to give HMRC data that it can analyse and risk assess electronically.

This is not our first electronic first: in 1997 we filed the UK's first ever electronic tax return, in 2001 we were the first firm to file a return over the internet for a client and in 2003 we filed the first return through the redesigned PAYE on line system.



The Emergency Budget

The Budget had been billed as an "emergency" Budget, but the Chancellor described it at the beginning of his speech as an "unavoidable" Budget.

We knew that the scale of the problem facing the Coalition was huge: even on the previous Chancellor's figures, the public sector debt was projected to be around £1 trillion for 2009/10 rising to a staggering £1.6 trillion in 2014/15.

In his role as chairman of the ICAEW Tax Faculty's Technical Committee, tax partner Paul Aplin was active in the run up to the Budget, briefing the Coalition government on tax issues. "We briefed both the Conservative and Liberal Democrat teams when they were in opposition and had already built a good working relationship with the people who are now ministers," he says "we had our first meeting with the new Exchequer Secretary to the Treasury in May and hope to have a further meeting to follow up on the Budget very shortly. The government seems to have listened to much of what we said on business tax issues, which is encouraging." Paul was also interviewed about the Budget on BBC radio.

We set out on pages 2 and 3 the Budget tax measures that will affect you most.



Paul Aplin with Mike Clasper, HMRC Chairman and fellow ICAEW Council Member Sheila Moffat on the steps of 11 Downing Street in March



The Budget in detail

The Budget Red Box, used by almost every Chancellor since Gladstone - only Jim Callaghan and Gordon Brown chose not to use it - has had its last outing. Officially it is too fragile to be used again but one has to wonder whether it was the shock of what was in Chancellor Osborne's first Budget that finished it off.

Individuals

The personal allowance, currently £6,475 for those aged under 65, will increase to £7,475 from 6 April 2011, but higher rate taxpayers will not benefit from this increase. 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. 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 both the annuity issue and on alternative ways of

implementing the restriction of higher rate tax relief on pension premiums, perhaps by setting a fixed maximum amount that would qualify for higher rate relief.

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 below 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.

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. There is to be a review of small business taxation and this will include a review of the IR35 rules for "one man" companies.

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 from 1 April 2012 for companies and from 6 April 2012 for other businesses. 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.

The secondary national insurance threshold, which is the point at which employers start to pay Class 1 national insurance contributions, is to be increased by an extra £21 per week above indexation.

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.



Is it enough to shore up the economy?

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.

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 are welcome 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 talk about how the Budget will affect you, please contact us.

The farm of the future

Agriculture is a high tech business these days, but when Somerset farmer James Read tells people his cows milk themselves, not everyone believes him. It is, however, perfectly true.



James Read: *“These are difficult times for agriculture and we need an accountant who understands farming and who is on the ball when it comes to tax. Chris Loveluck offers practical advice and takes a genuine interest in what we do. He talks our language”*

Gone are the days of herding the animals in at milking time: the cows at Pyrland Farm decide when they want to be milked. When they enter a milking bay, the machinery identifies the animal via an electronic transponder in its ear. A robotic arm senses where the teats are, attaches the milking cups, milks the cow and afterwards cleans the teats and cups. Milk yield, quality and animal health data are stored automatically for each animal. The floors are kept clean by a robotic scraper.

It is all a far cry from the 30 year old milking parlour it replaced on the 300 acre farm just outside Taunton. The result of this £600,000 investment in technology is increased lactation, improved milk yields, easier herd management and healthier cows that live longer. It has also freed up time for James and his wife Mary to concentrate on other areas of the diversified business, such as the farm shop and the four star bed and breakfast accommodation.

We have advised the Reads for many years and helped guide them through the financing of the new milking facility. We also made sure that they secured the full tax relief they were entitled to on the expenditure.

Harvesting tax breaks

The withdrawal of agricultural buildings allowances came as a shock to the farming industry. It would be wrong, however, to think that all tax relief for expenditure on farm buildings has been lost. The key is to look for assets that would attract capital allowances.

Amongst the items on which tax relief can be claimed are slurry pits and storage systems; rainwater harvesting and filtration equipment; storage silos and tanks; moveable pig tents and arks; systems for monitoring temperature, humidity water and food levels; water meters; fire alarm, burglar alarm and surveillance systems; feed systems; slatted flooring over a slurry tank; adjustable pen dividers; farrowing crates; taps, sinks, basins and drinkers; general electrical systems and air conditioning systems; cold water and heating systems and thermal insulation. Some of these items would not have qualified for tax relief until recently.

From April 2012, the rates of capital allowances will fall - as set out on page three - and the annual investment allowance will reduce from £100,000 to £25,000. There is definitely a case for making hay before the sun stops shining.