

DBULLETIN

Budget Highlights: June 2010

With many changes made to the Budget for 2010, we have highlighted some of the more significant corporate focused changes for your information.

Corporation Tax

The main rate of corporation tax which applies to companies with profits above the upper limit (£1.5 million) will be reduced from the current rate of 28% by 1% annually over the next four years. Accordingly the rates will be as follows:

2011/2012 – 27%

2012/2013 – 26%

2013/2014 – 25%

2014/2015 – 24%

Small companies corporation tax (businesses with profits below the lower limit (£300,000)) will be reduced from its current rate of 21% in 2011/2012 to 20%.

VAT

There will be an increase in the standard rate of VAT from 17.5% to 20% which will have effect for any supply made on or after 4 January 2011. This is estimated to generate over 13 billion a year by the end of this Parliament.

Zero rated supplies (food, children's clothing and books) and exempt supplies (education and health) and supplies subject to VAT at the 5% rate (domestic fuel and power) are not affected by this change.

Capital Gains Tax and Entrepreneurs Relief

From 23 June 2010, Capital Gains Tax will increase from 18% to 28% for higher rate taxpayers and for additional tax rate taxpayers.

It remains at 18% for low and middle income savers (where total taxable gains and income are

less than the upper limit of the income tax basic rate band (£37,400 for 2010/2011)).

The annual exempt amount (AEA) for 2010-2011 remains at the level set previously, £10,100.

The rate of CGT for gains qualifying for entrepreneurs' relief remains 10%.

The lifetime limit on gains qualifying for entrepreneurs' relief has been increased from the current £2 million to £5 million.

The new lifetime limit for entrepreneurs' relief shall have effect on 23 June 2010.

Capital Allowances

Writing down allowances (WDAs) for new and unrelieved expenditure or plant and machinery will be reduced:

- from 20% to 18% per annum for expenditure allocated to the main pool; and
- from 10% to 8% per annum for expenditure allocated to the special pool.

Also the maximum amount of the annual investment allowance will be reduced from the current limit of £100,000 to a new limit of £25,000. Changes will come into effect in April 2012.

Enterprise Management Incentives (EMIs)

The current requirement that a company granting qualifying EMI options to its employees must operate "wholly or mainly" in the UK will be amended so that the requirement will be to have a "permanent establishment" in the UK.

The government intends to legislate for this

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measure in a Finance Bill to be introduced after the Summer recess. This will take effect in respect of EMI options granted on or after the date that the legislation receives Royal Assent.

Income Tax

£1000 increase in the personal allowance from April 2011 (taking the personal allowance to £7,475), combined with a reduction in the basic rate income tax limit, so that higher rate taxpayers do not benefit from the increased personal allowance.

Bank Levy

The government will introduce a new bank levy from 1 January 2011. The levy will be charged on:

- The consolidated balance sheet of UK banking groups and building societies.
- The aggregated subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK.
- The balance sheets of UK banks in non-banking groups.

The levy is expected to generate £2 billion per annum and is intended to encourage banks to move to less risky funding profiles. It is stated to be a contribution reflective of economic risk, rather than an insurance against failure or a fund for future resolution.

The levy will only apply where the aggregate long- and short-term liabilities of the institution or group are at least £20 billion, excluding: Tier 1 capital; Insured retail deposits; Repos secured on sovereign debt; Policyholder liabilities of retail insurance businesses within banking groups.

Business Incentives

In order to promote the creation of new businesses in the UK outside of London, the South East and the Eastern region the government will shortly announce details of a scheme whereby during a three-year period, new businesses established outside of these areas will be exempt from the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for the first ten employees hired in the first year of business. Subject to meeting the necessary legal requirements, the scheme is intended to start from 6 September 2010 but this has yet to be confirmed.

Public Sector Pay

There will be a 2 year pay freeze for public sector workers earning over £21,000. Lowest paid workers will get an increase of £250 per annum.

State Benefits

Housing Benefit to be reformed so there is maximum weekly limit of £400.

Disability Living Allowance – reformed to include a new medical assessment introduced from 2013.

Child Benefit will remain as a universal payment but will be frozen for three years.

Pensions – there will be a reinstatement from April 2011 of the earning link for state pensions.

Family tax credits to be withdrawn from 2011 for families earning over £40,000.

For further information or if you require assistance please contact:



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