



# newsletter

## june 2010



### Editorial

The first Budget by a coalition since the war marks the biggest change of fiscal direction in a generation. My feeling is that in the longer term the reduction in budgets of most government departments by 25% will have a bigger effect on most people than the tax changes. Some doubt it can be achieved; Mrs Thatcher was unable to achieve this level of reduction. The clear political message is that the "Sovereign debt crisis" is now more worrying than the threat of a recession. Time will tell. The budget is nothing if not bold.

Shared pain is promised across the income range but our client base are likely to think that the tax and benefit changes are not as bad as they would have feared. Indeed, if you have cash funds at the moment, then you are in a very strong position to avoid tax increases which will not come into effect until next year by making purchases now.

Capital gains tax is at most 28% - so still significantly less than income tax—especially for the highest earners. Corporation Tax is reducing—so we anticipate more clients to incorporate their businesses. **Andrew Webster**

## Emergency Budget June 2010

A summary of the key changes

### The economy

The Chancellor has told us that the key judgement he has made is that there is now a crisis of sovereign debt which risks damaging the economy. He therefore reverses the previous Chancellor's judgement that the reduction in the budget deficit must be made gradually to avoid a double dip recession.

Many spending cuts are trailed in the remark that departments will have to cut their budget by 25% over the life of this parliament—but details will be released over a long period.

It is clear that most of the main items in the budget were being discussed with the press well before the Budget.

Deceased Chancellors will be spinning in their graves—even though Labour had started this process of leaking!

### VAT rise

The bulk of the "heavy lifting" in terms of raising tax revenue will come from an increase to 20% from 4 January 2011. **Page 3**

### Businesses

For businesses there is a reduction of Corporation Tax but the benefit of this will be reduced for many businesses by the limiting of capital allowances.

Both these will only take effect next year, so planning opportunities exist.

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### Tax For Individuals

Personal allowances will increase next year by £1,000 reducing tax.

Capital gains tax was predicted to rise to the same level as income tax but instead will be at 28%.

Surprisingly the relief for furnished holiday lettings has made a come back. There is an article on page 2. This could be a significant planning opportunity. **Page 2**

### Tax Credits & Benefits

Child benefit will be frozen at current levels until April 2014.

There are significant reductions to the credits available for families with income above £40,000. **Page 2**

### Further changes

There are significant changes which are going to be dealt with later in the year after consultations—to take effect from 2011.

"we are certainly likely to see more significant changes shortly"

- pensions
- those with overseas domicile
- full Corporation Tax review

We are certainly likely to see more significant changes shortly.

**Andrew Webster**

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## Key dates

### Tax Health

Deadline for doctors and dentists to make disclosure under the Tax Health Plan.

### Tax dates

#### 5 July 2010

■ Last day for reaching a PAYE settlement agreement for 2009-10.

#### 6 July 2010

■ Deadline to file forms P11D, P9D and P11D(b) for 2009-10.

#### 31 July 2010

Second payment on account due.

#### 4 January 2011

VAT rise to 20%



## Capital Gains Tax

*New rate of 28% for higher earners*

From midnight on the 22 June 2010 the rate of tax for higher earners will become 28% - less than was widely expected.

If the amount of your gains fall within your basic rate band then you will continue to be taxed at 18%. Those whose gains take them across the basic rate threshold will pay part of their gain at 18%, and part at 28%, according to the amount of

**"the annual exemption is retained at £10,100"**

the basic rate band that is left to them.

Against some expectations, the tax free annual exemption for capital gains tax is retained at £10,100 for

2010/11, and will increase in line with inflation across the next budget.

It is interesting that the change was introduced by saying that it was wrong that a wealthy person would pay less tax than their cleaner.

However if you had a salary of £160,000 and £15,000 of capital gains then the rate of tax on the gain is just over 9% - significantly less than the tax and NIC on a salary of £15,000. This emphasises the benefits of planning to try to take investment returns as capital gains not income if you are a higher earner.

Gains incurred before 23 June 2010 do not use up the basic rate band, and will be taxed at the flat rate of 18%.

There is also an option to set your annual gains exemption and losses

first against the gains taxed at the higher rates.

Entrepreneur's relief will continue to be available in the same format; the threshold for which Entrepreneur's relief applies will be raised from a £2 million lifetime threshold to a £5 million lifetime threshold. Gains for which Entrepreneur's relief applies will continue to be taxed at an effective rate of 10%, even where the gains would otherwise fall above the basic rate threshold.

■ **Bryony Baines**

## Domicile

*More changes planned?*

The Government announced that it will review the taxation of non-domiciled individuals. This reiterates a statement made previously in the Coalition Agreement. No date has been given for the findings of this review.

The present legislation, introduced in April 2008, has been criticized as being unwieldy and poorly drafted. However the announcement of a potential further upheaval will give even more uncertainty to those planning their future. We are not sure whether this could include a wider review of non-residence tax issues. ■ **Paulette Peterson**

## Allowances

*Increase of £1,000*

As the first step in a staged plan to increase the tax free personal allowance to £10,000, from 6 April 2011 the personal allowance for those under 65 will increase by £1,000 to £7,475. The current abatement of the personal allowance for those with incomes in excess of £100,000 will remain in force.

The basic rate limit will be reduced such that higher rate taxpayers do not benefit from the increase in the personal allowance. The exact figure for the threshold will be announced once September's RPI figures are published. ■ **Bryony Baines**

## Furnished Holiday lettings

*Tax relief on a holiday home?*

Excellent news for anyone owning or looking to buy a holiday home whether in the UK or overseas. The special tax regime is not to be withdrawn from 6 April 2010 but is extended as it is for the rest of this tax year. It will then be retained further with new rules from 6 April 2011 after a period of consultation - but the proposals will increase the number of days that the property must be let (currently 70) and available for letting (currently 140). They will also limit the very generous rules on allowing loss relief.

This will mean that any losses for the current year can still be set against income - but it might be advisable to wait until the new rules are published before buying a new holiday home.

However there seems to be a major opportunity to buy and furnish a new property before the new rules come into force.

Under current rules if you make a loss on your holiday let—e.g. because the mortgage and cost of furniture exceeds the rent—then that loss will be available to set off against other income.

If you bought the property without a mortgage and make a profit then you can reduce the tax by making pension contributions.

If you sell at a property at a profit then you only pay 10% CGT on your gains.

If you are thinking of buying somewhere then let us know and we can advise on the details.

■ **Andrew Webster**

## Benefits & Tax Credits

*Significant reductions will be brought in over this parliament*

Child Benefit will be frozen until April 2014, but not taxed or means tested. Child Tax Credit will be reduced for families with income above £40,000.

Significant tightening on the rules for:

- income disregard
- backdating provisions

- tapering
- baby element
- age 50+ element

The child element of the Child Tax Credit will increase by £150 above CPI in 2011-12 All other awards will be increased by the CPI. ■ **Christine Bradley**

## Corporation Tax

### Reductions in rates



**T**he rates of tax on companies will be reduced. For larger companies the current rate of 28% will be reduced by 1% each year beginning on 1 April 2011 – until it reduces to 24%.

Smaller companies – broadly below profits of £300,000 will have the CT reduced to 20% from 21% again from 1 April 2011.

We think that this will increase the attractiveness of companies as the vehicle for operating small businesses.

We also believe that for many service type businesses, especially pure consultancy then there will be an increase in the number of clients using a limited company as one of the partners in a partnership – sometimes a Limited Liability Partnership.

This is a very tax efficient mechanism especially for higher earners. A consultation leading to a full review of Corporation Tax is promised for the autumn.

*“we think that this will increase the attractiveness of companies as the vehicle for small businesses”*

The attraction of companies is increased because of the reductions in allowances for capital equipment in a business.

Full tax relief will now be deferred over a longer period – increasing profitability in the short term. However the changes will not come into effect until April 2012.

■ **Andrew Webster**

## VAT

### Increases to 20% 4 January 2011

**A**s widely predicted, the standard rate of VAT will increase to 20 per cent on 4 January 2011.

There are no changes to the Cash Accounting or Annual Accounting Scheme. As a consequence of the increase of the standard rate of VAT from 17.5 per cent to 20 per cent, the Flat Rate Scheme (FRS) sector flat rates have also been recalculated to reflect the increase. Some thresholds for application to the scheme will also be increased.

Zero rated supplies, such as basic foodstuffs, children’s clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the reduced 5 per cent rate, such as domestic fuel and

power, are not affected by this change.

Anti-forestalling legislation will be included in the Finance Bill 2010 to prevent the 17.5 per cent rate applying to supplies of goods or services that are provided on or after 4 January 2011, subject to certain conditions. This could still be an area where planning is possible—however it is far better to bring forward expenditure and the delivery of the goods or services to before the increase.

The Chancellors statement that the measure would raise up to £13 billion “over the life of this Parliament” certainly implies that the measure is intended to remain in place in the medium term. ■ **Gary Eves**

## Capital Allowances

### Reduced allowances - but not yet

**T**he Annual Investment allowance will be reduced from £100,000 to £25,000 from April 2012.

This means that business should definitely look to make any significant expenditure on equipment before that time.

Writing down allowance reduces from 20% to 18% (10% to 8% for long life assets).

Talk to your account manager about how these changes will affect you.

■ **Catriona Freebairn**

## Pension

### More changes planned

**H**igher rate tax relief on pension contributions is being reviewed. Discussions will be held with interested parties—but may restrict the amount of contributions each year to an amount in the range £35,000 to £45,000.

This could replace the high income excess relief charge due to come into force on 6 April 2011.

*“Higher rate tax relief on pension contributions is being reviewed”*

If you were hoping to put significant amounts into your pension in the near future then it will be worth taking some action sooner rather than later. ■ **Bryony Baines**

## Duties

### Joy for Cider drinkers

**T**here were no changes announced on most duties other than that the proposed additional duty on cider will be abolished.

Changes are promised on the system for charging tax on flights on planes.

■ **Gary Eves**

## Working with clients

### Kitchenology - Bespoke Contemporary Kitchens

#### Beating the recession

**I**n this issue, Tim & Jennifer Shaw talk to Gary Eves — Head of accounting & share their story of how we helped their attempt to beat the recession.

"We met 15 years ago. Tim was a kitchen installer & I had an organic food store in Surrey. We created a thriving shop in Reigate combining kitchen displays & organic & natural foods & products".



"Tim's installation business went from strength to strength as B&Q, MFI etc. tried to improve the image of their installation service & Tim became the top installer in the area. Things went swimmingly for several years, plenty of work, plenty of money & a new baby as well! Life was good. The only drawback for us was the cost of living in Reigate, we needed to move from our small house on a busy road".

"However, kitchens can be installed all over the country so we began to look around other areas. Finally, after a holiday at Center Parcs, Elveden Forest, we found what we were looking for in lovely Suffolk. Installation work was OK but we could see the danger of relying solely on it. Having looked around for premises suitable for a kitchen showroom for a while prior to the recession, we found a lovely unit in Bury St Edmunds with good frontage & lots of parking. The ink was barely dry on the lease before the economy went bang!".

**"We knew we needed good financial advice & liked the attitude & professionalism at Andrew Websters"**

"We knew we needed good financial advice & liked the attitude & professionalism demonstrated at Andrew Webster's. Following their advice we re-structured our business into two separate limited companies, Kitchenology Ltd for the showroom side of the business & Shawfit Kitchens Ltd for the installation department. Gary has been our account manager since we moved to the area".

In dealing with a reorganisation such as this there is much to be considered. Sometimes you have to juggle competing demands of commercial considerations and tax planning. Once this has been done all the legal documentation has to be prepared. Our firm is well placed to do this because we have a Solicitor in-house and this makes it very cost effective.



**"Our showroom is a calm oasis filled with stunning contemporary displays"**

Jenny explains a little more about their products. "We chose Alno for our kitchens, a very well renowned German kitchen brand with exceptional build quality & finish combined with state of the art internal fittings.

Our showroom is a calm oasis filled with stunning contemporary displays, designed to offer design, space, lighting & concealed audio visual solutions. We have found that, with Tim's experience & qualifications, we can manage projects including new build, extensions & garage conversions from first fix to kitchen installation & completion in addition to replacement kitchens."

The Kitchenology showroom has been open for nearly eighteen months.

Given that the economy has doubtless made business more difficult we

asked whether they had any regrets. "We have no doubt that this is the best move we could have made. We are often congratulated by customers on our professionalism."

**"We have as our aim, quality in all aspects. This is serving us well in these difficult times."**

"We have as our aim, quality in all aspects. This is serving us well in these difficult times".

We would like to think that we are able to deliver a service to clients such as Kitchenology which lives up to their stated aim of "quality in all aspects".

They are now also regular users of our WebsterAccounts online accounting software for both of their companies and Jenny is a regular caller for help and advice on using it properly. This also helps to keep the cost of accountancy down to a reasonable level. As another business (not our client) says "every little helps". ■ **Gary Eves**

#### Editors comment

We wish Jenny & Tim every success with their business. Structuring your business in a tax-efficient way, as Jenny & Tim have done, can save much needed funds to help grow your business.

The new VAT rise on 4th January 2011 will affect customers of Kitchenology. They will probably want lots of people to buy before that date to avoid the higher VAT.

If you are happy to share your story of how our firm is helping you then please let us know.

## Contact us

Please contact us with any questions that you may have. Feedback on our newsletter is also always welcome! [info@tax.uk.com](mailto:info@tax.uk.com)



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