

Budget 2011

24 March 2011

Income Tax Allowances

	2011/12	2010/11
Tax free allowance (<65 yoa)	£7,475	£6,475

Further increase to £8,105 in April 2012

nb: not available in full for those with income >£100,000 pa

Income Tax - Rates

Year to April 2012

First	35,000	20%
Over	35,000	40%
Over	150,000	50%

Year to April 2011

First	37,400	20%
Over	37,400	40%
Over	150,000	50%

... the continuance of the 50% rate under review

Income Tax

- It's not so great in the middle!
- Threshold for higher rate tax (was £43,875) is now £42,475
- Extra 750,000 will pay 40% tax
- Child benefit frozen until 2014 and lost (from April 2013) for higher rate tax payers

National Insurance

- Upper earnings/profit limits now aligned with income tax higher rate threshold

2011/12 £42,475

- 1% extra for EEs, ERs and SEs

11% → 12% EEs

12% → 13.8% ERs

8% → 9% SEs

- From April 2011 a £600 per month salary would be NIC free and would buy you a free pension (<£7,225pa)

Income Tax and National Insurance

- Consultation on “integrating the operation” of IT and NIC... implement by 2014?
- AIM: to reduce burden on business
- No plan to extend duration or scope (e.g. dividends, savings income)
- IR35... to be retained... but simplified

Enterprise Investment Scheme (EIS)

- Income tax relief up to 30% (20%) in April 2011
- Max contribution doubled to £1million from April 2012
- Eligibility extended to larger companies from April 2012
- New enterprise zones will offer income tax relief up to 50%

Capital Gains Tax

- Rates unchanged at 18% and 28%
- Exemption up to £10,600 (2012/11)
from £10,100 (2010/11)
- Private residence rules unchanged
- Entrepreneurs' relief doubled from £5million to £10million with effect from 6 April 2010

Entrepreneurs' Relief

Ollivanders Ltd sold their wand shop in September 2010 realising a capital gain of £4million.

Mr Ollivander qualified for entrepreneurs relief so paid tax at 10% only... a tax saving of £720,000 compared to a 28% rate

From April 2011

Mr Ollivander will now be able to realise further capital gains of £6million eligible for 10% tax.

Charity news

- Permissible benefits limit increased from £500 to £2,500 from April 2011
- “lighter touch” for smaller charities to claim relief on < £5,000 small donations per year
- Review of *payroll giving* to build takeup

Fuel Duty

- 1p per litre duty reduction
- Fuel escalator suspended
- Comparison:

130p litre (UK)

42p litre (USA)

Savings

- ISAs

	Total	Cash
2011/12	£10,680	£5,340
2010/11	£10,200	£5,100
- New Junior ISA
- Compensation scheme now covers £85,000 per bank etc

Inheritance Tax

- The exemption

2010/11	£325,000
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2011/12	£325,000
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- 10% rate discount if > 10% of net estate left to charity
i.e. 36% rate not 40% - from April 2012
- Business reliefs unchanged

Pension changes

- Further fundamental changes from April 2011
- £255,000 annual contribution limit falling to £50,000
- A more straightforward regime with advantages for some
- Opportunity to mop up “unused” prior year relief at top rate of tax relief

Pension changes - example

- David Copperfield's planning to retire in 2013 and wants to maximise his pension contributions over the next 2 years
- He contributed £20,000 in 2008/9, 2009/10 and 2010/11
- *For 2011/12 he could invest a total of £140,000 all of which could be eligible for 50% income tax relief*

$£50,000 + (£30,000 \times 3)$

Stamp Duty Land Tax

- New 5% tax rate (SDLT) for properties > £1million from April 2011.
- £250million government package to help up to 10,000 first time buyers

2004 *700,000+*

2010 *347,000*

Non Domicile Tax Payers

Changes in April 2012

- £50,000 pa tax charge to retain access to “remittance basis” for those resident here for 12 years or more (currently £30,000pa)
- Tax relaxation where funds remitted to UK for commercial investment in UK businesses

Business Tax Companies

Profits	2010/11	2011/12	... 2014/15
£0 - £300,000	21%	20%	... 20%?
£300,000 - £1,500,000	29.75%	27.50%	... 23.75%
Over £1,500,000	28%	26%	... 23%

Corporation Tax... an example

Mr Daniel's company has taxable profits of £500,000 in the years ended 31 March 2011 and 2012. The corporation tax payable by the company is:

	2010/11	2011/12	...2014/15
£0 - £300,000	63,000	60,000	... 60,000
£300,000 - £500,000	59,500	55,000	... 47,500
	<u>122,500</u>	<u>115,000</u>	... <u>107,500</u>

iXBRL

- Electronic filing mandatory from 1 April 2011
- Accounts and tax computations required in iXBRL format
- Submitted electronically with CT 600
- All corporation tax to be paid electronically

Director Shareholder comparison

Houdini's Escapes Ltd has £100,000 of pre-tax profits to transfer to director shareholder Mr Houdini

- Company pays tax at 21%
- Houdini is 40% taxpayer
- Class 1 NIC ceiling reached

	2010/11	2011/12
Dividend – effective tax rate	<u>40.75%</u>	<u>40.0%</u>
Bonus – effective tax rate	<u>47.7%</u>	<u>49.03%</u>

Disguised Remuneration ...the trap is set

- EFURBS & EBTs
- Loans taken to avoid tax
- Now assessed to tax as if it were employment income
- These new rules apply to loans made on or after 9 December 2010

Business Tax Capital expenditure (not cars)

- Annual investment allowance (AIA) cut to £25,000 p.a from April 2012
- Writing down allowances

	Before April 2012	After April 2012
Main rate	20%	18%
Special rate	10%	8%

- Applies to all businesses

New Capital Allowance Rules

An example:

Mr Blaine wanted to know how much tax relief he would receive if he spends £110,000 on new magic equipment.

We asked:

- When are you acquiring?
- What's your accounting date?

Blaine's Endurance Ltd

With 31 March year end

Purchase on...

15 March 2012



£100,000 AIA

+10,000 @ 20%



£102,000 relief

30 April 2012



£25,000 AIA

+ £85,000 @ 18%



£40,300 relief

Tax relief on cars

Tax relief based on CO2 emissions

• Purchase	Before April 2012	After April 2012
• ≤ 110g/km	100%	100%
• 111 – 160g/km	20% WDA	18% WDA
• Over 160g/km	10% WDA	8% WDA
• Leased Cars		
• ≤ 160g/km		no restriction
• > 160g/km		15% restriction

Audi vs BMW

	Audi A3	BMW
Cost	£24,000	£26,500
CO ₂ emission (g/km)	166	109
mpg	39.2	68.9
Annual road tax	£180	£35
Tax relief	£2,400	£26,500

Tax/NIC free approved mileage allowance

- Where “own car” used for business mileage
- Since 2002
 - 40p per mile – first 10,000 miles pa
 - 25p per mile – thereafter
- From 6 April 2011
 - 45p per mile – first 10,000 miles pa
 - 25p per mile – thereafter

Research & Development

- Relief available to SMEs on qualifying expenditure
- Only available to companies
- Current relief: 175%
- Increasing to: 200% from 1 April 2011
225% from 1 April 2012
- If a loss results, a repayment is available
- £10,000 spend de minimis abolished from April 2012

VAT

- Rate increased to 20% on 4 January 2011
- Threshold increased to £73,000 p.a.
- Zero rated, reduced rate (5%) and VAT exempt items remain the same

Help for businesses

- No reintroduction of income splitting rules
- Business Payment Support Service
- Enterprise Finance Guarantee scheme
- Project Merlin
- Enterprise Zones

Tax Strategies

- Consider incorporating your business
- Dividends v salary
- Involve your spouse in your business and/or savings
- Accelerate purchase of business assets before
April 2012