



BUDGET 2010

24 MARCH 2010

As widely predicted, Alistair Darling's final budget speech before the General Election was used mainly as a platform to impress voters. This was always going to be a difficult job, given the economic difficulties the electorate has faced over the last two years.

The Chancellor aimed to attract voters by introducing new measures for the entrepreneur, businesses, families and the first time buyer. He did this whilst seemingly still attempting to heavily tax the very wealthy by closing loop holes and remaining firm on the new 50% tax rate.

The emphasis of the Budget, aside from the political message, seemed to be slow, sustainable growth in a global economy which is still unsteady.

However, it was very vague on how this will be achieved, proving commentators right that the next 'real' Budget will come after the Election.

1 UK Economy

- The UK economy has **grown**, but at a **slower pace** than predicted. Growth is returning, but confidence is still not high and credit is still weak;
- The UK economy **contracted by 6%** during the recession;
- UK unemployment stands at 1.6 million, with fewer long term unemployment than feared;
- The Treasury still predicts that **growth** will hit **3.0 to 3.5% in 2011**;
- **Public borrowing** for the year was £167billion, **£11billion less** than the predicted £178billion;
- The **Deficit** is to be halved over a **4 year period**, at the current rate of borrowing.

2 Personal Tax, Pension Contributions and National Insurance Contributions

- The new tax rate of **50%** will apply to those with income in **excess of £150,000** from 6 April 2010.
- Tax on **dividends** will increase to a maximum rate of **42.5%** from 6 April 2010;
- The maximum tax free payments into ISA's will increase to **£5,100** (cash only) and **£10,200** (stocks and shares);

- The current **maximum** pension allowances (annual allowance of **£255,000** and a lifetime maximum **fund of £1.8million**) will continue to apply for a further **5 years**;
- This Budget **consolidated** the changes to pension contributions from **6 April 2011**, which were originally announced as part of the **Spring Budget in 2009**. The new measures mean that **tax relief** on pension contributions is to **be restricted to 20%** for individuals with an annual income in excess of **£150,000**.
- Where an individual has income **over £150,000** but **less than £180,000**, tax relief on pension contributions will be **gradually reduced** from the marginal rate to basic rate, as the income increases;
- Those with income in **excess of £180,000** will see their tax relief automatically **restricted to the basic rate**;
- National insurance contributions will increase for employees and employers from **April 2011** by **1%** for employees earning over **£20,000 per annum**;
- The taxation of income from **furnished holiday lettings** will be brought into line with normal **rental income rules** from 6 April 2010.
- Additional support will be introduced in April 2012 in relation to the child element of the Child Tax Credit. For families with children aged 1 and 2, the child element will increase by £4 per week.

3 Inheritance Tax and Capital Gains Tax

- The Inheritance Tax threshold will **remain** at £325,000 per individual for **4 years**;
- The threshold amount is still transferable between spouses and civil partners;
- **Entrepreneur's Relief** has been **doubled** to allow individuals who sell qualifying assets to pay CGT at 10% on gains to a lifetime maximum of **£2,000,000**;
- The **CGT** flat rate of **18%** will remain, despite speculation that this would be **increased** in line with higher rates of income tax.

4 Corporation and Business Tax

- Corporation tax rates remain **unchanged** at **21%** for small companies and **28%** as the main rate of tax;
- The **Annual Investment Allowance** has been **doubled** to **£100,000**, to aid businesses and companies in terms of capital expenditure on most **plant and machinery**;
- The temporary extension of trading loss carry back from one to three years for losses up to £50,000 will continue for the 2008/09 and 2009/10 tax years for sole traders and partnerships;

- For companies, this relates to losses arising in accounting periods ending between 24 November 2008 and 23 November 2011;
- A new international '**Systematic Risk Levy**' is to be developed to tax financial institutions which take excessive risks, to reduce the impact of a future financial crisis;
- The **VAT registration** turnover **threshold** will increase from £68,000 to **£70,000** from 1 April 2010.
- The **VAT de-registration** threshold will increase in line with this from £65,000 to **£68,000**;
- The **Business Payment Support Service** will continue to **aid businesses** for 'as long as necessary'.
- Where businesses seek **time to pay** arrangements for arrears in **excess of £1million**, HMRC will request that they provide an **Independent Business Review** to support a proposed plan. There will be **no changes** to businesses where arrears are **below £1million**.
- **Powers** will be introduced for **HMRC** to request a **financial security** for employers who have a history of **serious PAYE non compliance** (including making late payments and not making payments at all);
- The treasury has made **£94billion** of lending available from **RBS** and **Lloyds** to assist businesses;
- There will be a tightening up of the rules regarding '**false self employed**' individuals within the construction industry, and workers will be deemed to be in receipt of employment income unless certain criteria are met;
- **Business Rates** will be **cut** for a one year period **from October 2010**. It is anticipated that certain businesses will **not pay** any Business Rates at all during this period.

5 Stamp Duty Land Tax

- First time buyers will have **0% Stamp Duty** to pay on the purchase of property up to the value of **£250,000**;
- However, the highest rate of Stamp Duty will increase from **4% to 5%** on property in excess of **£1million**;
- SDLT in relation to commercial property remains unchanged.

6 Anti-avoidance measures

- HMRC are continuing to develop **powers** to tackle **anti-avoidance and evasion**;
- The consultation into **Working With Agents** will continue, but agents and taxpayers must continue to work together to **co-operate with HMRC**;

- Major announcements included:

Tackling Offshore Tax Evasion – Penalties will be calculated by looking at the behaviour of the taxpayer, and the amount of tax lost. Deliberate failure to report income or gains from certain jurisdictions could be met with 200% tax related penalties;

Earnings paid through Trusts – From April 2011, HMRC will seek to take action to prevent tax avoidance via EBT's and other arrangements;

Sideways loss relief – Measures have been taken to prevent abuse of sideways loss relief.

7 General matters

- Tobacco and Alcohol duty will rise by at least 2% above inflation. A 10% charge will be levied against the strongest of ciders;
- The 3p per litre fuel rise, which was scheduled to take effect from April 2010, has been broken down into three staged increases. Petrol will increase by 1p per litre in April, with a further 1p per litre increase in October and January.

Further information....

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