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NEWS BULLETIN FOR CLIENTS No. 48

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This bulletin is produced to advise clients of current financial matters. It represents our understanding of the issues discussed. Bulletins are often produced rapidly, could contain error and address issues which may be subject to change. Action should be taken only after receipt of professional advice.

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About this bulletin

This particular bulletin is driven by Chancellor George Osborne's budgetary changes (reported on page 2).

As always, we restrict reporting to what is perceived to be of interest to our clients. For instance: not having any clients who operate north-sea oil rigs, or landfill sites, except (maybe) in general comment, we would not report on taxes and duties specifically associated with these activities.

The format is changed to better suit email. If you receive this by that method, but prefer not, please advise us. On the other hand, if you if you receive a paper version, it should mean that an update of your email address is needed.

Taxation Reminder Dates

6 July	Final filing date for PAYE Expenses and Benefits forms P11D.
31 July	Second payment on account of 2009/10 Self-Assessment taxation.
31 Oct.	Final filing date paper versions of 2009/10 Income Tax Returns.

Accounts

We should have dealt with, or be dealing with, any accounting period up to 30 November 2009.

PAYE Payments

Those clients with regular payrolls are reminded that HM Revenue & Customs have new powers to penalise late payment of the monthly tax and National Insurance due. One late payment may be overlooked, but otherwise costs increase with the number of payments overdue and the length of time between due dates and monetary receipt.

Income Tax Returns 2009/10

Returns for year to 5 April 2010 are being dealt with. Early submission does not bring payment forward, but can bring forward a repayment and no longer extends HM Revenue & Custom's enquiry "window."

IR35 Regulations - the Novasoft Case

There were some very real peculiarities about the *Novasoft* case. The appellant won it, but he did appear to have near failed all tests qualifying the company as outside of the IR35 regulations. Unless HM Revenue & Customs can over-turn the verdict, it seems IR35 might apply only to the most hopeless situations, such as in "*Dragonfly*." You can view full detail in "Latest News" on the website, or at: www.financeandtaxtribunals.gov.uk/Aspx/view.aspx?id=4822.

The new government is supposed to be conducting a review of the regulations.

For the time being, clients who have contracts potentially liable should continue to assume that the regulations apply fully. (There was no mention of IR35 in the Budget statement.)

The Markets

At close of business 22 June 2010: £ = Euro € 1.2044 = US \$ 1.4793 FTSE 100 = 5,246.98

The Budget was welcomed, except against US \$, £ Stirling hardened against other currencies, however the FTSE 100 index eclipsed the news, being down on the day by nearly one full point, the latter due to a declining oil sector.

The Budget Announcements

Driven by the perceived need to reduce the budget deficit, the Chancellor's measures are intended to reduce it by cutting public spending, contributing 77% and taxation increases providing the balance. The spending reductions, including state benefits, amount to about 25% of the non-protected government departmental budgets. An exception is the basic State Pension; increases are to be realigned with those of average earnings. There is quite a lot still to be decided in the measures, with some depending upon the inflation rate in September. The theory behind the strategy and taxation measures is, whilst raising overall revenue, to make the UK an attractive place in which to do business.

In what he described as an unavoidable budget the Chancellor said:

UK economic growth rates are forecast at 1.2% for this year, 2.8% next, followed by 2.9% and 2.7% for both 2014 and 2015. The consumer price index is now intended to be fully used for all budgetary and tax purposes, instead of the RPI. The monetary inflation target remains at 2%, but is expected to be 2.7% by the end of 2010, reducing to 2.0% over the medium term. UK unemployment is expected to peak at 8.1% this year, falling to 6.1% in 2015.

Taxation

Still effective from 6 April 2010

Furnished Holiday Lettings

The generally favourable tax treatment of such Lettings will not be abolished in 2011 (as previously intended). Instead it is to be continued, extended to include properties in the EU. However the rules may change, next year.

From 23 June 2010

Capital Gains Tax

The Annual Exempt Amount for taxable gains remains at £ 10,100, but the only rate unaltered is the effective 10% for entrepreneurs, whose lifetime allowance is increased from £ 2m to £ 5m. The rate is 18% for those whose highest marginal rate of Income Tax is 20%. For higher Income Tax rate payers the rate is now 28%. (There is no re-introduction of Taper Relief. Gains made before 23 June will be subject to tax under the previous rules.)

From 4 January 2011:

Value Added Tax

The Standard rate increases to 20% from 17.5%. Industry specific VAT Flat rates increase too.

From April 2011:

Income Tax

The basic personal allowance will increase by £ 1,000. Rates are unchanged. Tax thresholds are also unchanged, except for those with tax at the higher rate, whose basic rate tax threshold will be reduced by up to £ 2,000, in order to prevent them from benefit of the increase in the personal allowance. Note that the allowance is further reduced for those with taxable income over £ 100,000 as previously proposed.

National Insurance Contributions

The threshold over which earners become liable for contributions will increase by about £ 1,092 per annum, over inflation, but the previously announced rate increase of 1% will apply (to employees, employers and the self-employed). Special incentive treatment is to be extended to new businesses in regions other than the South East and East of England.

Corporation Tax Rate

The main company rate will reduce from 28% to 27%, with another 1% off each year down to 24%.

The Small Company rate will reduce from 21% to 20%.

Capital Allowances

The basic annual rate on equipment etc. will reduce from 20% to 18%.

The maximum allowed for Annual Investment Allowance reduces from £ 100,000 to £ 25,000.

Other:

Pensions legislation: The age requirement is increased to 77 from 75 by which a pension be taken from its fund.

Annual Pension Contribution Allowance (future maximum) may be reduced to between £ 30,000 and £ 45,000 (compared to the present £ 255,000).

Insurance Premium Tax is raised by between 1% and 2.5% depending on the product, from 4 January 2011.

Telephone Landline Duty is abolished.

Council Tax: Measures are to be introduced to help councils to freeze the tax next year at current rates.

Bank Levy: A levy is to be raised on banks Balance Sheet composition.

Unaffected are Inheritance Tax and Stamp Duty.

Comment

Whilst the tax increases and truly severe spending cuts are most unwelcome, the measures are generally pro-business. Because it is a disincentive to employment, it is a shame that the increase in National Insurance "payroll tax" was not cancelled. One wonders about the advisability of a bank levy (risk operations could be de-merged and relocated to a country, where there is to be no such levy). Making the Income Tax personal allowance subject to yet more restriction makes Income Tax more complicated.