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ACCOUNTING AND TAX UPDATES

March 2012

Budget edition

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BUDGET **SUMMARY 2012**

OVERVIEW

The Budget Report was delivered by the Chancellor to the House of Commons today.

The chancellor stated that this budget announces wide reaching reforms to the tax system to reward work and support growth. The reforms would lower headline rates, diversify and broaden bases and limit reliefs — based on the principle that the tax system should be fair, efficient and simple.

The chancellor also stated that the Government is committed to creating a more sustainable tax system that is fair and supports growth. The Government will, reward work and support families; reduce tax rates to increase the competiveness of the UK tax system; restrict tax reliefs and ensure everyone pays the tax they owe; and make the tax system simpler and more sustainable overall.

THE ECONOMY

While euro area growth forecasts have been revised down significantly since Autumn Statement 2011, the Office for Budget Responsibility (OBR) forecast for UK growth and inflation is broadly unchanged from its November 2011 forecast. It continues to forecast subdued but positive growth, consistent with experience from past financial crises, with the recovery likely to be particularly uneven this year. The OBR forecasts the economy will avoid recession, as does the Bank of England's February 2012 *Inflation Report*.

The Office for Budget Responsibility (OBR) fiscal forecasts are also broadly in line with those presented at Autumn Statement 2011:

- public sector net borrowing will fall from its post-war peak of 11.1 per cent of GDP in 2009-10 to 4.3 per cent in 2014-15 and to 1.1 per cent in 2016-17;
- borrowing is £11 billion lower over the forecast period than was predicted at the Autumn Statement 2011.1 The deficit in the cyclically-adjusted primary balance has been halved over the last two years, falling from -7.0 per cent of GDP in 2009-10 to -3.4 per cent of GDP in 2011–12. This measure of the deficit is expected to approach balance in 2014–15;
- public sector net debt is forecast to peak at 76.3 per cent of GDP in 2014-15, falling to 74.3 per cent in 2016–17; lower than forecast in November 2011.

The UK economy grew by 0.8 per cent in 2011 according to the Office for National Statistics (ONS). Manufacturing output grew more strongly, by 2.0 per cent in 2011. The ONS estimates that GDP fell by 0.2 per cent in the final quarter of 2011, broadly consistent with the OBR's November 2011 forecast. Many countries, particularly in Europe, also experienced negative growth at the end of 2011.

INCOME TAX AND NATIONAL INSURANCE

The Government has a stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax. This Budget announces that **the Government will increase the personal allowance by a further £630 in April 2012 to £8,105 and then a further £1,100 in April 2013, taking it to £9,205 in total**. A very small proportion of the benefit will be passed on to higher rate taxpayers.

However the **basic rate tax band falls to £34,370 for 2012/13 from £35,000 in 2011/12 and £37,400 in 2010/11**. Thus ensuring higher rate tax payers do not really benefit from the increased personal allowance. The basic rate limit will be **reduced further from £34,370 to £32,245 in 2013-14**, so most higher rate taxpayers will get one quarter of the benefit a typical basic rate taxpayer will receive. This will affect those earning more than £41,450.

The government will introduce a limit on all uncapped income tax reliefs. For anyone seeking to claim more than £50,000 of relief, a cap will be set at 25 per cent of income.

The Government will reduce the top rate of tax from 50 per cent to 45 per cent from April 2013.

In line with the reduction in the additional rate of income tax, from April 2013, the dividend additional rate will be reduced from 42.5 per cent to 37.5 per cent.

There are no planned rises in personal tax rates and no planned rises in national insurance employee's contributions or employers contributions.

The chancellor says the government will consult on merging National Insurance and Income Tax. The goal, he says, is to simplify them, not increase taxes. He stated that it will make the tax system "fit for the modern age".

HMRC will provide from 2014–15, a new Personal Tax Statement for around 20 million taxpayers. This will detail the income tax and National Insurance contributions (NICs) they have paid, their average tax rates, and how this contributes to public spending.

National Minimum Wage (NMW) rates – As announced by the Department for Business, Innovation and Skills on 19 March 2012, the Government accepts the Low Pay Commission's recommendation for below inflation increases to the adult NMW rate, to £6.19 per hour, and the apprenticeship rate, to £2.65 per hour, and to freeze the youth rates. These changes will take effect from October 2012.

CHILD BENEFIT

Budget 2012 announces that Child Benefit will be withdrawn through an income tax charge, and that the charge will only apply to households where someone has an income over £50,000 a year. For households where someone has an income between £50,000 and £60,000 the charge will apply gradually, preventing a cliff edge effect. Only households where someone has an income in excess of £60,000 a year will no longer gain from Child Benefit.

PENSIONS

Budget 2012 announces that the Government will commit to ensuring the State Pension age is increased in future to take into account increases in longevity and will publish proposals at the time of the Office for Budget Responsibility's (OBR) 2012 Fiscal sustainability report.

The government has stated that it wishes to move towards a simpler, single personal allowance regardless of age by freezing existing age-related allowances (ARAs) from 6 April 2013 at their 2012–13 levels (£10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938) until they align with the personal allowance. From April 2013, ARAs will no longer be available, except to those born on or before 5 April 1948. The higher ARA will only be available to those born on or before 5 April 1938.

The Government will reform the State Pension into a single tier pension for future pensioners. The new system will be introduced early in the next Parliament and will be set at a level above the means-tested standard Guarantee Credit and all State Pension records will be recognised. As set out in the Green Paper published by the Department for Work and Pensions (DWP), the single tier will cost no more than the current State Pension system in every year. The Government will bring forward further detail in a White Paper in spring 2012, with final decisions on the detailed implementation of the policy being taken at the next spending review.

CORPORATION TAX AND LIMITED COMPANIES

Budget 2012 announces that the Government will reduce the main rate of corporation tax by an additional 1 per cent from April 2012. Therefore, the rate will fall by 2 per cent from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014. This affects companies with taxable profits of more than £300,000. The corporation tax small profits rate will remain at 20% for companies with profits under £300,000. As a result, the UK will have the lowest main corporation tax rate in the G7.

To ensure the Bank Levy raises at least £2.5 billion each year, and takes account of the benefit to the banking sector from the additional reductions in corporation tax, the full rate of the Bank Levy will increase to 0.105 per cent from 1 January 2013.

Personal service companies and IR35 – The Government will introduce a package of measures to tackle avoidance through the use of personal service companies and to make the IR35 legislation easier to understand for those who are genuinely in business. This will include: strengthening up specialist compliance teams to tackle avoidance of employment income; simplifying the way IR35 is administered; and subject to consultation, requiring office holders/controlling persons who are integral to the running of an organisation to have PAYE and NICs deducted at source by the organisation by which they are engaged. More information will be announced shortly.

SELF EMPLOYMENT

The Government is also responding to the OTS reports on small businesses taxation. From April 2013 the Government will introduce a new cash basis for calculating tax for small unincorporated businesses. The Government will consult shortly after Budget on the details of the scheme including on extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000. This will benefit up to three million small businesses, reducing the time it takes for them to calculate their tax. HMRC have set out administrative improvements for small business in making tax easier, quicker and simpler for small business.

BUSINESS FUNDING

To help small businesses raise finance, the Government has launched the National Loan Guarantee Scheme (NLGS), under which the Government will provide up to £20 billion of guarantees to banks, allowing them to borrow at a cheaper rate. The benefit banks receive will be passed through in its entirety to smaller businesses. Businesses that take out an NLGS loan will receive a discount on their loan of one percentage point compared with the interest rate that they would otherwise have received from that bank outside the scheme.

The government will also incentivise lenders to lend more to smaller businesses under the Enterprise Finance Guarantee (EFG) scheme, by raising the level of lenders' EFG portfolios to which the Government guarantee applies from 13 per cent to 20 per cent for 2012–13.

The government will improve and reform the Enterprise Management Incentive scheme (EMI), which helps SMEs recruit and retain talent, by providing additional support to help to start-ups access the scheme, consulting on amending restrictions that currently prevent the scheme being used by academics employed by start-ups, and more than doubling the individual grant limit to £250,000, subject to State aid approval.

Seed Enterprise Investment Scheme (SEIS) – From April 2012, the Government will introduce the new Seed Enterprise Investment Scheme (SEIS), providing income tax relief of 50 per cent for individuals who invest in shares in qualifying seed companies. The Government will also offer a capital gains tax (CGT) holiday: gains realised on the disposal of assets in 2012–13 that are invested through SEIS in the same year will be exempt from CGT.

CAPITAL ALLOWANCES AND COMPANY CARS

Capital allowances: business cars first-year allowances (FYAs) – From April 2013, the Government will extend the 100 per cent FYA for businesses purchasing low emissions cars for a further two years to 31 March 2015. The carbon dioxide emissions threshold below which cars are eligible for the FYA will also be reduced from 110 grams/kilometre to 95 grams/kilometre, and leased business cars will no longer be eligible for the FYA.

Capital allowances: business cars main rate – From April 2013, the carbon dioxide emissions threshold for the main rate of capital allowances for business cars will reduce from 160 grams/kilometre to 130 grams/kilometre. The threshold above which the lease rental restriction applies will also reduce from 160 grams/kilometre to 130 grams/kilometre.

TAXES – GENERAL

The Capital gains tax annual exempt amount (AEA) will remain at its 2011–12 level of £10,600 for 2012–13.

The chancellor stated that the Gift Aid changes are the "most radical reforms to charitable giving" for a long time and it's a "big help for the Big Society". It was also announced that a 10% discount on inheritance tax would be given where 10% of the estate is left to charity. The Gift Aid benefit limit will also rise from £500 to £2,500 from April 2011 to enable charities to give 'thank you' gifts, to recognise the generosity of significant donors.

Stamp Duty Land Tax (SDLT) rates – The Government will introduce a new SDLT rate of 7 per cent for residential properties over £2 million. The new rate will apply from 22 March 2012.

VAT

From 1 April 2012 the VAT registration threshold will be increased from £73,000 to £77,000 and the deregistration threshold from £71,000 to £75,000.

As announced at Budget 2011, the Government will introduce an online system for VAT registration, de-registration, and changes to business details with effect from 31 October 2012. From the same date, certain VAT forms will be removed from the law. The VAT threshold for businesses not established in the UK will be removed from 1 December 2012.

HOUSEHOLDS AND INDIVIDUALS

On 3 October 2011, the Government announced a new grant for local authorities in England that freeze or reduce their council tax in 2012–13. In response, 85 per cent of local authorities have taken up the Government's grant and will be freezing or reducing their council tax again next year.

The Government is implementing the actions set out in Laying the Foundations: A Housing Strategy for England, published in November 2011, to increase house building, stabilise the housing market and enable more people to own their own home. The Government: launched New Buy on 12 March 2012, making mortgages available for people to buy a new home with a five per cent deposit.

Alcohol duty rates - as announced at Budget 2008, and extended in the March Budget 2010, alcohol duty rates will increase by 2 per cent above the RPI. These changes will come into effect from 26 March 2012.

Tobacco products duty rates will increase by 5 per cent above the RPI. These changes will come into effect from 6pm on 21 March 2012.

Vehicle excise duty (VED) rates 2012-13 – From 1 April 2012, VED rates will increase in line with the RPI, apart from VED rates for Heavy Goods Vehicles which will be frozen in 2012-13. The Government will reduce tax disc postage costs by extending to fourteen days the grace period, following the payment of tax, on the non-display of a tax disc in a vehicle.

The chancellor announced that council tax is to be frozen or reduced this year in every English council.

Personal matters

Personal taxation

Income Tax Allowances table

Income Tax allowances	2010-11	2011-12	2012-13
Personal Allowance (1)	£6,475	£7,475	£8,105
Income limit for Personal Allowance	£100,000	£100,000	£100,000
Personal Allowance for people aged 65-74 (1)(2)	£9,940	£9,940	£10,500
Personal Allowance for people aged 75 and over (1)(2)	£9,640	£10,090	£10,660
Married Couple's Allowance (born before 6th April 1935 and aged 75 and over) (2) (3)	£6,965	£7,295	£7,705
Income limit for age-related allowances	£22,900	£24,000	£25,400
Minimum amount of Married Couple's Allowance	£2,670	£2,800	£2,960
Blind Person's Allowance	£1,890	£1,980	£2,100

1. From the 2010-11 tax year the Personal Allowance reduces where the income is above £100, 000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.
2. 2. These allowances reduce where the income is above the income limit for age-related allowances by £1 for every £2 of income above the limit. For the 2010-11 tax year the Personal Allowance for people aged 65 to 74 and 75 and over can be reduced below the basic Personal Allowance where the income is above £100,000.
3. Tax relief for the Married Couple's Allowance is given at the rate of 10 per cent.

Rate	2010-11	2011-12	2012-13
Starting rate for savings: 10%*	£0-£2,440	£0- £2,560	£0- £2,710
Basic rate: 20%	£0-£37,400	£0- £35,000	£0- £34,370
Higher rate: 40%	£37,401-£150,000	£35,001-£150,000	£34,371-£150,000
Additional rate: 50%	Over £150,000	Over £150,000	Over £150,000

* The 10 per cent starting rate applies to savings income only. If, after deducting your Personal Allowance from your total income liable to Income Tax, your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply. Non-savings income includes income from employment, profits from self-employment, pensions, income from property and taxable benefits.

The rates available for dividends are the 10 per cent ordinary rate, the 32.5 per cent dividend upper rate and the dividend additional rate of 42.5 per cent.

National insurance

All changes from 01/04/2012

Class 1 - employed (not contracted out)	Employer	Employee
Payable on weekly earnings of £146-£817		12%
Over £817		2%
Payable on weekly earnings of above £144	13.80%	
Men aged 65 and over, and women aged 60 and over	as above	Nil

Class 2 - flat rate, self employed	£2.65 per week
Excepted if earnings less than	£5,595 per annum
Class 3 - voluntary	£13.25 per week
Class 4 - self employed, on profits	
£7,605 - £42,475	9%
Excess over £42,475	2%

Pension schemes – the lifetime allowance and annual contribution allowance

There is no limit on the amount that an individual can contribute to a registered pension scheme. If you are a UK resident aged under 75 you may receive tax relief on your contributions to a registered pension scheme. Tax relief is limited to relief on contributions up to the higher of

- 100 per cent of your UK taxable earnings
- £3,600

Any amount of contributions paid over the annual allowance will be liable to the annual allowance charge.

Annual allowance:

Tax Year	Amount (£)
2006-07	£215,000
2007-08	£225,000
2008-09	£235,000
2009-10	£245,000
2010-11	£255,000

Standard lifetime allowance:

Tax Year	Amount (£)
2006-07	£1,500,000
2007-08	£1,600,000
2008-09	£1,650,000
2009-10	£1,750,000
2010-11	£1,800,000

There are a number of special tax charges that apply to special payments made from registered pension schemes. These are listed below. The normal Income Tax rates apply to ordinary pensions payments made from pension schemes.

Charges	Rates
Lifetime allowance charge	55% - if the amount over the lifetime allowance is paid as a lump sum
	25% - if the amount over the lifetime allowance is not taken as a lump sum
Annual allowance charge	40%
Unauthorised payments charge	40%
Unauthorised payments surcharge	15%
Short service refund lump sum charge	**Years to 2009-10**
	20% on first £10,800, 40% on amounts over £10,800
Short service refund lump sum charge	From 2010-11
	20% on first £20,000, 50% on amount over £20,000
Special lump sum death benefits charge	35%
Authorised surplus payments charge	35%
Scheme sanction charge	**15% - 40%**

Capital gains tax and Inheritance tax

Capital gains tax

Each tax year you have an annual tax-free allowance – known as the 'Annual Exempt Amount'. You only pay tax on total net gains above this amount, using the Capital Gains Tax rate for that tax year. Nearly everyone who lives in the UK will get the Annual Exempt Amount. This allows you to receive some normally taxable gains 'tax-free'. The current annual exemption for Capital Gains tax is £10,600 before Capital Gains Tax has to be paid; this will stay the same from 6 April 2012.

For gains on or before 22 June 2010, Capital Gains Tax is charged at a flat rate of 18 per cent.

- The following Capital Gains Tax rates apply to gains after this date:
- 18 per cent and 28 per cent tax rates for individuals (the tax rate you use depends on the total amount of your taxable income, so you need to work this out first)
- 28 per cent for trustees or for personal representatives of someone who has died
- 10 per cent for gains qualifying for Entrepreneurs' Relief

N.B. Gains on the disposal of an individual's principle private residence is still exempt.

Inheritance tax

Rates	2012-13 (£)	2011-12 (£)
0%	Up to £325,000	Up to £325,000
40% (death rate)	Over £325,000	Over £325,000
20% (lifetime rate)	Over £325,000	Over £325,000

Main Exemptions

Gifts to UK domiciled spouse	Unlimited	Unlimited
Annual gifts	£3,000	£3,000
Small gifts to different individuals	£250	£250
Gifts on marriage - by parent	£5,000	£5,000
Gifts on marriage - by remote ancestor	£2,500	£2,500
Gifts on marriage - by other person	£1,000	£1,000

Minimum wage

An employer must pay their workers a minimum amount as defined by law. This is called the National Minimum wage.

There are three levels of minimum wage, and the rates from 1st October 2011 are:

- for workers aged 21 years or more: £6.08 per hour (£6.19 from 1st October 2012)
- for workers aged 18 to 20 inclusive: £4.98 per hour (no change)
- for workers aged under 18 (but above compulsory school age): £3.68 per hour (no change)
- for apprentices aged under 19: £2.60 per hour (£2.65 from 1st October 2012)
- for apprentices aged 19 and over, but in the first year of their apprenticeship: £2.60 per hour (£2.65 from 1st October 2012)

Working and Child Tax Credits rates

Working Tax Credit - £ per year

Rates	Apr-11	Apr-12
Basic element	£1,920	£1,920
Couple and lone parent element	£1,950	£1,950
30 hour element	£790	£790
Disabled worker element	£2,650	£2,790
Severe disability element	£1,130	£1,190
50+ Return to work payment(16-29 hours)	£1,365	Withdrawn
50+ Return to work payment(30+ hours)	£2,030	Withdrawn

Childcare element of Working Tax Credit

Rates	Apr-11	Apr-12
Maximum eligible cost for one child	£175 per week	£175 per week
Maximum eligible cost for two or more children	£300 per week	£300 per week
Percentage of eligible costs covered	£1	£1

Child Tax Credit rates

The maximum Child Tax Credit rates are shown below.

Rates	Apr-11	Apr-12
Child Tax Credit Family element	£545	£545
Child element	£2,555	£2,690
Disabled child element	£2,800	£2,950
Severely disabled child element	**£1,130**	**£1,190**

Business matters

Corporation tax

- Corporation tax will remain at 20 per cent for companies will profits under £300k, the small profits rate.

- The main rate of corporation tax will be 24 per cent in April 2012, fall to 23 per cent in April 2013 and fall to 22 per cent in April 2014. This affects companies with taxable profits of more than £300,000.

Capital allowances

- To continue to encourage investment by small businesses, the rate of first-year capital (FYA) allowances for small businesses spending on low CO2 emission cars. First-year allowances are available (up to 31 March 2013) for expenditure on a new electric car, or a new, unused car with CO2 emissions of not more than 110gm per km driven. From April 2013, the Government will extend the 100 per cent FYA for businesses purchasing low emissions cars for a further two years to 31 March 2015. The carbon dioxide emissions threshold below which cars are eligible for the FYA will also be reduced from 110 grams/kilometre to 95 grams/kilometre, and leased business cars will no longer be eligible for the FYA.

- Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of depreciation charged in accounts which is not tax allowable. The main rate of capital allowances for general spending on plant and machinery is 20% a year on the reducing balance basis and 18% from 1 April 2011.

- The 100% Annual Investment Allowance (AIA) for first £25,000 of expenditure has been extended to help small businesses. The Annual Investment Allowance (AIA) allows businesses, regardless of size, to reduce their taxable profits by the full amount of their annual capital expenditure on most plant and machinery (apart from cars), up to a maximum amount of £25,000 each year. In order to provide further cash flow support and an incentive to increase business investment, the Government will increase the maximum amount of the AIA to £100,000 from 1 April 2011 to 31 March 2012 (for corporation tax) or 6 April 2011 to 5 April 2012(for income tax). Capital expenditure above this threshold will continue to be eligible for standard capital allowances against taxable profits.

Private Use of Company Cars and Vans

The changes to be made to business tax relief for expenditure on cars will take effect from 1 April 2009:

- the changes are broadly as expected and relief will be based on the CO2 emissions of each car. If the car has emissions no greater than 110g/km (95g/km from April 2013) it will attract an immediate 100% tax write down; if the emissions exceed 110g/km but not 160g/km the car is attracts 20% Writing Down Allowance (WDA) in the general pool. Cars with emissions exceeding 160g/km are dealt with in the special rate pool attracting WDAs at 10% per year. No balancing adjustment will be available on disposal of the car.

- a car owned by an unincorporated business and with an element of non-business use will continue to be held in a separate private-use pool. Capital allowances will be based on the emissions of the car as per the new regime. Currently such cars attract a balancing adjustment on disposal and as they will continue to be held in single use asset pools it seems that this will still be available (a Technical Note providing further details will be published shortly).

- the new capital allowances rules apply to cars acquired on or after 6 April 2009 (1 April 2009 for companies). Expenditure incurred before that date will be subject to the existing 'expensive' car rules for five years with any balance at that date being transferred to the general pool.

- cars obtained on a lease have a restriction on the amount of tax relief for the finance element of the lease payments. This restriction applies to 'expensive' cars. Under the new regime only cars with CO2 emissions in excess of 160g/km will have a restriction for lease payments at 15% of the relevant payments made under the lease.

- cars acquired under leases commencing prior to 6 April 2009 (1 April 2009 for companies) will continue to be subject to the existing rules.

- motorcycles are excluded from these rules and expenditure on or after 6 April 2009 (1 April 2009 for companies) will qualify for the Annual Investment.

- **Van benefit charge** – The Government will freeze the van benefit charge at £3,000 in 2012–13. From April 2015, the five year exemption for zero carbon vans from the van benefit charge will expire, as legislated in Finance Act 2010.

Mileage expenses

Employees (including directors) using their own vehicles for work is entitled to receive certain payments free of tax and NICs (the rules for each are related but not identical). If employees receive greater amounts than are allowed tax-free, they will pay tax on the excess. If they receive greater amounts than are allowed NICs-free, both employers and employees will be liable for Class 1 NICs on the excess. If employees receive less than the respective amounts above, no NICs will be payable and tax relief will be available. The rates are as follows;

Approved mileage rates		
	First 10,000 business miles in the tax year	**Each business mile over 10,000 in the tax year**
Cars and vans	45p	25p
Bicycles	20p	20p
Motorcycles	24p	24p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

Company Cars - Advisory Fuel Rates for Company Cars from 1 March 2012

These rates apply to all journeys on or after 1st March 2012 until further notice for employees (including directors) claiming mileage:

Engine size	**Petrol**	**Diesel**	**LPG**
1400cc or less (Diesel 1600cc or less)	15p	13p	10p
1401cc to 2000cc (Diesel 1601cc to 2000cc)	18p	15p	12p
Over 2000cc	26p	19p	18p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

Value Added Tax

- From 1 April 2012 the VAT registration threshold will be increased from £73,000 to £77,000 and the deregistration threshold from £71,000 to £75,000.

HMRC

The current late payment and repayment interest rates applied to the main taxes and duties that HMRC currently charges and pays interest on are:

- Late payment interest rate is 3.0% from 29/09/09
- Repayment interest rate is 0.5% from 29/09/09

If you would like any further information on the tax issues discussed above, please contact Heidi Pay on 01242 230043.