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Chancellor George Osborne presented his budget speech at lunchtime on 23rd March and surprised most pundits with a raft of measures not previously included in the draft legislation published in advance for consultation.

The main tax points arising from the budget are broken down by subject area below:

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Business/Corporation Tax

Corporation Tax Rates

The main rate of Corporation Tax is to be reduced from its current level of 28% by two percentage points in April 2011 (previously 1% announced) and will reduce by a further one percentage point each year thereafter until it is reduced to 23% from April 2014 (previously 24% announced).

The small companies rate paid by companies with profits of up to £300,000 will be reduced by 1% from 21% to 20% from April 2011, as announced in the 2010 emergency budget.

Planning point: *If you have corporation tax losses up to April 2011, you will obtain both a cash flow advantage and a greater tax repayment by carrying these losses back to previous periods where possible with higher tax rates, rather than carrying forward to relieve profits at the lower rates. Similarly, where you have discretion in the timing of expenditure (including capital equipment covered by the Annual Investment Allowance), this will attract tax relief at a higher rate before April 2011 than afterwards.*

Capital Allowances changes

As previously announced, the Annual Investment Allowance on which 100% tax relief is available in the year of purchase, will reduce from £50,000 to £25,000 from April 2012. The writing down allowance for other capital expenditure will reduce from 20% to 18% from the same date.

Planning point: *If you are planning to undertake capital expenditure in 2012, it is important to ensure that the benefits of the AIA, both pre and post 1st April (or 6th April for unincorporated businesses) 2012, are maximised through careful timing of expenditure.*

New announcements included an increase in the length of time that assets can be held and treated as Short Life Assets from 4 years to 8 years with effect from April 2011.

Planning point: *This is particularly useful with the reduction in AIA from 2012. If you make a short life election for an asset, this means that rather than the expenditure being pooled, the value for tax purposes is kept separately, and a balancing allowance is available if you dispose of it within the prescribed timescale. This can accelerate tax relief on the assets. Items such as vehicles and computers are especially suitable.*

Patent Box

The Chancellor has confirmed that a reduced 10% rate of corporation tax for profits arising from patents will be effective from 1 April 2013 but the Government will continue to consult on the detail of this measure.

Companies with income from patents commercialised after 29 November 2010 will qualify for this favourable tax regime. The reduced rate of corporation tax will apply to profits arising from patents from 1 April 2013.

The measure is intended to benefit innovative industries in general. Therefore patent filers in all areas, but particularly pharmaceutical, technology, manufacturing, energy and utilities, telecoms, aerospace, defence, consumer and media businesses should benefit.

A further consultation document will be published in May 2011, with legislation proposed for Finance Bill 2012.

Increase to Authorised Mileage Allowance Payments

The maximum mileage rate which can be paid without creating a tax charge has been increased (for the first time since 2002) from 40 pence to 45 pence per mile for the first 10,000 business miles per year. Thereafter the rate remains at 25p/mile. An additional 5p passenger rate may be paid. It is important to note that this is the maximum, and that employers are not obliged to pay this rate.

***Planning point:** If your employer pays you less than the maximum rate, you can claim income tax relief on the difference.*

***Planning point:** It remains the case that VAT can be reclaimed on a proportion of mileage payments, providing certain conditions are met. Please see the news section of our website www.crmoxford.co.uk for details.*

Increase to Research & Development Tax Credit relief

The additional tax deductions available under the small and medium sized enterprise (SME) R&D tax credit scheme will increase to 100% from 1 April 2011 and 125% from April 2012 subject to EU state aid approval.

This will give an overall rate of deduction on qualifying R&D expenditure of 200% in 2011 increasing to 225% in 2012.

Further changes are expected to come into effect in April 2012 and will include the removal of the rule limiting a SME company's payable R&D tax credit to the amount of PAYE and national insurance contributions (NICs) it pays, as well as the requirement for minimum expenditure of £10,000.

Value Added Tax

Increase in thresholds

The taxable turnover registration threshold for VAT will increase from £70,000 to £73,000.

The taxable turnover deregistration threshold for VAT will increase from £68,000 to £71,000.

The registration and deregistration thresholds for relevant acquisitions from other EU member states will increase from £70,000 to £73,000.

The new thresholds will have effect from 1 April 2011.

***Planning point:** If your turnover is currently under the registration threshold and you do not wish to register voluntarily, it is crucial that you keep a monthly record of your turnover to allow you to perform a rolling twelve month turnover test. Remember, the turnover test is not just applicable for your accounting year, but any twelve month period.*

Increase to road fuel scale charges

As is usual, the output VAT required to be paid over to HMRC where non-business fuel is paid for will increase for VAT periods beginning on or after 1st May 2011. For quarterly accounting traders, the first quarter end which will be affected is therefore the quarter ended 31st July, 31st August or 30th September. HMRC will announce precise details in due course.

Online filing mandatory for all

It has been confirmed that from April 2012, any businesses not currently required to file online will be required to do so. It is therefore important to ensure you have systems in place to deal with this requirement well in advance (for example setting up a Government Gateway account).

Personal Tax

Personal Allowance and basic rate bands change

As announced in the June 2010 emergency budget, for 2011/12, the personal allowance will rise by £1,000 to £7,475 for people under 65 (people over 65 can already benefit from a higher allowance). However, for higher rate taxpayers, this will be more than offset by a reduction in the higher rate limit by £2,400 to £35,000, meaning that basic rate taxpayers can benefit by up to £200 per annum, whereas a higher rate taxpayer could be worse off by around £80 overall. The 50% rate remains in force for taxable income over £150,000 and the personal allowance will still begin eroding when income reached £100,000.

It has been announced that for 2012/13, the personal allowance will increase by a further £630, but that again the higher rate threshold will reduce, meaning that only basic rate taxpayers will benefit.

The Capital Gains Tax annual exempt amount will increase from £10,100 to £10,600.

***Planning point:** If your income is at or near the higher rate, additional rate or £100,000 limit, there may be options for mitigating the impact of these tax rates depending on your personal circumstances. Please get in touch if you would like a review performed to ensure your tax bills are kept to a minimum.*

***Planning point:** If you currently take a minimal salary from your own company of say £6,000 p.a. to gain state pension entitlement, we would suggest that you increase this to somewhere in the region £7,072-£7,500 to maintain this benefit whilst making a net tax saving of around £215 per director p.a.*

Changes to EIS and VCT investments

The biggest change announced was to the Enterprise Investment Scheme, in that the tax credit against income tax will be increased from 20% to 30% of the amount invested (but limited to the tax otherwise due for the year) from April 2011.

It was also announced that from April 2012, the following changes for investments into EIS and VCT would be brought in via next year's Finance Act:

- An increase in the annual amount that an individual can invest through EIS to £1 million (currently £500,000);
- An increase in the threshold size for a company to qualify for both EIS and VCTs to no more than £15 million of gross assets before the investment (currently £7 million before and £8 million after the investment);
- An increase in the threshold of the number of employees a company can have to fewer than 250 employees (currently fewer than 50 employees); and
- An increase in the annual amount that a qualifying company can raise through both EIS and VCTs to £10 million (currently £2 million).

New ISA limits confirmed

It was confirmed that the total ISA limit for 2011/12 would be £10,680, of which £5,340 can be invested in tax free cash savings.

Reduction in Inheritance Tax Rate where significant legacies left to charity

Where at least 10% of an estate is left to charity, the inheritance tax rate on the residue is to be reduced from 40% to 36% from April 2012.

Entrepreneur's Relief increased

With effect from 6th April 2011, the amount of gains qualifying for the 10% Entrepreneur's rate will be doubled from £5m to £10m.

Other announcements

Stamp Duty Land Tax

The Government is set to announce the outcome of its review into the impact of SDLT relief for first time buyers in the autumn of this year.

SDLT anti avoidance legislation has been brought in with the aim of closing down certain mitigation strategies. However, if you are considering purchasing a property for over £250k, it is worth getting in touch with us to see if we can recommend any solutions.

Small Business Rates Relief

Businesses whose (sole) building has a rateable value of £18,000 or less can benefit for a further year from reduced business rates bills. This is now due to expire on 30th September 2012.

***Planning point:** This relief is not automatic and must be claimed. For further details, visit the website of your local authority.*

As always, it is impossible to include every nuance in a publication such as this, so if you have a question about how a budget measure may affect you or your business, or if you have a general tax query, please get in touch with us on 01865 379272.