

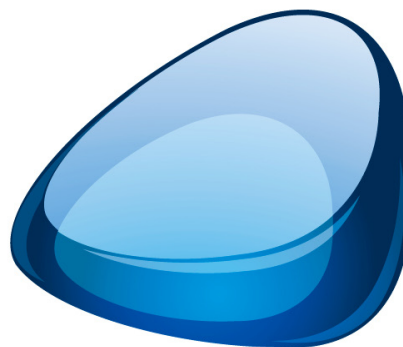
BUDGET REPORT 2010



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Budget Report 24 March 2010

This Report, written immediately after the Chancellor of the Exchequer delivered his Budget Speech, is intended to provide an overview of the announcements most likely to affect you and your business.

There remains an element of uncertainty regarding the final fiscal measures for 2010/11 given that, if the forthcoming election results in a change of government, there is almost certain to be a second Budget.

With the ongoing challenging economic conditions this Pre-Election Budget was awaited with interest regarding the changes announced by the Chancellor. Notwithstanding any further changes as a consequence of any further Budget, you will need to consider the impact of the announcements on you and, if you are in business, your business.

We can help you evaluate your plans, and adapt them as necessary taking into account the changing economy and your personal and business circumstances. With our help, you can plan ahead embracing the very different economy compared with that which we were accustomed to before the credit crunch.

How to make the most of our services










- Please read the Report as soon as possible
- Contact us as soon as possible to discuss any action you may be considering, and to review your longer term plans. We always welcome the opportunity to help

Please note: while most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until 2011, or later. Where relevant, details of these changes have been included in this Report.

This Report is based on press releases issued immediately after the Budget on 24 March 2010. These proposals may be amended.

Professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or this firm for any loss occasioned as a result of action taken or refrained from in consequence of the contents of this publication.

Contents

	page
 Business and Investment Incentives Corporation tax Capital allowances	01
 Personal Taxation and Savings Income tax rates Personal allowances	04
 Capital Taxes Inheritance tax thresholds Capital gains tax rates	07
 Duties Stamp duty land tax Excise duties	08
 General Announcements Stamp duty land tax partnerships Landfill tax	09
 Value Added Tax VAT rates VAT thresholds	10
 Vehicle Taxation Company car benefits Mileage rates	12
 The Economy The ongoing financial challenges	14
 2010/11 Tax Rates and Allowances Summary tables	16



Business and Investment Incentives

Corporation tax rates

Corporation tax rates and bands are as follows:

FINANCIAL YEAR TO	31 MARCH 2011		31 MARCH 2010	
Taxable profits				
First	£300,000	21%	£300,000	21%
Next	£1,200,000	29.75%	£1,200,000	29.75%
On profit over	£1,500,000	28%	£1,500,000	28%
Tax credit on dividends	10%		10%	
Marginal relief fraction	7/400		7/400	

Capital allowances

The Chancellor announced a doubling of the present £50,000 annual investment allowance for expenditure on plant and machinery. The new limit is £100,000 per annum and applies to expenditure incurred on or after 1 April 2010 for companies and 6 April 2010 for businesses subject to income tax. For accounting periods spanning these dates the entitlements will be time apportioned.

Anti avoidance provisions have also been announced to counter any scheme which attempts to claim property loss relief against general income to the extent that the loss is attributable to annual investment allowances. This measure will apply to arrangements entered into on or after 24 March 2010 where tax avoidance arrangements have been implemented.

There are changes to the list of technologies qualifying for enhanced capital allowances on the basis of a requirement for them to be environmentally beneficial. The annual review of the list has resulted in two new sub-technologies being added: permanent magnet synchronous motors and biomass fired warm air heaters. On the other hand compact heat exchangers and liquid pressure amplification will be removed. The criteria for water efficient taps and showers will be tightened. These changes will take effect from the date of the Treasury order following publication of the new lists later this year.

A 100 per cent first year allowance is introduced for new and unused zero-emission goods vehicles. This will be effective for expenditure incurred on or after 1 April 2010 for companies and 6 April 2010 for businesses subject to income tax and will cover a period of five years from those dates.

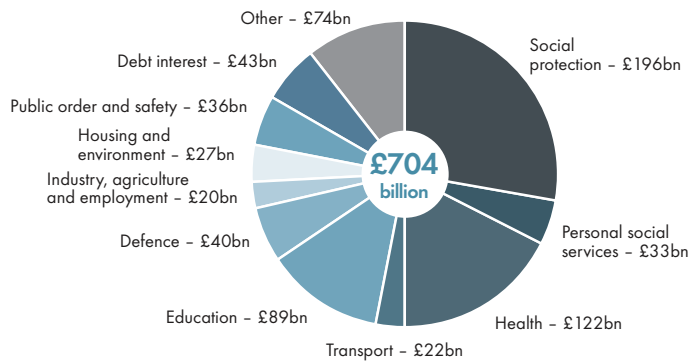
Business rates

To provide help with the fixed costs of starting and running a small business, the Government will fund a temporary increase in the level of small business rate relief, so that eligible small businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from October 2010. Additionally, small businesses benefiting from the rate relief taper (rateable values up to £12,000) will receive significant reductions. It is estimated that over half a million businesses across England will benefit.

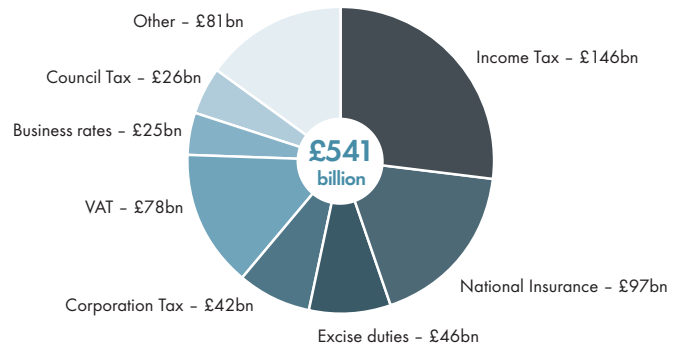
Close companies

Under the existing loan relationship rules close companies that make loans to participators have been able to claim a tax allowable expense against corporation tax when such loans are written off or waived, provided they satisfied certain anti avoidance tests. A measure is introduced with effect from 24 March 2010 preventing close companies obtaining a corporation tax deduction in respect of such write offs after this date.

Government spending



Government receipts



Time to pay

HM Revenue & Customs will continue to offer Time to Pay for all viable businesses having difficulty in meeting their tax obligations.

Consortium relief

The Government announced that it will amend the consortium relief rules so that EU and EEA resident companies engaged in UK consortia will be allowed to pass on the losses of those consortia to their UK resident subsidiaries. In addition, the Government plans to strengthen the rules designed to ensure that consortium relief is given only in proper proportion to the member company's involvement in the consortium.

Changes in accounting standards

As a consequence of the major changes to accounting standards in the pipeline and in particular the anticipated change in International Financial Reporting Standards regarding financial instruments, the Chancellor has paved the way for the necessary changes in the loan relationship rules by putting forward legislation to be incorporated into the Finance Bill 2010 which will allow the corporation tax legislation to be amended by regulations under a statutory instrument. This will enable the necessary changes to be enacted more easily and quickly.

Share ownership schemes

The final changes to the Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) rules agreed with the European Commission in order to qualify as approved "State aids" are now being implemented. The changes to VCT rules are that the qualifying shares now need to be traded on any EU regulated market as opposed to the UK official list. Also the existing legislation requires that at least 30 per cent of the VCT's qualifying holdings is represented by eligible shares as defined in ITA section 285(3) and this will be increased to 70 per cent.

For both EIS and VCT legislation will be introduced to exclude companies where they would be treated as an "enterprise in difficulty" as defined by the European Commission's Rescue and Restructuring Guidelines. The requirement for the qualifying trade to be carried out wholly or mainly in the UK will be replaced by a much less onerous condition of having a permanent establishment in the UK. The permanent establishment rule will similarly apply to Enterprise Management Incentive share schemes.

All of the above measures will have effect from the date of Royal Assent to a Finance Act in the next Parliament.

An anti avoidance measure has also been announced to prevent companies obtaining a corporation tax deduction by paying money to share incentive plan (SIP) trustees for them to purchase shares from director-shareholders but with no real benefit accruing to the employees as a result. This measure takes effect for arrangements made on or after 24 March 2010.

There is also a new anti avoidance measure regarding company share option plans (CSOP). HM Revenue & Customs have become aware of so called "geared growth" schemes where employees are able to receive additional rewards over the statutory £30,000 limit. This was achieved by granting options over shares which were in a company controlled by a listed company. The anti avoidance provision takes effect from 24 March 2010 onwards in order to deny CSOP treatment for any shares in a company controlled by a listed company.

Employer supported childcare

Employers providing childcare benefits through salary sacrifice schemes have been excluding employees from the scheme where the salary sacrifice would take the employee below the national minimum wage. Technically this would invalidate the scheme as it would not therefore be open to all employees and thus a chargeable benefit would arise on those employees taking advantage of the scheme. This rule will now be relaxed to permit such situations and the relaxation will be retrospective to the tax year 2005/06 onwards, when the tax free benefit was introduced.

Sale of lessor companies

Draft legislation was published in the 2009 Pre Budget Report which offered companies an alternative treatment to the initial “sale of lessor companies” legislation enacted in Finance Act 2006. The draft legislation has now been discussed with interested parties and a number of refinements have been negotiated that will now be included in the Finance Bill 2010. The changes include the preservation of capital allowance entitlement in some circumstances, dealing fairly with lessor companies which are controlled foreign companies or lease ships into tonnage tax. It will also address a flaw in relation to companies owned by a consortium. The measure initially was brought in 9 December 2009 but the proposed changes will have effect on 24 March 2010.

Capital distributions

There has been uncertainty over the treatment of certain distributions received by UK companies as to whether they were capital or income. The Finance Act 2009 exempted most foreign distributions received by UK companies from corporation tax unless they were capital in nature. However doubts remained about difficult borderline cases. The new legislation will simplify this area by treating all distributions as income unless they have been specifically excluded from income. The legislation will have retrospective effect to the date when the Finance Act 2009 rules took effect.

Relief for interest “worldwide cap”

The worldwide interest cap rules were introduced last year to limit the total UK deduction for interest expense to the total interest paid worldwide. The Treasury announced that changes would be made to the rules following a consultation with business. This has resulted in a number of proposed changes including the treatment of securitisation companies, the transfer of corporation tax liabilities arising from these rules within a group involved in capital market arrangements and various other changes affecting the “gateway test”, groups controlled by limited liability partnerships and distributions made by industrial and provident societies.

These changes apply to periods of account of the worldwide group beginning on or after 1 January 2010 and will be included in a Finance Bill in the new Parliament.

HM Revenue & Customs powers – deterrents and safeguards: security for payment of PAYE

HM Revenue & Customs are to be given powers to require a financial security from employers where amounts due under PAYE or NICs are considered to be “seriously at risk.” Furthermore it is HM Revenue & Customs who will have the power to determine the amount of the security based on their view of the potential tax liability.

These measures are intended to be applied to those employers with a history of serious non-compliance in terms of payment. The safeguard mirrors the current powers with regard to VAT.

These measures will introduce a criminal offence in the event of failure to provide a security which is punishable with a fine of up to £5,000.

These measures are expected to be applied as from 6 April 2011.

Offshore tax evasion

Increased penalties are expected to apply from 1 April 2011 for individuals and businesses with financial interests outside the UK who are found to have failed in their obligations to declare the full extent of their [offshore] income tax and capital gains tax liabilities. These penalties will be tax-geared. Where the non-compliance arises in a jurisdiction which has agreed to exchange information with the UK, but does not automatically share that information, the penalty percentages will be 1.5 times those laid out in the penalties legislation, and where the jurisdiction has no agreement to share information with the UK the penalty will be twice the rate laid down in the existing legislation.

Modernisation and compliance checks

With effect from 1 April 2012 there are increased requirements allied to the HM Revenue & Customs compliance framework. These measures will update the compliance checking framework for excise duties, including:

- Modernising information and inspection powers; and
- Aligning the record keeping rules and the time limits for assessments and claims with changes made to other taxes and duties.



Personal Taxation and Savings

INCOME TAX BANDS AND RATES		2010/11	2009/10
Saving rate band		£2,440	£2,440
Savings rate		10%	10%
Basic rate band		£37,400	£37,400
Basic tax rate		20%	20%
Dividend ordinary rate		10%	10%
Higher rate band	£37,401 - £150,000		Over £37,400
Higher tax rate		40%	40%
Dividend higher tax rate		32.5%	32.5%
Additional rate band	Over £150,000		N/A
Additional tax rate		50%	N/A
Dividend additional tax rate		42.5%	N/A

ALLOWANCES THAT REDUCE TAXABLE INCOME

Personal allowances	under 65	£6,475	£6,475
	65 to 74	£9,490	£9,490
	75 and over	£9,640	£9,640
Blind person's allowance		£1,890	£1,890

Age related allowances are reduced by £1 for each £2 of income above £22,900 (2009/10 £22,900), until the minimum of £6,475 (2009/10 £6,475) is reached.

The minimum personal allowance is reduced, by £1 for each £2 of income from £100,00 to £112,950.

ALLOWANCES THAT REDUCE TAX

Married couple's allowance (MCA)	75 and over	£6,965	£6,965
Tax reduction at 10%		£696.50	£696.50

The age for MCA is of the elder spouse or civil partner.

The loss of tax reduction is 10p for each £2 of income above £22,900 (2009/10 £22,900) until the minimum of £267 (2009/10 £267) is reached.

All ages as at 5 April 2011.

Income tax rates, rate limits and personal allowances for 2010/11

The following income tax changes will have effect on 6 April 2010:

- Legislation will be introduced in Finance Bill 2010 to set the basic rate of tax at 20 per cent, the higher rate at 40 per cent, and the additional rate at 50 per cent (reaffirming the current position).
- The 20 per cent basic rate band will apply to taxable income up to the basic rate limit of £37,400; the 40 per cent band will apply to taxable income between £37,401 and £150,000; and the 50 per cent rate will apply to taxable income above £150,000.
- The limit for the 10 per cent starting rate on savings income will remain at £2,440.
- The personal allowance for those under 65 will remain at £6,475; the personal allowance for those between 65 to 74 will remain at £9,490; and the personal allowance for those aged 75 and over will remain at £9,640.
- The amount of the personal allowance will be reduced for those individuals with incomes above £100,000 by £1 of personal allowance for every £2 of income above £100,000. Age related allowances are similarly abated when income exceeds £22,900.

Bank payroll tax

The bank payroll tax has been levied at the rate of 50 per cent on bonuses exceeding £25,000 paid by banks, certain financial businesses, holding companies in banking groups, building societies and similar bodies (known as 'taxable companies') between 9 December 2009 and 5 April 2010. The tax applies for all discretionary and contractual bonus awards if the bonus is paid to the employee directly or through an intermediary. The following provisions should be noted:

- If a banking employee is resident in the UK for less than 60 days in the 2009/10 tax year then he or she will be outside the scope of the bank payroll tax.
- The bank payroll tax applies to bonuses comprising money, money's worth, benefits and loans.
- The definition of a 'banking group' excludes any group where at least 90 per cent of the trading income in the last period of account of the group ending no later than 5 April 2010 is derived from insurance, asset management and related activities or non-financial activities, or a combination thereof. Any UK resident bank or relevant foreign bank within the group will still be a taxable company for the purposes of the bank payroll tax.
- All 'taxable companies' will be required to file a bank payroll tax return by 31 August 2010. The return will set out that bank payroll tax is payable or confirmation that no bank payroll tax is payable. Penalties will apply to late filed or incorrect returns.

The Chancellor revealed during the Budget speech that the payroll tax had yielded £2 billion so far – twice the estimates prepared by the Treasury when the announcement was made in December 2009.

UK Real Estate Investment Trusts [REIT] and stock dividends

Under the current legislation it is not possible for a UK REIT to issue a stock dividend in lieu of a cash dividend.

From the date that Finance Bill 2010 receives Royal Assent, UK REIT's will be able to issue stock dividends in lieu of cash dividends in meeting the requirement to distribute 90 per cent of the profits as a property income distribution from the property rental business of the REIT. The recipients of the stock dividends will be taxed in the same way as if they had received a cash dividend.

Indexing Individual Savings Account [ISA]: limits from 2010

From 6 April 2010, the ISA annual subscription limit is being increased for all savers to £10,200, of which £5,100 can be saved in a cash ISA. The limit was previously £7,200, unless the individual was born before 6 April 1960, in which case it had been £10,200 since 6 October 2009.

From 6 April 2011 and over the course of the next Parliament, the ISA limits will be increased annually in line with the retail price index.

Income tax adjustments between settlors and trustees

Under the current legislation it is possible for a settlor to receive a repayment of income tax on trust income if they are liable to pay income tax at a lower rate than the trustees.

This anomaly will be corrected for repayments relating to income tax chargeable on or after 6 April 2010 – the settlor will be required to pay any such tax repayments they receive to the trustees. These payments will be disregarded for inheritance tax purposes. The enabling legislation will be introduced as soon as possible in the next Parliament.

Implementing the tax restriction of pensions tax relief

Legislation will be introduced in Finance Bill 2010 to recover tax relief above the basic rate on pension contributions made by or on behalf of individuals with income of at least £150,000. The restriction of pensions tax relief will have effect from 6 April 2011.

For individuals with annual income of between £150,000 and £180,000 tax relief on pension contributions (including employer's contributions) will reduce gradually from the individual's marginal rate to basic rate as income increases. If the level of income is £180,000 or over, tax relief on pension contributions will be restricted to the basic rate.

These rules will affect individuals with income of £150,000 or over. For these purposes, income is calculated before the deduction of pension contributions (including employer's contributions) or charitable donations.

A special annual allowance applies for 2009/10 and 2010/11 for individuals with income of £130,000 or over. Tax relief above basic rate is recovered from pension savings above an individual's special annual allowance by the application of the special annual allowance charge. An individual's special annual allowance is the higher of their regular pension savings and £20,000 (or in certain circumstances, where contributions have been less regular than quarterly, £30,000).

Pension schemes: Treasury order to set the lifetime allowance and annual allowance from 6 April 2011

As announced in the 2008 Pre-Budget Report, the 2010/11 lifetime allowance of £1.8 million and the annual allowances of £255,000 will continue to apply, with their rates held constant until 5 April 2016. A Treasury order has been laid before Parliament today to put this into effect.

Changes to pension taxation

The Pensions Act 2008 places a duty on employers to ensure that their "jobholders" are active members of a pension scheme by 2012, and to make pension contributions to such a scheme on their "jobholder's" behalf.

The National Employment Savings Trust (NEST) is a Government Scheme and will be registering with HM Revenue & Customs for tax purposes and be subject to the same tax rules as other tax-registered pension schemes. The enabling legislation will be included in a future Finance Bill, to be enacted in the next Parliament. Secondary legislation may also be introduced should any unintended taxation consequences arise.

The remittance basis: relevant person

Finance Act 2008 introduced significant changes to the remittance basis of taxation. Individuals who choose to use the remittance basis will be subject to UK tax on their foreign income and gains only when they are remitted to the UK, rather than on their worldwide income and gains.

The concept of a relevant person was introduced in Finance Act 2008 to ensure that any foreign income or gains of an individual which are remitted to the UK by way of any relevant person are taxed on that individual. A close company comes within the definition of a relevant person, as does the individual, their spouse or civil partner, or their children and grandchildren under the age of 18.

From 6 April 2010, the definition of a close company will also include a subsidiary of a non-UK resident company which would be a close company if it were resident in the UK.

Anti-avoidance: transactions in securities

Legislation will be introduced in Finance Bill 2010 to replace the existing transactions in securities legislation with clearer legislation targeted more effectively at arrangements involving tax avoidance.

The scope of the new legislation will be enhanced so that it applies to certain arrangements involving close companies. The intention will be to counteract any income tax advantage involving the receipt of an abnormal dividend. The measure will generally have effect for transactions where the tax advantage is obtained on or after 24 March 2010.

Disclosure of tax avoidance schemes

Legislation will be introduced in Finance Bill 2010 revising the Disclosure of Tax Avoidance Schemes (DOTAS) and providing for increased penalties for failure to comply with the rules.

This is likely to affect promoters of tax avoidance schemes including accountancy and law firms, banks and other financial institutions and their clients, and introduces quite significant new administrative burdens on promoters of schemes and those who refer clients to promoters.

Special guardianship orders and residence orders

Certain payments to special guardians, and to certain carers looking after children under a residence order, will be exempt from income tax. The new exemption will be similar to that which applies for payments to adopters.

This legislation will be introduced in a Finance Bill to be introduced as soon as possible in the next Parliament. It will have effect for payments received on or after 6 April 2010.



Capital Taxes

CAPITAL GAINS TAX	2010/11	2009/10
Capital gains tax rate	18%	18%
Entrepreneurs' relief: Effective rate	10%	10%
Lifetime limit	£2,000,000	£1,000,000
Annual exemption		
Individual	£10,100	£10,100
Settlement	£5,050	£5,050
INHERITANCE TAX		
Nil rate band	£325,000	£325,000
Chargeable rate on lifetime transfers	20%	20%
Rate on transfers on or within 7 years of death	40%	40%

Capital gains tax: increase in lifetime limit on entrepreneurs' relief

Legislation will be introduced in Finance Bill 2010 to increase the lifetime limit on gains qualifying for entrepreneurs' relief from £1 million to £2 million. The change will have effect from 6 April 2010.

Gains qualifying for the relief will continue to be reduced by the fraction 4/9, leaving the effective rate of capital gains tax at 10 per cent on the first £2 million of gains. Any gains in excess of that figure will be subject to capital gains tax at the rate of 18 per cent.

Inheritance tax: nil rate band

The 2009 Pre Budget Report announced that the inheritance tax nil rate band would be frozen at the current level of £325,000 for the 2010/11 tax year.

It has been announced that the nil rate band will remain at £325,000 until 5 April 2015.



Duties

Alcohol duties

Duty increases (generally 2 per cent above the rate of inflation) will apply on and after 29 March 2010 that have the effect of increasing the cost of alcohol products as follows:

- 36 pence on a 70cl bottle of spirits
- 2 pence on a pint of beer
- 5 pence on a litre of still cider
- 9 pence on a 75cl bottle of sparkling cider
- 10 pence on a 75cl bottle of wine or made-wine; and
- 12 pence on a 75cl bottle of sparkling wine.

Tobacco products

Changes in tobacco duty are announced which represent an increase in duty of 1 per cent in real terms [after taking inflation into account]. These duty changes affect the price of cigarettes, cigars, hand-rolling tobacco, other smoking tobacco and chewing tobacco.

These changes apply from 6pm on 24 March 2010.

Stamp duty land tax rates and thresholds

Two measures are announced:

1. First time buyers

No stamp duty will be payable by first time buyers in respect of the purchase of residential property where the effective date (normally the date of completion) is on or after 25 March 2010 and before 25 March 2012. This is a doubling of the exemption as currently a purchase where the consideration is between £125,001 and £250,000 attracts a 1 per cent rate of stamp duty land tax. Relief from stamp duty is available where the purchaser or all the purchasers have not previously acquired such property.

2. Residential property over £1 million

The existing rate of stamp duty for purchases is capped at a maximum rate of 4 per cent for residential property costing £500,000 or more. After 6 April 2011 where the consideration for a purchase of residential property exceeds £1 million a rate of 5 per cent will apply.

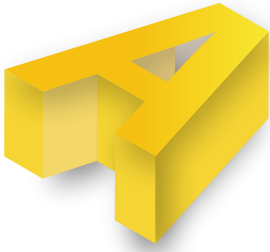
Landline duty – new tax

A new duty of 50 pence per month per line will be introduced that is almost certainly to be passed on to the subscriber and will result in an additional £6 being added to landlines, which together with VAT will cost over £7 per annum per landline.

Bingo duty, amusement machine licence duty and gaming duty

The rate of bingo duty is to reduce from 22 per cent to 20 per cent while there are inflation linked increases in the amounts of amusement machine licence duty and gross gaming yield. These increases affect anyone who provides a gaming machine for play in the UK and includes casinos and bingo clubs.

Further announcements relating to operational aspects of some duties are included in other announcements.



General Announcements

Stamp duty land tax partnerships

With effect on or after 24 March 2010 measures are introduced to avoid the current exploitation of the stamp duty land tax (SDLT) rules for partnerships on some land transactions. The legislation will be in Finance Bill 2010 and will disapply the partnerships rules from a "notional land transaction."

The SDLT rules for partnerships currently apply to a "notional land transaction." These measures will affect those who seek to take advantage of the special stamp duty land tax rules for partnerships.

Aggregates levy

From 1 April 2011 the rate of aggregates levy is to increase from £2.00 per tonne to £2.10 per tonne.

The Northern Ireland Aggregates Levy Credit Scheme is to be extended for a further ten years to 31 March 2021. This scheme grants an 80 per cent tax credit to aggregate producers in Northern Ireland who meet the required conditions.

Tobacco smuggling in the post

As a consequence of increased postal smuggling Customs are to be given wider powers to tackle postal tobacco smuggling.

Climate change levy

Suppliers of taxable commodities and others liable to account for the climate change levy are to be subject to higher levies. These increases will have effect for supplies of taxable commodities treated as taking place on or after 1 April 2011. The new rates are detailed in Budget Notice 55.

Landfill tax

The standard rate of tax that applies on or after 1 April 2011 is increased by £8 per tonne to £56 per tonne (currently £40/tonne, but increasing 1 April 2010 to £48/tonne). The lower rate remains at £2.50 per tonne.

New legislation is to come into force on 1 October 2010 that determines criteria for determining the lower rate of landfill tax. Under existing rules in section 42(4) of Finance Act 1996, HM Treasury must have regard to whether material being landfilled is commonly described as inactive or inert when deciding whether or not to include it in an order that lists the materials that qualify for the lower rate of tax. These measures will be replaced with new provisions that specify that the Commissioners for HM Revenue & Customs must publish the criteria that HM Treasury use. HM Treasury will use this to determine what material is lower rated. They will also be obliged to publish revised criteria when listing in an Order the materials that qualify for the lower rate of tax, for any disposals made, or treated as made, on or after 1 October 2010.

Currently landfill site operators may claim against their annual landfill tax liability for contributions made to bodies concerned with the environment (enrolled under the Landfill Communities Fund (LCF)). Legislation will be introduced to amend the maximum credit claimable from 6 per cent to 5.5 per cent. This should have the effect of an increase to the maximum value of the LCF in line with inflation, from £72 million in 2009/10 to a potential value of £74.25 million of credit claimable for 2010/11.

Trusts and asbestos victims

Trusts established on or before 23 March 2010 that are specifically set up as part of an arrangement made by a company with its creditors to pay compensation to asbestos victims will benefit from income and capital taxes exemption.

The trustees will be exempt from income tax, capital gains tax and inheritance tax. This measure will have effect retrospectively from 6 April 2006.



Value Added Tax

FROM	1 APRIL 2010	1 JANUARY 2010
Standard rate	17.5%	17.5%
VAT fraction	7/47	7/47
Taxable turnover limits		
Registration – last 12 months or next 30 days over	£70,000	£68,000
De-registration – next 12 months under	£68,000	£66,000

New registration and deregistration thresholds

With effect from 1 April 2010, the registration threshold will be increased from £68,000 to £70,000, and the de-registration threshold from £66,000 to £68,000. The threshold for registration and de-registration in respect of intra-community acquisitions is also increased from £68,000 to £70,000.

The main effect of the changes means that from 1 April 2010, an un-registered business must notify its requirement to register if taxable turnover (i.e. the aggregate of turnover subject to VAT the standard, reduced and zero rate) in the last 12 months has exceeded £70,000 or if it expects taxable turnover in the next 30 days to exceed that figure. However, the business will not have to register if it can demonstrate to HM Revenue & Customs that taxable turnover in the next 12 months will not exceed £68,000.

From the relevant date, de-registration can be applied for if annual taxable turnover falls below £68,000.

Reverse charge on emissions allowances

A new measure has been proposed to change the rules on the application of the reverse charge to combat missing trader intra-community ('MTIC') fraud in goods, so that it also applies to services. This legislative change is necessary so that the Government can then require the reverse charge for emissions allowances.

The change will take effect from 1 November 2010, at which time the interim zero-rate for emissions allowances, introduced in July 2009, will be withdrawn. This legislation will also enable HM Revenue & Customs to introduce additional reporting requirements for services covered by the reverse charge, but at least for the time being, there would be no such requirements for emissions allowances.

Changes to the rules for 'Lennartz' accounting

As a result of the EU Technical Directive and an ECJ decision, changes to UK law are necessary as regards the extent to which 'Lennartz' accounting is permitted for immovable property, boats and aircraft.

This form of accounting enables the buyer, who intends to use the asset for business and non-business purposes, to claim input tax in full when the asset is purchased then pay an amount of output tax deemed to relate to the extent of non-business use in any tax period in which the asset is so used. However, the ECJ case *Vereniging Noordelijke Land-en Tuinbouw Organisatie v Staatssecretaris van Financien* (C-515/07) and the Technical Directive (Council Directive 2009/162/EU) have shown that the UK has allowed Lennartz accounting where it should not have done.

The changes will ensure input tax is only permitted to the extent of any business use and the capital goods scheme will be amended to ensure fluctuations in non-business use, over the useful life of the asset, are reflected in adjustments. Those who are already using Lennartz accounting for certain assets will be required to continue to account for output tax on private use or completely unravel previous calculations. Furthermore,

the current legislation on directors' accommodation will be repealed to ensure the VAT on all relevant costs is not allowable as input tax.

The implementation on the Technical Directive and the repeal of the directors' accommodation provisions will take effect on and after 1 January 2011 but the requirement for existing Lennartz users to carry on or unravel past calculations is treated as always having been in place.

Changes to place of supply rules for gas, heat & cooling

A new measure will affect suppliers, importers and VAT-registered recipients of natural gas, heat and cooling. It will also have an impact on providers and VAT-registered recipients of services consisting of access to, and use of, natural gas and heat and cooling distribution networks.

The measure will take effect on and after 1 January 2011. Currently, the place of supply of gas through the natural gas distribution system is where a wholesale customer is established or where the natural gas is consumed. Therefore, VAT-registered customers in the UK have to account for such supplies they receive from suppliers based abroad via the reverse charge mechanism. However, as it stands, there are no similar rules for supplies of heat and cooling. Consequently, the existing rules are to be amended to address that anomaly as follows:

- their scope will be extended to include supplies in all categories of natural gas pipeline, but also
- limited to supplies involving natural gas pipelines located in the EU or linked to pipelines located in the EU, and
- relief from import VAT will be extended to all natural gas imported via a network (which includes liquefied natural gas by tanker).

These amended rules will be extended to apply to heat and cooling supplied through networks.

VAT on certain postal services

The Government is proposing a change to certain postal services currently exempt from VAT. In effect, only Royal Mail Holdings PLC ('RMH') is affected although certain recipients of their services will now have to pay VAT on relevant supplies. The plan is for the change to be brought into law through Finance Bill as early as possible in the next Parliament and for the changes to be effective on and after 31 January 2011.

The current exemption for postal services should only apply to public postal services and incidental goods supplies by RMH. The exemption will only apply to supplies of services made under a licence duty, including those where, pursuant to a licence duty, RMH allows private postal operators access to its postal facilities. In other words, the change will mean services that RMH is not required to make under a licence duty, such as those made by Parcelforce, will become standard rated, as will services supplied where the terms and conditions have been freely negotiated.

A further change of policy is also planned to extend the application of the zero rate for passenger transport services to a wider range of such services provided by RMH.

Publicity on this issue refers to the 'USP' (universal service provider) i.e. the sole provider of such postal services in the UK, currently RMH.

Changes to fuel scale charges

In this year's Budget as usual, fuel scale charges (payable where vehicles are used partly for non-business purposes) have been changed to reflect fluctuations in fuel prices. The CO₂ bands have also been altered to maintain alignment with those used for direct tax purposes. The new charges must be used from tax periods starting on or after 1 May 2010. Now that the standard rate has reverted to 17.5 per cent, affected businesses should remember to calculate the VAT due by applying the fraction 7/47 to the VAT-inclusive scale charge published.

Fuel scale charges are based on the CO₂ emissions of vehicles and given for one month, quarterly and annual VAT returns. Sometimes, the CO₂ emissions figure will not be a multiple of 5. Where that is the case, the actual figure is rounded down to the next multiple of 5 in the table. Where vehicles run on two types of fuel, they will have two CO₂ emissions figures but for the purpose of applying the scale charge, the lower figure should be used.

Change to the definition of a 'qualifying aircraft'

Businesses involved in supplying aircraft, parts and services for aircraft and aircraft operators should be aware that the definition of a 'qualifying' aircraft i.e. one which qualifies for zero-rating, will change shortly.

VATA 94 Schedule 8 Group 8 applies the zero rate to the supply, repair or maintenance of a qualifying aircraft along with the modification or conversion of such an aircraft so long as it still remains a qualifying aircraft after the work is complete. The definition of a qualifying aircraft is currently based on weight and usage in that to qualify, its weight must not be less than 8000kg and it must not be designed or adapted for recreation or pleasure use, but from 1 September 2010, the zero rate will only apply to aircraft operating for reward mainly on international routes.

The change is necessary in the UK in order to bring national legislation into line with the EU Principal VAT Directive.



Vehicle Taxation

Company cars

Tax and National Insurance Contributions (NICs) are calculated on the benefit-in-kind (BIK) on a car, which is determined, principally, by the price of the car and its official carbon dioxide (CO₂) emissions rating. The list price of the car when new (including accessories) is multiplied by the indicated percentage from the table below, using the official emissions rating for the appropriate fuel of the car to derive the BIK.

2010/11 Taxable benefits table

CO ₂ EMISSIONS (g/km)*	PETROL	DIESEL
1 to 75	5%	8%**
76 to 120	10%	13%
121 to 134	15%	18%
135 to 139	16%	19%
140 to 144	17%	20%
145 to 149	18%	21%
150 to 154	19%	22%
155 to 159	20%	23%
160 to 164	21%	24%
165 to 169	22%	25%
170 to 174	23%	26%
175 to 179	24%	27%
180 to 184	25%	28%
185 to 189	26%	29%
190 to 194	27%	30%
195 to 199	28%	31%
200 to 204	29%	32%
205 to 209	30%	33%
210 to 214	31%	34%
215 to 219	32%	35%
220 to 224	33%	35%
225 to 229	34%	35%
Over 230	35%	35%

* The exact CO₂ figure is rounded down to the nearest 5g/km

** At the time of going to press HM Revenue & Customs were unable to clarify whether the 3% diesel supplement applies.

Discounts from the above percentages can apply for 'greener' cars running on alternative fuels, including Euro IV diesel cars first registered up to 31 December 2005.

Taxable benefit charges on zero-emission vehicles and low emission cars

Legislation in Finance Bill 2010 will introduce a relief from the chargeable benefit where the car or van concerned cannot produce CO₂ engine emissions under any circumstances when driven.

The legislation will also introduce a reduction to the chargeable benefit where a car has an approved CO₂ engine emission figure of between 1 and 75g per kilometre. Company cars within this threshold will be subject to tax of 5 per cent of their list price and the measure will have effect from 6 April 2010 to 5 April 2015. At the time of going to press HM Revenue & Customs were unable to clarify whether the 3% diesel supplement applies.

Fuel for private mileage

If an employer provides fuel for any private travel, the taxable benefit is calculated by multiplying £18,000 by the percentage used to calculate the benefit on the car, the employer pays NICs on the same amount at 12.8%.

Baseline fuel mileage rates (in a company car)

ENGINE CAPACITY	RATES PER MILE	RATES PER MILE	RATES PER MILE
	PETROL	DIESEL	LPG
Up to 1400cc	11p	11p	7p
1401 – 2000cc	14p	11p	8p
Over 2000cc	20p	14p	12p

These rates are reviewed biannually depending on changes in the price of fuel, and changes (if any) take effect on 1 January and 1 July each year, so the next change in rates would be due on 1 July 2010.

If the employee uses a privately owned car for business journeys, the employer may reimburse the costs at the following standard rates without the employee incurring a tax or NIC charge:

VEHICLE	FIRST 10,000 MILES	THEREAFTER
Car / van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

If the employer reimburses at a lower rate per mile, the employee is permitted to claim tax relief on the shortfall. Although unchanged for some time, as a policy issue it has been decided to retain these rates for the future.

Vehicle excise duty rates for cars as from 1 April 2010

For cars registered on or after:		1 APRIL 2010	1 MARCH 2001
BAND		FIRST YEAR RATE	STANDARD RATE
	g/km	£	£
A	Less than 101	0	0
B	101 to 110	0	20
C	111 to 120	0	30
D	121 to 130	0	90
E	131 to 140	110	110
F	141 to 150	125	125
G	151 to 165	155	155
H	166 to 175	250	180
I	176 to 185	300	200
J	186 to 200	425	235
K*	201 to 225	550	245
L	226 to 255	750	425
M	Over 255	950	435

* Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006.



The Economy

The recession has exerted enormous pressure on both businesses and consumers. Businesses have struggled to obtain credit; consumers have tightened belts. Here we look at some of the consequences of the worst economic downturn in generations.

Public finances

One of the major problems facing the UK economy is the vast scale of public borrowing; money borrowed in order to bolster failing banks, to ensure the continuing lubrication of the wheels of the economy (through the Bank of England's quantitative easing programme) and to support public sector employment. Net Government borrowing is currently in excess of £850 billion or 60 per cent of GDP; the planned budget deficit for the year was £178 billion although the revised Budget forecast is now £167 billion. It is a debt, however essential its role in the short term, that will have to be repaid through (1) increased taxation – some, the upcoming 1 per cent rise in national insurance contributions for example, aimed at businesses – and through (2) public spending cuts in the medium and long term. Those cuts may pare as much as 2 per cent off the GDP. A further option is (3) the sale of public assets.

Consumer spending

The Chancellor's decision to reduce the standard rate of VAT from 17.5 per cent to 15 per cent from 1 December 2008 to 31 December 2009 helped, but consumer spending on large items such as furniture and white goods plummeted. That measure of the vitality of the economy – sales of new cars – registered such dismal figures that the Chancellor also introduced the scrappage scheme: a £2,000 discount for those who traded in old cars for new ones. But spending habits showed a distinct change across the board. For example, cut-price supermarkets enjoyed a boom of 18 per cent in business.

Saving

The economics of a recession demand that people keep spending; the human perception of a recession demands that people stop spending and start saving, or at least start paying off debts. Such has been the case.

The number of households that are using their money to repay debts or to boost their savings is on the increase. Worries over prospects for the UK economy and the effects of the forthcoming rises in taxes have encouraged more people than ever to save rather than to spend, official figures suggest.

The level of earnings that is being saved in banks and building societies is at its highest for almost a decade. In the third quarter of 2009 consumers repaid £5 billion more than they borrowed, according to the Office for National Statistics (ONS).

While spending edged up by just 0.3 per cent in the same period, the gap between household income and the average amount that households spent rose to 8.6 per cent. Much of that money will have been used to repay debts or increase savings accounts.

Inflation

Those savers, though, have found themselves penalised by historically low official interest rates and by rising inflation.

According to the ONS, the Consumer Price Index for February stood at an annual rate of 3.0 per cent, down from 3.5 per cent in January.

As a result, inflation is set to have a knock-on, adverse effect on the level of returns that savings accounts deliver, at least in the short term. For basic rate taxpayers to gain a real return on their money, they will require an account that pays a minimum of 3.75 per cent interest. For higher rate taxpayers, that figure climbs to 5 per cent.

Taking the latest inflation rate and tax into consideration, the actual return on an average no notice savings account in February was 2.3 per cent.

In its latest quarterly inflation report, the Bank of England forecasted that inflation will hit a peak of 3.5 per cent in the near term but will then fall back to as low as 0.9 per cent as the economy struggles to expand.

Future growth

In the same report, the Bank of England chose to revise its predictions for the growth rates that the UK economy can look forward to. In its previous estimates, the Bank anticipated 4 per cent expansion by the second quarter of 2011. That has been revised down to 3.2 per cent.

In the Budget, the Chancellor predicted that growth in 2010 would be 1 to 1.5 per cent and 3 to 3.5 per cent in 2011.

The dangers of recovery

If we are indeed crawling our way along the long and bumpy road to recovery, it may not be good news for a number of firms. The recessions of the 1980s and 1990s taught us that a return to growth in the economy also heralded the end for some businesses. Known as the insolvency lag, firms that have been getting by on the goodwill of lenders and the government suddenly discover that the leeway they had been granted is withdrawn.

Research by the Association of Business Recovery Professionals has revealed that, in the 1990s, the peak in corporate liquidations arrived a full five quarters following the first quarter of recovery. Why? Because it requires time for the recovery – increased orders and customer expenditure – to feed its way not just into the economy but also into the systems of individual businesses. And because creditors and government policy-makers mistake the general signals of recovery for the health of individual businesses, and begin the process of reclaiming loans and cutting measures designed to support them.

Planning for recovery

Planning, for every business and individual, is important at the best of times; in our uncertain times, it is imperative. It is imperative because only with careful, intelligent planning can you or your business take advantage of the recovery – whatever its nature.

There are a number of areas where we can help you plan. These include: cash flow management; profit enhancement; capital expenditure; debt management; and investment portfolios. Please don't hesitate to contact us for expert, professional advice and guidance.



2010/11 Tax Rates and Allowances

INCOME TAX BANDS AND RATES	2010/11	2009/10
Savings rate band	£2,440	£2,440
Savings rate	10%	10%
Basic rate band	£37,400	£37,400
Basic tax rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate band	£37,401 – £150,000	Over £37,400
Higher tax rate	40%	40%
Dividend higher tax rate	32.5%	32.5%
Additional rate band	Over £150,000	N/A
Additional tax rate	50%	N/A
Dividend additional tax rate	42.5%	N/A

Allowances that reduce taxable income

Personal allowances	under 65	£6,475	£6,475
	65 to 74	£9,490	£9,490
	75 and over	£9,640	£9,640
Blind persons allowance		£1,890	£1,890

Age related allowances are reduced by £1 for each £2 of income above £22,900 (2009/10 £22,900), until the minimum of £6,475 (2009/10 £6,475) is reached. The minimum personal allowance is reduced, by £1 for each £2 of income from £100,00 to £112,950.

Allowances that reduce tax

Married couple's allowance (MCA)			
Tax reduction	75 and over	£696.50	£696.50

The age for MCA is of the elder spouse or civil partner. The loss of tax reduction is 10p for each £2 of income above £22,900 (2009/10 £22,900) until the minimum of £267 (2009/10 £267) is reached.

All ages as at 5 April 2011.

INHERITANCE TAX	2010/11	2009/10
Standard threshold	£325,000	£325,000
Combined threshold maximum for married couples and civil partners	£650,000	£650,000

Rates of tax on balance

Chargeable lifetime transfers	20%	20%
Transfers on or within seven years of death	40%	40%

All lifetime transfers not covered by exemptions and made within 7 years of death will be added back into the estate for the purposes of calculating the tax payable. This may then be reduced:

Years before death	0-3	3-4	4-5	5-6	6-7
Tax reduced by	0%	20%	40%	60%	80%

Main exemptions

- Most transfers between spouses and between civil partners.
- First £3,000 of lifetime transfers in any tax year plus any unused from the previous year.
- Gifts up to £250 p.a. to any number of persons.
- Gifts made out of income that form part of normal expenditure and do not reduce the standard of living.
- Gifts in consideration of marriage/civil partnership up to £5,000 by a parent, £2,500 by grandparents, or £1,000 by any other.
- Gifts to charities, whether made during lifetime or on death.

NATIONAL INSURANCE	EMPLOYER	EMPLOYEE
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Class 1 (not contracted out)

Lower earnings limit		£97
Payable on weekly earnings of £110.01 to £844	12.8%	11%
Over £844	12.8%	1%
Over state retirement age	12.8%	nil

Class 1A

On relevant benefits	12.8%	nil
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Class 2

Self employed		£2.40 per week
Limit of net earnings for exception		£5,075 per annum

Class 3

Voluntary		£12.05 per week
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Class 4*

Self employed on profits £5,715 – £43,875		8%
Excess over £43,875		1%

*Exemption applies if state retirement age was reached by 6 April 2010

CAPITAL GAINS TAX	2010/11	2009/10
Tax rate	18%	18%
Annual exemption	Individual £10,100	£10,100
	Settlement(s) £5,050	£5,050
Entrepreneurs' relief:	Effective Rate 10%	10%
	Lifetime limit £2,000,000	£1,000,000

PENSION CONTRIBUTIONS

The maximum amount on which an individual can claim tax relief in any tax year is the greater of the individual's UK relevant earnings or £3,600.

A special annual allowance charge may restrict the amount of tax relief on pension contributions. These rules apply to individuals whose income is £130,000 and over, who change their normal ongoing regular pension savings and whose total pension savings in a tax year exceed £20,000 (or the lower of £30,000 and average contributions over the past 3 years if contributions are less regular than quarterly.)

If total pension input exceeds the annual allowance of £255,000 there is a tax charge at 40% on the excess. This limit does not apply in the year that full pension benefits are taken. Total pension input is the increase in value of the aggregate of all the individual's pension savings. The pension input period is usually the year to the anniversary date which falls within the relevant tax year.

Maximum age for tax relief		74
Minimum age for taking benefits		55
Lifetime allowance charge	- lump sum paid	55%
	- monies retained	25%
on cumulative benefits exceeding		£1,800,000*
Maximum tax-free lump sum		25%*

*Subject to transitional protection for excess amount

CORPORATION TAX

Financial Year to	31.3.2011	31.3.2010
Taxable profits		
First £300,000	21%	21%
Next £1,200,000	29.75%	29.75%
Over £1,500,000	28%	28%

MAIN CAPITAL ALLOWANCES

Plant and machinery

Energy saving and environmentally beneficial equipment, electric and low CO₂ emission (up to 110 g/km) cars, natural gas/hydrogen refuelling equipment: first year allowance 100%

Annual investment allowance (AIA) – on first £100,000 of investment (excludes cars and expenditure already qualifying for 100% first year allowance) 100%

Writing down allowance – cars

111g/km – 160g/km 20%
Over 160g/km 10%

Writing down allowance (WDA) on expenditure not qualifying for AIA: Long-life assets, integral features of buildings 10%

Other plant and machinery 20%

Buildings

Industrial and agricultural buildings and hotels
WDA (on building cost) 1%

Enterprise Zone Allowance, conversion of parts of business premises into flats, business premises renovation:
max. initial allowance 100%

DUE DATES FOR TAX PAYMENTS AND FILING DEADLINES

Income Tax and Class 4 NIC	2010/11	2009/10
1st payment on account	31 January 2011	2010
2nd payment on account	31 July 2011	2010
Balancing payment	31 January 2012	2011
Capital Gains Tax	31 January 2012	2011

Inheritance Tax – Normally six months after the end of the month in which death occurs.

Corporation Tax

Small and medium companies Nine months and one day after the end of accounting period
Large companies Four quarterly instalments commencing 6.5 months into the accounting period

2009/10 Returns filing and issuing deadlines

P14, P35, P38 and P38A	19 May 2010
Issue P60s to employees	31 May 2010
P9D, P11D and P11D(b) – and copies to employees as appropriate	6 July 2010
Self assessment tax return: paper	31 October 2010
online	31 January 2011
2009/10 Class 1A NICs on relevant benefits – Payment due	19 July 2010
If paid electronically	22 July 2010

TAX FREE MILEAGE ALLOWANCES

	Higher rate	Lower rate
All cars	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p
Business passengers	5p	5p

The higher rate is applicable for up to 10,000 business miles.

Fuel only allowance for company cars

From 1 January 2010	Petrol	Diesel	LPG
Up to 1400cc	11p	11p	7p
1401 – 2000cc	14p	11p	8p
Over 2000cc	20p	14p	12p

These rates may change within the tax year.

CAR BENEFITS

The taxable benefit is calculated as a percentage of the car's UK list price. The percentage depends on the car's CO₂ emissions in grams per kilometre.

Rating	Petrol	Diesel
1 – 75g/km	5%	8%*
76 – 120g/km	10%	13%
121 – 134 g/km	15%	18%
Over 134g/km	add 1% for every 5g/km	
Maximum 230g/km and over	35%	35%

* At the time of going to press HM Revenue & Customs were unable to clarify whether the 3% diesel supplement applies.

Lower rates may apply to alternative fuel cars.

Chargeable on employees earning £8,500 or over (including benefits) and directors.

The list price is on the day before first registration, including accessories and is reduced by any employee's capital contribution (max £5,000) when the car is first made available. The price is subject to an upper limit of £80,000.

Special rules apply to cars at least 15 years old worth £15,000 or more.

Vans where private use is more than home to work travel; £3,000 and £550 for private fuel.

Payments by employees for private use may reduce these benefits.

VALUE ADDED TAX

From	1.4.2010	1.1.2010
Standard Rate	17.5%	17.5%
VAT Fraction	7/47	7/47

Taxable turnover limits

Registration – last 12 months or next 30 days over	£70,000	£68,000
De-registration – next year under	£68,000	£66,000
Annual Accounting Scheme	£1,350,000	£1,350,000
Cash Accounting Scheme	£1,350,000	£1,350,000
Flat Rate Scheme	£150,000	£150,000

STAMP TAXES

Stamp duty is payable at a rate of 0.5% on transfers of shares and securities of £1,000 and over.

On the transfer of residential property

£0 – £125,000*	nil
£125,001 – £250,000**	1%
£250,001 – £500,000	3%
£500,001 and over	4%

* £150,000 in disadvantaged areas.

** First time buyers can claim relief on residential transactions up to £250,000 between 25 March 2010 and 24 March 2012.