

## Emergency Budget June 2010

Montpelier Chartered Accountants' summary and analysis of the measures affecting small businesses announced in the Emergency Budget 2010.

### Capital gains tax

The retention of Capital Gains Tax at 18% for basic rate tax payers will be hugely welcome. The Government raised CGT for higher rate tax payers to a lower-than-expected 28%. However, the fact that this change comes into effect from midnight on June 22 leaves people with little chance of mitigating the tax rise. It is also the first time for many years that we have had a split year for Capital Gains Tax rates.

There is good news for business owners who plan to exit. Entrepreneur's relief has been extended to the first £5 million of gains at 10%, an increase from £2 million. This is a lifetime limit which will enable serial entrepreneurs to capitalise on their business setups and move on to create new businesses.

### VAT

The increase in the VAT rate to 20% was widely anticipated and takes effect from 4 January 2011. Business owners will need to plan any material transactions carefully in order to minimise a squeeze on cashflow. This is particularly relevant to unregistered businesses or businesses that are partially exempt.

### Business tax

One unexpected aspect of the budget is the reduction in the mainstream corporation tax rates by 1% per annum over the next four years to give a final rate of 24%. This will give the UK the fifth lowest rate among G20 countries and should help to attract more companies to move to or stay in the country. For small companies, there is a 1% reduction in the corporation tax rate next year, bringing the rate down to 20%.

The reductions in the corporation tax rates are, however, coupled with reductions in the amount of the annual investment allowance to £25,000 per annum and a reduction in the capital allowances rate to 18%. Companies planning capital expenditure should take advantage of the current levels of Annual Investment Allowance and capital allowances rather than delaying until the new rules take place in April 2012.

### Digital & Creative Sector

The proposed relief for the video games industry has been abolished by the Coalition as a tax saving measure.

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## **Benefits and Pensions**

Most state benefits will be linked to the increase in the level of the Consumer Price Index. Pensioners will be given the benefit of an increase linked to the Retail Price Index. This will effectively index-proof pensions while reducing the incentive for other people to remain on benefits. To help to pay for the inevitable increase in the cost of providing state pensions state pension age will increase to 66, quicker than had been planned under the last Government.

There will be maximum limits applied to Housing benefits of between £100 and £400 per week depending on individual circumstances to remove the unlimited amounts of housing benefits that can be claimed at the moment.

The budget showed a distinct and systematic plan to remove current incentives to remain on benefits and to make the prospect of taking-up employment more attractive for people.

There were other reforms to the benefits systems announced with the aim of encouraging people to work rather than claim benefits. Child benefit has been frozen for three years. Lower income families will see a rise in the amount of Child Tax Credit, while families with an income over £40,000 will see their allowances reduced.

The proposed benefit cuts will be accompanied by Government spending cuts of £17 billion over the next 4 years.

## **Furnished Lettings**

Before the Election, the Conservatives pledged to help the UK tourist industry by reinstating the rules for furnished holiday lettings, which Labour had planned to repeal. This will mean landlords who let out holiday accommodation will again be able to offset the cost of furniture and fittings against tax. However, the reprieve may be short lived. The Chancellor has called for a consultation on the rules to ensure that they are in line with EU law and are 'fiscally responsible'. The Coalition Government proposes to achieve this by changing the eligibility thresholds and restricting the use of loss relief. The changes are expected to be applied at the start of the 2011/12 tax year.

## **National Insurance**

Entrepreneurs are among the winners in the budget. Start-up businesses outside London and the South East will not have to pay the first £5,000 of National Insurance contributions due in the first 12 months of employment. This will apply for each of the first 10 employees they hire and is expected to commence no later than September for businesses that start after June 2010.