

TaxPlus

SUMMER 2010 EMERGENCY BUDGET SPECIAL EDITION

The TAX family: their story continues

How our family fares following
the emergency Budget

VAT increase,
cuts in headline rates
of Corporation Tax

Capital Gains Tax
increases from
midnight 22 June
2010 but...

Changes to
Income Tax, ISAs
and Furnished
Holiday Lettings

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The TAX family: their story continues

In March 2010 we first met Mercer & Hole 'clients', Tom, Andrew and Xena, of the 'TAX' family.

Things have moved on for the family over the last three months and in this emergency Budget special edition of Tax Plus, we take a look at how the Budget, which included both well heralded announcements and some surprises too, impacts them and their businesses.

Some of the key measures include:

- Capital Gains Tax increases from midnight 22 June 2010 but...
- VAT increase, but cuts in the headline rates of Corporation Tax and some changes to rates of capital allowances
- Changes to Income Tax, ISAs and Furnished Holiday Lettings impact upon personal savings plans

If you would like to discuss any of the issues raised in Tax Plus please contact Lisa Spearman on (020) 7353 1597

“ With effect from midnight on Budget day, the rate of Capital Gains Tax increases for higher rate taxpayers from 18% to 28%. However, the lifetime Entrepreneurs' Relief limit is also increased from £2 million to £5 million. ”

Tom's tale: good news for the entrepreneur

Capital Gains Tax increases from midnight 22 June 2010 but...

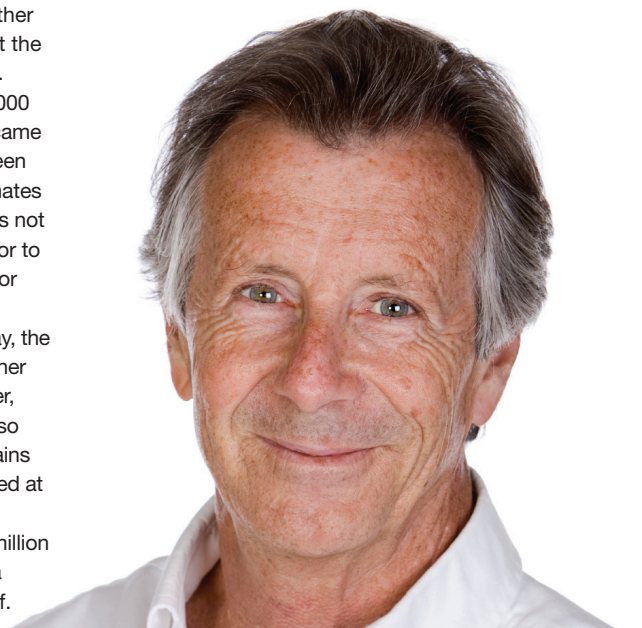
We last met Tom in March this year when he was selling his printing company. He has now contacted us to talk about another share disposal, but he is confused about the amount of tax that he might have to pay.

About 10 years ago he invested £200,000 in a friend's publishing company and became a part-time director. This business has been extremely successful and Tom now estimates that his shares are worth £4 million. It was not possible to find a buyer for his shares prior to the emergency Budget and once again, for Tom, the delay has worked to his benefit.

With effect from midnight on Budget day, the rate of Capital Gains Tax increases for higher rate taxpayers from 18% to 28%. However, the lifetime Entrepreneurs' Relief limit is also increased from £2 million to £5 million. Gains covered by the relief continue to be charged at an effective rate of 10%.

Although he has already used up £2 million of his lifetime allowance, Tom now has a further £3 million of Entrepreneurs' Relief.

Given that he is a higher rate taxpayer, this relief is now worth a further £540,000.



Entrepreneurs' Relief was introduced in 2008, with a lifetime limit of £1 million for qualifying Capital Gains on the disposal of a business or shares, made on or after 6 April 2008.

This lifetime limit was doubled to £2 million for qualifying gains arising between 6 April 2010 and 22 June 2010, and in the Budget it is proposed the limit be immediately increased to £5 million.

Up to 22 June 2010 qualifying gains were reduced by 4/9 and the resulting gain taxed at 18%. This gave an effective tax rate of 10%. From 23 June 2010 the calculation will be more straightforward, with gains qualifying for Entrepreneurs' Relief taxed simply at 10%.

Having sold his first business prior to 22 June 2010 with a gain of £2 million, Tom is now entitled to further relief of £3 million. His gain of £3.8 million will give rise to a liability of:-

	£
Chargeable gain	3,800,000
£3,000,000 taxable at 10%	300,000
Balance of £800,000 taxable at 28%	224,000
Tax payable	524,000

Furnished Holiday Lettings

The 2010 emergency Budget has extended the rules to apply for a further year from 6 April 2010. They allow furnished holiday lettings (FHL) of UK and EEA properties to be treated, in certain circumstances, as a trade for some tax purposes, including capital allowances, loss relief and Entrepreneurs' Relief.

For a property to qualify, it must be available for letting for 140 days in each

tax year (or the 12 month period from when the letting business starts, for new lets), and actually commercially let as holiday accommodation for at least 70 days a year. The property cannot be occupied by the same individual continuously for more than 155 days per tax year.

The position is only certain until 5 April 2011 as the Government will be consulting over

the summer with a view to changing the tax treatment from 6 April 2011. The proposed changes would widen the scope of the scheme to apply to properties outside the EEA but would also increase the amount of time the property has to be available for letting and actually let. There are also plans to change the way FHL loss relief is given and draft legislation is set to be published in the autumn.

Andrew's tale: the Chancellor delivers a mixed bag

VAT increase, but cuts in the headline rates of Corporation Tax and some changes to the rates of capital allowances

Andrew's courier business has done very well and he is looking to expand into new high spec premises and to increase his vehicle fleet. He knows the Chancellor made some changes to VAT and capital allowances and wants to know if these will affect his plans.

year, if he wants to avoid the higher VAT rate that comes into effect on 4 January 2011.

As far as other large purchases are concerned, Andrew will need to consider the impact of the changes announced to capital allowance rates, including the reduction in

In the course of his business, Andrew has been in regular contact with a mail order company. They have been getting on very well and have decided jointly to set up a new storage business in the West Midlands. Andrew has asked for details of any changes that affect his new business.

Mercer & Hole had further good news: for new businesses based in qualifying locations, there are incentives to take on staff.

Corporation tax

For small companies (those with profits of £300,000 or less) the rate of tax is reducing to 20% from 1 April 2011 (from the planned 22%).

For large companies (profits £1.5 million and above) the Corporation Tax rate is reducing from the current 28% by 1% a year from 1 April 2011, until it reaches 24% in 2014.

VAT rate increase

The current standard rate of VAT will increase to 20% on 4 January 2011; supplies of goods and services made after that date will be liable to VAT at the new rate.

Businesses should apply the normal tax point rules to sales made, although there are special transitional rules for supplies spanning the date of the change (for example, deposits and pre-payments). These transitional rules are optional and do not require HMRC approval.

Businesses which have planned for significant capital expenditure in 2011 may wish to consider purchasing goods and services before 4 January 2011 (particularly those businesses which cannot reclaim VAT in full).

Anti-forestalling legislation has been announced to prevent large scale planning around the old rate. Certain supplies between connected parties will be caught by the anti-forestalling rules although normal commercial transactions should not be affected.

Cash constraints have meant that he has not yet bought the five vans he was thinking of buying earlier in the year but they will certainly be needed if he is to expand. Mercer & Hole's tax advisers have told him that he needs to make sure he buys these vans before the end of the

the Annual Investment Allowance, which come into force in April 2012.

Mercer & Hole gives Andrew the good news that his corporation tax bill may come down a little. This will partially offset the reduction in capital allowances.

Regional employers - National Insurance holiday

For a three year period new businesses starting up in the qualifying areas (broadly anywhere but London, the South East and East Anglia) are exempt from up to £5,000 of employer's National Insurance Contributions for each of their first 10 employees, during the first 12 months of employment.

Annual Investment Allowance and capital allowances

A business can currently claim a 100% allowance for qualifying capital expenditure. The amount of the allowance was increased to £100,000 with effect from 1 April 2010 but is to be reduced to £25,000, from 1 April 2012.

The annual capital allowance rates are reducing to 18% (from 20%) and on long life assets to 8% (from 10%) from the same date.



Xena's tale: rates and reliefs revisited

Changes to Income Tax, ISAs and Furnished Holiday Lettings impact upon personal savings plans

Xena, Tom's daughter, is a higher rate taxpayer, with earned income of £200,000 and is pleased to hear the news that the personal allowance will increase from April 2011. In talking to her tax adviser at Mercer & Hole she learns that this change will unfortunately not extend to her circumstances. Ways to mitigate her income tax bill are attractive to Xena and she has been undecided as to what to do with a large cash gift she has recently received from her father. Her tax adviser invites her to a meeting with Nightingale Associates, the financial services arm of Mercer & Hole, the following week.

At the meeting with Nightingale Associates, Xena explains that

she is most concerned with making sufficient provision for her retirement and having easy access to some cash. Her job also means she has the opportunity to visit Paris and New York from time-to-time, and she is keen to think about buying a property in one of those countries which she can use when visiting. Her advisers therefore discuss the various options with Xena and she is thrilled to leave the meeting with a clear strategy which she is keen to implement as soon as possible. Xena is also conscious that she has not yet made a Will which she knows she must do something about. During the meeting, her tax adviser makes an appointment for her



to visit a solicitor the next day to move this forward. The rest of the strategy includes making maximum higher rate pension contributions to her personal pension policy each year taking into account all the new rules limiting relief for high earners and making use of her full ISA allowances. From 6 April 2010 the annual ISA subscription limits were increased for all savers, to £10,200, of which £5,100 can be saved in cash. From 6 April 2011 the annual ISA subscription limits will be linked to the rate of inflation at the September before the start of the following tax year.

Purchasing a buy-to-let property is also a possibility. Xena's tax adviser explains that there are attractive reliefs for certain types of let properties, namely furnished holiday lettings.

“ From 6 April 2011 the annual ISA subscription limits will be linked to the rate of inflation ”

This newsletter is a short selection of items extracted from complex legislation. Further specific advice on any matters referred to must be taken at all times. The information is given for general guidance only and publication is without responsibility for loss occasioned to any person acting or refraining from acting as a result of the information given.

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From 6 April 2011, the personal allowance for those under the age of 65 will increase by £1,000 from £6,475 to £7,475. Higher rate taxpayers will not benefit from the increase as the threshold for basic rate tax will be reduced. We do not yet know what the basic rate threshold will be but the Chancellor has said that the detail will be released in September once the RPI is known. (It was also announced that it is intended to move over time from RPI to CPI - the consumer price index).

As Xena's income is above £114,950, she will not benefit from a personal allowance at all for 2011/2012. For cases where the individual's income is between £100,000 and £114,950 there is an effective 60% income tax rate. For every £2 of income over £100,000, the individual will lose £1 of personal allowance - until it is completely lost where income exceeds £114,950.

About Mercer & Hole

Whether you are a business or charity, an individual or representing your family in seeking assistance, the partners of Mercer & Hole can help you with much more than standard accountancy or tax compliance.

We understand our clients' current situations and their future aspirations, and we aim to provide a very personal service tailored to their specific requirements. We achieve the highest standards of technical excellence, but what we believe singles

us out is our passion and determination to exceed our clients' expectations.

This newsletter will give you an insight into the firm and you can find out much more by visiting our website at www.mercerhole.co.uk. The site includes not only full details of the services we offer, but provides visitors the opportunity to subscribe to our blogs, which offer regularly updated comment and solutions to topical issues facing organisations and individuals.

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