

The Emergency Budget of 22 June 2010

Post Budget Breakfast Radisson Hotel

23 June 2010

Speakers

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The Emergency Budget

Seminar Outline

- Context
- Personal Income Tax**
- National Insurance**
- Employees
- Savings**
- Capital Gains Tax**
- Inheritance Tax
- Stamp Duty Land Tax
- Corporation Tax**
- Business Tax**
- Value Added Tax**
- Other measures**
- Health check

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Context

- Annual Borrowing - £149 million (2010/11)
- Inflation above target: 3.4% v 2%
- GDP below target 0.2%
- Public v Private sectors
- Financial market confidence low

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Personal Income Tax - changes

	2010/11	Change	2011/12
Allowed at the top rate of tax			
Personal Allowance	6,475	1,000	7,475
Personal Allowance – Income over £100,000	Restricted	No change	Restricted
Personal Allowance – Income over £112,950	Nil	Income over £114,950	Nil
Personal Allowance (65 - 74)	9,490	} No change	9,490
Personal Allowance (75 and over)	9,640		9,640
Blind person's allowance	1,890		1,890
Allowed only at 10%			
Married Couple's allowance (75 and over)	6,965		6,965
Income limit for aged related allowances	22,900		22,900
Bands			
Starting (within basic rate band)	2,440		2,440
Basic	37,400	(2,000)	35,400
Higher	37,400+	(2,000)	35,400+

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Personal Income Tax - changes

2010/11		2011/12	
Effective additional rate of tax on net dividend			
Up to £37,400	0%	Up to £35,400	0%
Between £37,401 - £150,000	25%	Between £35,401 - £150,000	25%
Above £150,000	36.11%	Above £150,000	36.11%

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National Insurance- changes

Class 1 Employed: Employee Earnings Bracket

2010/11				2011/12			
	Contracted in	Contracted out (S)	Contracted out (MP)		Contracted in	Contracted out (S)	Contracted out (MP)
Up to £110	Nil	Nil	Nil	Up to £121	Nil	Nil	Nil
£110.01 - £770	11%	9.4%	9.4%	£121.01 - £770	12%	10.4%	10.4%
£770.01 - £844	11%	11%	11%	£770.01 - £844	12%	12%	12%
Over £844	1%	1%	1%	Over £844	2%	2%	2%
Rebate £97 - £110	-	1.6%	1.6%	Rebate £97 - £121	No change	No change	No change

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National Insurance- changes

Class 1 Employed: Employer Earnings Bracket

2010/11				2011/12			
	Contracted in	Contracted out (S)	Contracted out (MP)		Contracted in	Contracted out (S)	Contracted out (MP)
Up to £110	Nil	Nil	Nil	Up to £131	Nil	Nil	Nil
£110.01 - £770	12.8%	9.1%	11.4%	£131.01 - £770	13.8%	10.1%	12.4%
Over £770.00	12.8%	12.8%	12.8%	Over £770.00	13.8%	13.8%	13.8%
Rebate £97 - £110	-	3.7%	3.7%	Rebate £97 - £131	No change	No change	No change

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National Insurance- changes

	2010/11	Change	2011/12
Class 2 Self Employed	Weekly rate £2.40 (Small Earnings Exemption £5,075 per year)	None	Weekly rate £2.40 (Small Earnings Exemption £5,075 per year)
Class 3 Voluntary	Weekly rate £12.05	None	Weekly rate £12.05
Class 4 Self Employed	8% on annual profits between £5,715 - £43,875 1% on annual profits above £43,875	Increased by 1%	9% on annual profits between £5,715 - £43,875 2% on annual profits above £43,875

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National Insurance- changes

Regional Employer NIC holiday for new businesses

- Rebate of Employers Class 1 National Insurance Contributions
- Introduction September 2010
- Business commencing after 22/06/2010
- Some businesses will not qualify
- Maximum rebate per employee £5,000 (Salary £45,000 one year or £19,000 for three years)
- Employees must be recruited in first year of trading

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National Insurance- changes

Regional Employer NIC holiday for new businesses - example

Employee	Year 1	Year 2	Year 3	Year 4
1	52 weeks	52 weeks	52 weeks	52 weeks
2	26 weeks	52 weeks	52 weeks	52 weeks
3		26 weeks	52 weeks	26 weeks

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Personal Income Tax and National Insurance – how this effects you

Example	Salary £	Profit share £	2010/11 Net £	2011/12 Net £
1	40,000		29,524	29,450
2	60,000		41,710	41,236
3	160,000		100,358	95,246
4		40,000	30,427	30,285
5		60,000	42,731	42,188
6		160,000	94,141	92,198

Planning point:

Spouses should manage their Income Tax efficiently

Profit benchmark for incorporation lower

Marginal benefit of advancing income

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Employees

Car Scale Benefit

CO ₂ emissions	2010/11	2011/12
g/km	% of car price	% of car price
0	0	0
75	5	5
120	10	11
130	15	16
135	16	17
150	19	20
180	25	26
200	29	30
220	33	34
230	35	35

	2010/11	2011/12
Upper limit on list price	£80,000	Removed
Car fuel benefit	£18,000	£18,000

3% supplement on all diesel cars, maximum 35%

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Car and Fuel Scale charges – how this effects you

		2010/11	2011/12
BMW 320	Car Scale	£4,500	£4,750
	Fuel Scale	£3,240	£3,420
	Break even mileage	11,000 miles	11,500 miles
Audi A4 2.0	Car Scale	£6,996	£7,314
	Fuel Scale	£3,960	£4,140
	Break even mileage	14,000 miles	15,000 miles
Ford Mondeo	Car Scale	£3,750	£3,947
	Fuel Scale	£3,420	£3,600
	Break even mileage	13,500 miles	14,000 miles

Planning point:

Is a car a benefit?

Is private fuel a benefit

Cars for spouses

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Savings - changes

Pension Contributions

	2010/11	2011/12
Individuals	£3,600 or 100% of earnings to £255,000 #	Possible new lower annual allowance, circa £30,000 - £45,000 to align to higher rate relief
Employer – Final Salary Scheme	£unlimited # @	Possible new lower annual allowance, circa £30,000 - £45,000 to align to higher rate relief
Employer – Money Purchase Scheme	£255,000 # ∞	Possible new lower annual allowance, circa £30,000 - £45,000 to align to higher rate relief
Individuals lifetime allowance	£1.8million	

tax relief in excess of basic rate may be partially withdrawn when the individual's income exceeds £130,000

@ subject to special calculation

∞ subject to the wholly and exclusively test

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Savings - changes

Pension Contributions

- Proposal to increase age by which annuity must be purchased – transitional measure increasing age from 75 to 77

Planning point:

Individual may not have “earnings” but the employer can pay under a sacrifice arrangement

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Savings - changes

	2010/11	Change	2011/12
Individual Savings Account:			
Annual Contributions limit	£10,200	RPI Increase	TBC
Cash limit	£5,100	RPI Increase	TBC
Income from scheme	Tax free	None	Tax free
Capital gain	Tax free	None	Tax free
Venture Capital Scheme:			
Maximum qualifying investment	£200,000	None	£200,000
Minimum qualifying period	5 years	None	5 years
Income Tax relief	30%	None	30%
Income from scheme	Tax free	None	Tax free
Capital Gain	Tax free	None	Tax free

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Capital Gains Tax - changes

	2010/11	Change	2011/12
1982 rebasing	Yes	None	Yes
Annual Exemption:			
Individuals	£10,100	Inflationary	TBC
Settlements	£5,100	Inflationary	TBC
Rate of Capital Gains Tax – Basic rate tax payers	18%	None	18%
Rate of Capital Gains Tax – Higher rate tax payers	18%	+10%	28%
Rate of Capital Gains Tax – Settlements	18%	+10%	28%
Entrepreneurs' Relief:	Business Assets		
Maximum gain before relief	£2m lifetime limit	+£3m	£5m lifetime limit
Relief	$\frac{4}{9}$	None	TBC
Effective rate	10%	None	10%
Hold over capital gains using trusts	Yes	None	Yes

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Capital Gains Tax – how this effects you

	2010/11	2011/12
Business gain:		
£50,000	£3,182	£3,182
£100,000	£8,182	£8,182
£500,000	£48,182	£48,182
£1,000,000	£98,182	£98,182
£3,000,000	£378,182	£298,182
Non-business gain (Assuming Higher rate tax payer)		
£50,000	£7,182	£11,172
£100,000	£16,182	£25,172
£500,000	£88,182	£137,172
£1,000,000	£178,182	£277,172

Planning point:

Winners/losers

Convert non business to business assets

Watch deferral

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Capital Gains Tax – how this effects you

Entrepreneurial Relief

Tax year	2009/10	To 22/06/10 2010/11	From 23/06/10
Gain	£1 million	£3 million	£7 million
Relief level	£1 million	£1 million	£3 million
Cumulative relief	£1 million	£2 million	£5 million
Effective rate:	10% x £1 million	10% x £1 million	10% x £3 million
		18% x £2 million	28% x £4 million

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Inheritance Tax - changes

	2010/11	Change	2011/12
Transfer between spouses [Non-Dom]	Exempt [£55,000]	None	Exempt [£55,000]
Business Property Relief	50% - 100%	None	50% - 100%
Agricultural Property Relief	50% - 100%	None	50% - 100%
Nil Rate Band	£325,000	None	£325,000
Potentially Exempt Transfer regime – 7 years	Yes	None	Yes
Annual exempt sum	£3,000	None	£3,000
Gifts out of income	Yes	None	Yes
Small gifts exemption	£250	None	£250
Gifts on marriage	Parent £5,000 Grandparent/Party £2,500 Any other person £1,000	None	Parent £5,000 Grandparent/Party £2,500
Deeds of variation	Yes	None	Yes

Planning point:

Do you know what your Inheritance Tax exposure is?

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Stamp Duty Land Tax (“SDLT”) - changes

Value of property £	2010/11		2011/12	
	Residential %	Commercial %	Residential %	Commercial %
1 – 125,000	Nil	Nil	Nil	Nil
125,001 – 150,000	1#@	Nil	1#@	Nil
150,001 – 250,000	1#	1	1#	1
250,001 – 500,000	3	3	3	3
Over 500,000	4	4	4	4

nil in disadvantaged areas

@ nil for first time buyers for two years starting 25 March 2010

Planning point:

Some disadvantaged areas in Northern Ireland

If VAT is payable it is on the consideration plus SDLT

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Corporation Tax - changes

	2011	2012
Taxable profits		
£1 - £300,000	21%	20%
£300,001 - £1,500,000 #	29.75%	28.75%
Over £1,500,000	28%	27%
# Marginal relief fraction	$\frac{7}{400}$	$\frac{7}{400}$
Research and Development		
Small and Medium companies	175%	175%
Large companies	130%	130%

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Corporation Tax – how this effects you

Extraction of profit by payment of a dividend

	2010/11			2011/12		
Annual profit	£0 - £300k	£300k - £1,500k	> £1,500k	£0 - £300k	£300k - £1,500k	> £1,500k
Marginal rate of CT	21%	29.75%	28%	20%	28.75%	27%
Profit	10,000	10,000	10,000	10,000	10,000	10,000
CT	(2,100)	(2,975)	(2,800)	(2,000)	(2,875)	(2,700)
Distributable profit	7,900	7,025	7,200	8,000	7,125	7,300
Dividend	(7,900)	(7,025)	(7,200)	(8,000)	(7,125)	(7,300)
Retained earnings	-	-	-	-	-	-

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Corporation Tax – how this effects you

Shareholder taxed on

	2010/11			2011/12		
	£0 - £300k	£300k - £1,500k	> £1,500k	£0 - £300k	£300k - £1,500k	> £1,500k
Annual profit						
Less Higher rate tax	(1,975)	(1,756)	(1,800)	(2,000)	(1,781)	(1,825)
Cash received	5,925	5,269	5,400	6,000	5,344	5,475
Effective overall rate of tax:						
Higher rate	41%	47%	46%	40%	47%	45%
Basic Rate	21%	29.75%	28%	20%	28.75%	27%
£150,000 income level	50%	55%	54%	49%	54%	53%

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Corporation Tax – how this effects you

Extraction of profit by payment of remuneration

	2010/11			2011/12		
Annual profit	10,000			10,000		
Less remuneration	(8,866)	8,866	8,866	(8,787)	8,787	8,787
Less Emp'ers NIC	(1,134)			(1,213)		
PAYE:						
IT 20%, NIC 11%/12%		(2,748)			(2,812)	
IT 40%, NIC 1%/2%			(3,635)			(3,690)
Net cash received		6,118	5,231		5,975	5,097
Effective overall rate		39%	48%		40%	49%

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Corporation Tax – how this effects you

Salary v Dividend - Example

	2010/11	2011/12
Salary only:		
Salary	£50,000	£50,000
Net	£35,810	£35,436
Salary and dividend:		
Salary	£6,000	£6,000
Dividend	£39,210	£39,968
Net	£43,792	£43,941

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Business Tax – changes

Capital Allowances

	2010/11		2012/13	
	First Year/Initial Allowances	Writing Down Allowance	First Year/Initial Allowances	Writing Down Allowance
P&M – Long life	Nil	10%	Nil	8%
P&M – Green	100%	Nil	100%	100%
P&M	Nil	20%	Nil	18%
Integral Features	Nil	10%	Nil	8%
Indust/Agri buildings	Nil	1%	Nil	0%
R&D	100%	Nil	100%	Nil
AIA maximum	£100,000		£25,000	

Planning point:

Decrease with effect from 01/04/2012

There may be transitional arrangements

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Business Tax – changes

New Capital Allowances – percentage of expenditure relieved

	£100k spend		Non AIA expenditure	
	2010/11	2012/13	2010/11	2012/13
	AIA £100,000	AIA £25,000	WDA 20%	WDA 18%
Year 1	100%	25%	20%	18%
Year 2	100%	39%	36%	33%
Year 3	100%	50%	49%	45%
Year 4	100%	59%	59%	55%
Year 5	100%	66%	67%	63%
Year 10	100%	87%	90%	86%

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Value Added Tax – changes

	From 01/01/2010	From 04/01/2011
Standard rate	17.5%	20%
VAT fraction of gross	$\frac{7}{47}$	$\frac{1}{6}$
Flat rate scheme	Business specific	Uplifted
Annual turnover limits:	From 01/04/2010	No change
Registration	£70,000	£70,000
Deregistration	£68,000	£68,000

Planning point:

Can split invoices for work done over 04/01/2011

Consider impact on customer – VAT registered?

Advance expenditure

Partial exemptions

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Other measures – changes

- Zero emission on new and unused goods vehicles – 100% allowance from 1 April 2010
- Research and Development tax relief – intellectual property does not have to remain with the company
- Insurance Premium Tax increased from 5% to 6%
- No additional duty on alcohol and tobacco – yet
- Principal Private Residence preserved where involved in adult placement care
- Stamp Duty Land Tax overpayment arrangement

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Health check

- Capital Allowance Annual Investment Allowance reduction with effect from 1/6 April 2012
- VAT increase with effect from 4 January 2011
- Income Tax – review strategy before 2011/12
- Capital Gains Tax – identify assets with gains deferred
- Inheritance Tax
- Autumn Budget

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All the information in this presentation is based on preliminary media comment on the Budget. ASM Horwath can confirm the exact information once we have had time to facilitate it.

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