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Forensic Accounting

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Payroll

Tax Planning

Taxation



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The Emergency Budget

“Everyone will pay something” was the way that George Osborne described the effect of his budget. The new Chancellor set out his plans for getting the public finances back into the black over the course of the next five years by a mixture of spending cuts and tax rises.

There were no major shocks in the speech which sought to balance the requirements to cut the deficit whilst protecting the poorest and most vulnerable in society.

For the first time the new Office for Budget Responsibility has reviewed the budget proposals and provided the forecasts for borrowing and economic growth that the Chancellor revealed in his speech.

In order to balance the country's books, by 2014/15, net spending will be cut by £40 billion per year. This will be achieved by £32 billion of spending cuts and £8 billion of tax increases.

The main areas for spending cuts will be the welfare budget with significant changes to the Tax Credits system, Housing Benefit and Disability Benefits.

On the tax side the headline grabbing announcement was the increase in the main rate of VAT from 17.5% to 20% from 4 January 2011. However, there are also big changes for Capital Allowances, Corporation Tax rates and Income Tax rates and allowances.

In order to protect poorer people, a number of targeted measures were announced including a restoration of the earnings link for the State Pension and an increase in the personal allowance of £1,000 from next April.

There were also a large number of more minor changes that were announced. These range from increasing the State Pension Age to 66 to providing support for new employers setting up businesses outside the South East by giving relief from National Insurance Contributions for up to ten employees for a period of three years.

More details on these and other changes are contained in this newsletter.

If you would like more information about the budget and how it will affect you, please speak to your usual contact at Young & Co.

Income and Corporation Tax

Paying PAYE

Most employers will be aware of the new rules regarding payment of PAYE. From 6 April 2010 employers have to make sure that PAYE is paid on time during the year in order to avoid penalties based on the amount due.

We now have some experience of how the system is working. Initial reports suggest that if you follow the Revenue's guidance on payment dates you may still receive a late payment letter.

Our advice is therefore that the best way to pay PAYE is to set up a direct debit payment.

In order to do this you need to register online with the Revenue at www.hmrc.gov.uk and enroll for the online PAYE service. You will then find instructions on how to set up direct debits.

Alternatively we can deal with setting up and managing direct debits on your behalf as part of our payroll bureau service.

The changes announced to Income tax allowances and thresholds are:

- Increase in personal allowance by £1,000 to £7,475 for under 65's from 6 April 2011. The aim for this parliament is to increase the allowance to £10,000. No announcement has been made on the higher age related allowances for over 65's so it remains to be seen whether these will increase in line.
- The higher rate tax threshold will be reduced from 6 April 2011 in order to counteract the increase in personal allowances. It will then be frozen until 2013/14. The top rate of 50% will remain in place from 6 April 2011.
- The threshold where employees start to pay National Insurance Contributions will increase by £21 above indexation from 6 April 2011 to counter the 1% rise in NIC rates from that date.

We expect that there will be further more detailed announcements on rates and allowances from April 2011 in the next budget.



The following announcements were made on business and Corporation Tax reform:

- The small company tax rate for companies with profits of less than £300,000 per annum will be cut from 21% to 20% from 1 April 2011.
- For larger companies the main rate of tax will be progressively cut from its current level of 28% to 24% over four years commencing from 1 April 2011. The rate from 1 April 2011 will be 27%, then 26% from 1 April 2012, 25% from 1 April 2013 and 24% from 1 April 2013.
- The main rate of Capital Allowances will be reduced from 20% to 18% from 6 April 2012 (1 April for companies). The special rate for items included in buildings, long life assets and certain motor cars will also be reduced from 10% to 8% from 6 April 2012 (1 April for companies).
- The upper limit for the Annual Investment Allowance will be reduced from £100,000 to £25,000 from 6 April 2012 (1 April for companies). This is the amount of capital expenditure that can be written off against profits of the year in full.

Capital Gains Tax Changes

From 23 June 2010 there will be two main rates of Capital Gains Tax (CGT) for individuals. From midnight on budget day the following changes will be made.

- A new CGT rate of 28% for higher rate taxpayers is introduced.
- The standard rate for all gains will remain at 18% for basic rate taxpayers.
- No tapering relief or other new allowances will be introduced.
- Entrepreneurs relief will continue to operate so that CGT on business assets

will still be taxed at 10% whether or not they fall within the standard or higher rate CGT bands. The lifetime allowance for Entrepreneurs Relief is extended to £5M from £2M.

- There will be no change to the annual exempt amount of £10,100 which you can make before you start to pay CGT.

No changes to the separate CGT rules for companies have been announced so it appears that they will continue on the basis of the old indexation rules.

VAT and Other Duties

Changes to VAT and other duties were announced as follows:

- 4 January 2011 the main rate of VAT will rise from 17.5% to 20%.
- Zero rated items for VAT such as food, children's clothing, and books will remain zero rated.
- Insurance premium Tax to



increase from 5% to 6%.

- No increases in fuel, alcohol or tobacco duties.
- The proposed increase in cider duties has been scrapped.

To find out more about these and other allowances, or to discuss more detailed year end planning, please contact us.

Other significant announcements

The following announcements were also made:

- The restoration of the earnings link for state pensions. From April 2011 This means that pensions will increase in line with average earnings, inflation or 2.5% whichever is the greater.
- The State Pension Age is increased to 66 from April 2011.
- The requirement for those with a private pension to take an annuity by age 75 will be reviewed from April 2011.
- For poorer families, the child element of child tax credit will increase from April 2011 by £150 above inflation.
- Tax credit eligibility will be reduced for families with household incomes over £40,000 from April 2011.
- Council tax will be frozen for a year in 2011/12.
- Public salaries frozen for 2 years for those earning over £21,000.
- A Banking Levy will apply to all larger UK banks and building societies.
- Child benefit has been frozen for the next three years.
- Businesses setting up outside the South East will be exempt from Employers National Insurance for three years on the first ten employees. The relief will be capped at £5,000 per employee.

- There will be a review of the way that pension contributions will be capped. The new system will probably cap annual contributions to a figure of between £30,000 and £45,000.
- For Child Trust Funds, the Government intends to reduce government contributions at birth, and to stop government contributions at age 7, from August 2010. The Government also intends for HMRC to stop issuing new Child Trust Fund vouchers from 1 January 2011. There is no immediate effect on Child Trust Funds.
- The Enterprise Finance Guarantee facility is being extended to allow more businesses to benefit from access to bank finance.
- The proposed landline duty of 50p per month to pay for extending broadband services will be scrapped.



Santander news

Our Santander agency is now able to provide the full range of Santander's bank accounts and credit cards.

This includes the **Zero Credit Card** that has no balance transfer fees for transfers made in the first three months, 0% for 6 months on balance transfers and purchases made from the date of account opening, 0% foreign exchange fees, 0% cash advance fees, no annual fee and a typical interest rate of 18.9% APR (variable).

Bank accounts include the **Zero Current Account** with no fees for exceeding your arranged overdraft limit, no fees for using cash machines with your debit card anywhere in the world and which pays 5% AER (fixed) on balances up to £2,500 for the first 12 months.

To find out more pick up a leaflet in reception or call on 01432 263282 and ask for Christine.



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Guide to tax rates and allowances

	<u>Tax year 2010/11</u>	<u>Tax year 2011/12*</u>
Personal allowance	£6,475	£7,475
Older persons personal allowance (65-74)	£9,490	£9,490
Older persons personal allowance (75 and over)	£9,640	£9,640
Married Couples allowance (born before 6 April 1935 and under 75)	N/A	N/A
Married Couples allowance (born before 6 April 1935 and over 75)	£6,965	£6,965
<i>Personal allowances will be withdrawn for those with incomes between £100,000 and £112,950</i>		
Income tax rates:		
10% (for savings income only)	£0 - £2,440	£0 - £2,440
20% (for non-savings income)	£0 - £37,400	£0 - £34,900
40%	£37,401-£150,000	£34,901-£150,000
50%	Over £150,000	Over £150,000
National Insurance rates:		
Employee's contributions at 11% (12% from April 2011) on earnings over	£110 per week	£131 per week
Employee's contributions at 1% (2% from April 2011) on earnings over	£844 per week	£844 per week
Employer's contributions at 12.8% on earnings over	£110 per week	£131 per week
Class 2 contributions for self-employed	£2.40 per week	£2.40 per week
Class 4 contributions for self-employed at 8% (9% 2011/12) on profits	£5,715 - £43,875	£5,715 - £43,875
Class 4 contributions for self-employed at 1% (2% 2011/12) on profits over	£43,875	£43,875
Company Tax rates:		
Small companies - profits up to £300,000	21%	21%
Marginal rate - profits between £300,001 and £1,500,000	29.75%	28.75%
Large companies - profits over £1,500,000	28%	27%
VAT registration threshold	£68,000	£68,000
Capital Gains Tax annual exempt amount	£10,100	£10,100
Capital Gains Tax gains falling in the basic rate income tax band	18%	18%
Capital Gains Tax gains falling in the higher rate income tax band	18%/28%**	28%
Inheritance Tax nil rate band	£325,000	£325,000
Inheritance Tax rate	40%	40%

* - figures for 2011/12 have not been fully announced and are provisional

** - 28% from 23 June 2010



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The information within this document is based on the second budget of 22 June 2010 and other H M Revenue & Customs releases.

This document has been prepared as a guide to topics of current financial and business interest. We strongly recommend that you take professional advice before making decisions on matters discussed here.

No responsibility for any loss to any person acting as a result of this document can be accepted by us.