

Emergency Budget Highlights

Capitus' Review



The Chancellor of the Exchequer, George Osborne MP, presented the Coalition Government's Emergency Budget on 22 June 2010. In a speech lasting almost an hour, Mr Osborne outlined the Coalition's plans for the UK economy throughout the term of Parliament.

The announcement, which opened with a Government health warning to all, maintained the Coalition's view that the populous should prepare to tighten our belts to reduce the deficit imposed upon us by the previous Government. Interestingly, through this air of austerity, there were a number of business friendly policies proposed.

Businesses

The main rate of corporation tax will be reduced by 1% per financial year from April 2011 to April 2014 down to a rate of 24% in a move hoping to drastically increase the competitiveness of the UK corporation tax system.

The small company corporation tax increase proposed by the previous government will be reversed, and the subsequent rate will be reduced to 20% from April 2011.

Capital allowances rates for main pool plant and machinery will be reduced from 20% to 18% and integral features rates (and those for longer life assets) reduced from 10% to 8% from April 2012.

The Annual Investment Allowance (recently raised to £100,000 per annum) will be capped at £25,000 from April 2012.

In a move designed to increase competition and reduce burdens, consultations with businesses will begin to discuss changes to the taxing of foreign profits and intellectual property as well as the R&D tax relief regime.

Bank levy on balance sheets will be introduced from 1 January 2011 – it is expected that the future a proposed rate will be 0.07%, with a lower initial rate of 0.04% in 2011.

National Insurance Contribution thresholds will be increased by £21 per week above indexation from April 2011 in a move to assist employers.

Individuals

Capital Gains Tax for individuals taxed above the higher income tax threshold will be increased to 28% from 18% at midnight 22 June 2010. No offset measures are proposed such as taper relief or indexation, though the Capital Gains Tax allowance (currently £10,100) will be expected to rise in line with inflation.

The existing lifetime Entrepreneurs Allowance which allows business asset capital gains to be taxed at 10% will be increased from £2m (as proposed by the previous government) to £5m.

No changes to the income tax rates have been proposed, though the personal allowance will increase from £6,475 to £7,475 in April 2011.

General

Value Added Tax (VAT) will be increased to 20% from 4 January 2011, though rates for goods such as children's clothes, newspapers and food will remain zero rated.

The Government will examine further changes to prevent avoidance of Stamp Duty Land Tax on high value property transactions.

For more information on how the emergency budget affects your business, please contact Aubrey Calderwood calderwood@capitus.co.uk