



## Our thoughts on the budget

Was the recent budget the most pointless waste of time as some commentators have said? After all the next election must be soon and there will not be any time to get these measures through before then. However, as the leader of the opposition says that all the ideas in the budget were theirs anyway, surely there should be no need to debate the measures and it should be enacted immediately. This will clearly not happen.

We have heard from the Chancellor that he is not going to do another budget after the election and this is his one off budget for the year. However, this is on the understanding that he is still Chancellor after the election so we need to consider if any of this will actually be enacted or will a second budget occur after the election, which could take us in a different direction. For now we must continue as if what we heard yesterday was it.

So what was in the budget notices? We all now know that what is said is not the whole story so we have to look through the budget notices and consultative documents published at the same time.

One of the much suggested changes highlighted before yesterday was a change to the Capital Gain rules as it is perceived that with the differences between the top rate of tax, 50%, and the CGT rate, 18%, then people will be trying to change their income into capital to reduce the tax bill. The suggestion that the rate of CGT would be increased to 20% or, as some suggested, we would lose the flat rate of tax and it would be added to the income and taxed at the top rate of tax. Neither of these occurred and we stay with the 18% flat rate. Clearly from other measures the route being taken is to target any “schemes” that are put in place to change the nature of income rather than do a blanket change that would affect everybody. This has already happened with a “clarification” of the corporation tax rules on distributions to companies.

The other major change in respect of CGT is to double entrepreneurs’ relief to £2million. This only comes in for gains occurring after 5 April 2010 and will not change any earlier gains made which were over the previous £1million relief. On the face of it that appears hard on the people that have larger gains but we will all appreciate that relief is not given retrospectively unlike increases in tax which over the years has been.

Looking at other capital tax measures it is good to see that there are no real changes to the Inheritance Tax rules. The only announcement of note was that the nil rate band stays the same for the next 4 years. This will give some certainty and enable planning to take place. Particularly lifetime planning where some substantial amounts can be given away.

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For businesses the increase in the Annual Investment Allowance from £50,000 to £100,000 is welcome. However, who will be able to take advantage of this? It needs to be remembered that if you have a group of companies then this amount is to be spread over the whole group rather than having one relief per company. You decide how it is to be split.

One measure had a wonderful title and related to “Cushion Gas”. This has nothing to do with whoopee cushions and relates to the way gas is stored. The provision allows capital allowances to be claimed on leasing of certain equipment.

The list for energy saving and water efficient technologies has been slightly revised. This allows for a claim of 100% CA’s for items within the list and is always useful to refer to if any alterations to property are being undertaken so as to maximise relief.

With regard to VAT there have been slight changes to the registration limits which are in line with the usual changes. After losing the TNT Post case in Europe changes have been made to the exemption for postal services. This will affect organisations like charities and other non VAT registered businesses which use the Royal Mail for distributions of publicity material, as VAT will need to be added to the cost. Due to these changes postal services may not be cost effective and perhaps therefore email campaigns may become the norm which could affect the Royal Mail.

The Lennartz principal is also abolished for 1 January 2011. This allows for some businesses to claim the VAT up front and make adjustments for the private use of an asset over the economic life of the asset. This will be a cost flow problem which usually affects smaller businesses which have private as well as business use of assets. Again charities will be affected where they use buildings for both charitable and non charitable purposes. It does not appear to be a very good budget for charities.

The speech and some of the measures attack what they term as avoidance schemes. In particular they are, as is normal, looking again at Employee Benefit Trusts. EBT’s are always being attacked and this budget is no different. The new changes will take some lengthy consideration by the providers and we will hear more about this from them shortly. Other anti-avoidance provisions have been introduced. However, the majority of the products that we recommend through our carefully checked providers are not affected by any of the changes. If you have a problem that you may like advice about we would be only too happy to assist.

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There has also been a change in the penalty regime for deliberate and concealed offshore tax evasion. This has increased the maximum penalty from 100% to 200%. Could it be that the latest offshore disclosure scheme will be the last?

All in all if this was the Chancellor's one budget for the year for tax purposes it is steady as we go as you would assume, being this close to an election, no major changes. There are still opportunities which we all need to consider within the proposed changes. However, as stated at the beginning how much of this becomes law is open to question.

Should you have any questions relating to the budget please do contact us.

Yours sincerely

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