June 2010 Budget - SME Focus

Thursday, 08 July 2010 10:02 **Chris Dixon**

This checklist highlights the key issues for small and medium-sized enterprises (SMEs) in the 22 June 2010 Budget.

Key tax measures

Corporation tax rates reduced from 2011-12

The main rate of corporation tax will be reduced to 27% (from 28%) for the year commencing 1 April 2011. This will apply to companies and groups whose annual profits exceed £1.5 million. Further annual reductions of 1% each subsequent year will also be made, culminating in a rate of 24% for the year commencing 1 April 2014.

The small companies rate of corporation tax will be reduced to 20% (from 21%) for the year commencing 1 April 2011. This will apply to companies and groups whose annual profits do not exceed £300,000.

Capital gains tax (CGT) rises to 28%

For gains arising on or after 23 June 2010, the rate of CGT increases to 28% for higher and additional rate taxpayers, trustees and personal representatives. Basic rate taxpayers will continue to be liable at 18%. The new rate will apply equally to any deferred gains that come into charge on or after 23 June 2010.

To a limited extent, a planning opportunity exists for the directors of owner-managed companies, who are able to control the amount of income that they receive in a given year. If such directors are planning to realise capital gains (for example, on the sale of a second home or an investment portfolio), they may be able to reduce their income levels for the year of the disposal in order to pay CGT at the lower rate.

Entrepreneurs’ relief increases to £5 million

With effect from 23 June 2010, the lifetime limit for entrepreneurs’ relief rises from £2 million to £5 million. This means that a tax rate of 10% will apply to the first £5 million of qualifying gains.

The increased lifetime limit will apply in relation to disposals on or after 23 June 2010. To the extent that any gains realised by the taxpayer before that date exceed the old £2 million lifetime limit of entrepreneurs’ relief, CGT will remain payable at the full rate of 18% on the excess, but only the £2 million of relief claimed will be set against the increased limit for future qualifying disposals.

Standard rate of VAT increased

The standard rate of VAT will increase (from 17.5%) to 20% with effect from 4 January 2011. The 20% rate will apply to supplies made on or after 4 January 2011 and acquisitions or importations taking place on or after that date. This measure does not affect supplies subject to other rates of VAT, such as the zero-rate or reduced rate.

Business

Corporate tax reform

The government announced a “roadmap for corporate tax reform”, with further details to follow in the autumn. The reform will be based on the government’s view that a broad tax base, a low corporate tax rate and a more territorial approach will make the UK’s tax system more competitive. The Budget Report states that “the manufacturing sector as a whole will pay less corporation tax as a result” of the government’s reforms.

Capital allowances: writing down allowances and annual investment allowance reduced

From 1 April 2012 (for corporation tax) or 6 April 2012 (for income tax), the annual rate of writing down allowances for both new and unrelieved expenditure on plant and machinery will be reduced to 18% (from 20%) and the annual rate for special rate pool expenditure will be reduced to 8% (from 10%). In addition, also from 2012, the maximum annual investment allowance will be reduced to £25,000 (from £100,000).

Small business tax review

The government has announced that it “remains committed” to a review of IR35 and small business tax, and that it will release further details “shortly”.

Zero-emission goods vehicles: 100% first year allowance

There will be a 100% first year allowance, subject to certain conditions, for the purchase of new and unused (not second-hand) zero-emission goods vehicles has been introduced. The allowance will have effect for a five-year period beginning on 1 April 2010 for companies (6 April for unincorporated businesses) until 31 March 2015 (5 April 2015 for non-corporates).

Employment and pensions

Enterprise management incentives (EMI) changes

The June 2010 Budget confirmed that a previously announced change to enterprise management incentives (EMI) legislation will go ahead. The change will enable companies with a permanent establishment in the UK to grant EMI options (currently, only companies which carry out a qualifying trade wholly or mainly in the UK can grant EMI options).

PAYE, workplace canteens and employer-supported childcare

The June 2010 Budget Report included the following announcements regarding PAYE and income tax measures:

• A commitment to explore ways of improving the PAYE system, starting with a consultation with employers and payroll providers on ways of capturing more frequent or even real-time PAYE data.

• A consultation on introducing powers for HMRC to require financial security where PAYE and NICs are at serious risk of non-payment. The consultation will also consider the proposed criminal penalty for failure to provide a financial security.

• Legislation to restrict tax breaks for workplace canteens will take effect from April 2011.

• Confirmation of changes to employer-supported childcare such as nursery vouchers, including the restriction of the tax benefits for higher and additional rate taxpayers, which will take effect for new joiners to a scheme on or after 6 April 2011.

NIC employer contributions

Employer NIC contributions will increase (from 12.8% to 13.8%) from 6 April 2011. The secondary (employers') threshold will be increased by £21 above the Retail Price Index, also from 6 April 2011. At the same time, the upper earnings limit will be reduced to align it with the higher rate threshold.

Regional employer NICs holiday for new businesses

The government will shortly announce details of a scheme to promote the creation of new businesses in those parts of the UK that are most reliant on public sector employment. Those areas are Scotland, Wales, Northern Ireland, the North East, Yorkshire and the Humber, the North West, the East Midlands, the West Midlands and the South West.

During a three-year period, new businesses in these areas will be exempt from the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for the first ten employees hired in the first year of business. Subject to meeting the necessary legal requirements, the scheme is intended to start from 6 September 2010 but this has yet to be confirmed. Most kinds of business (including property and investment businesses) will be eligible for the scheme.

Research and development tax relief: abolition of IP ownership condition for SMEs

The government has announced that legislation will be introduced to abolish one of the conditions that a SME must satisfy in order to claim the enhanced tax relief for research and development (R&D) expenditure. Companies that are SMEs may claim an enhanced tax relief at the rate of 175% for qualifying expenditure on R&D.

One of the conditions that a SME company must satisfy in order to claim this relief is that the company owns any intellectual property (IP) deriving from the R&D to which the expenditure is attributable. The government has announced that this condition will be abolished. The change will have effect for any expenditure incurred by a SME company on R&D in an accounting period ending on or after 9 December 2009.

Enterprise Investment Scheme: investment in businesses “in difficulty” will not qualify

The Enterprise Investment Scheme (EIS) can be a valuable source of capital for SMEs: investors are entitled to tax reliefs, provided a number of conditions relating to the investee company are satisfied. The government announced in the Budget that EIS relief will not be available for investments in businesses that are in financial difficulty. This change will take effect from a date to be announced, irrespective of when the money was raised under the EIS investment. This means that the existing investments may be affected. The same change will also apply to investments by Venture Capital Trusts.

More information

If you have any queries about the content of this checklist, please contact Chris Dixon at kenneth elliott + rowe 01708 757575 chris.dixon@ker.co.uk .

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