



**PJM Accountancy**  
Chartered Accountants

Trevean  
Yeolmbridge  
Launceston  
PL15 8NJ

Tel/Fax: 01566 773615

Mob: 07766 111647

peter@pjmaccountancy.co.uk

# BudgetReview



## Chancellor cuts 50p rate in a Budget to 'reward work and support growth'

Chancellor George Osborne's Budget statement contained some key announcements on personal and business taxation, including confirmation of a cut in the 50p headline rate of income tax to 45p, to take effect from April 2013.

Meanwhile, personal tax allowances were also a significant focus of the Chancellor's speech. With the income tax personal allowance set to rise to £8,105 next month, the Chancellor confirmed that a further rise in the income tax allowance will take place in 2013, taking the allowance to £9,205. Age-related tax allowances have been frozen and will not be available to anyone born after 5 April 1948.

Also among the key measures was a doubling of the planned reduction in the headline rate of corporation tax, which will see the rate fall from 26% to 24% in April 2012.

The tax cuts announced are to be funded by a clampdown on tax

avoidance, together with the introduction of a new 7% Stamp Duty Land Tax on residential properties worth over £2 million, and a provision charging a 15% duty on certain high value purchases. A new cap will also be applied to previously uncapped tax reliefs, set at a rate of 25% of total income (or £50,000 if greater) for those claiming relief of more than £50,000 a year.



Additional measures announced include the introduction of tax credits for the video games, animation and high-end television production sectors, a new annual statement of Government spending for taxpayers, and a temporary relaxation of Sunday trading laws, to cover eight weekends during the Olympics and Paralympics.

## Duties

Despite recent representations by campaigners, the Chancellor stated that there would be no change to the Government's plans for fuel duty, meaning that the scheduled 3p rise will take place in August.

The price of tobacco, meanwhile, will see an increase of 5% above inflation while alcohol duty rates will increase by 2% above inflation, meaning typical increases of:

- 37p on a packet of 20 cigarettes
- 3p on a pint of beer
- 11p on a bottle of wine and
- 41p on a bottle of spirits.

### VED rates from 1 April 2012

Band	CO <sub>2</sub> (g/km)	First Year Rate	Standard Rate	
			Petrol & Diesel	Alternative Fuels
A	Up to 100	£0	£0	£0
B	101 - 110	£0	£20	£10
C	111 - 120	£0	£30	£20
D	121 - 130	£0	£100	£90
E	131 - 140	£120	£120	£110
F	141 - 150	£135	£135	£125
G	151 - 165	£170	£170	£160
H	166 - 175	£275	£195	£185
I	176 - 185	£325	£215	£205
J	186 - 200	£460	£250	£240
K*	201 - 225	£600	£270	£260
L	226 - 255	£815	£460	£450
M	Over 255	£1,030	£475	£465

\*includes cars emitting over 225g/km registered before 23 March 2006.

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# Business tax and investment incentives

## Corporation tax

Corporation tax rates and bands are as follows:

Financial year to	31 March 2013	31 March 2012
<b>Taxable profits</b>		
First £300,000	20%	20%
Next £1,200,000	25%	27.5%
Over £1,500,000	24%	26%

The main rate of corporation tax will be reduced to 23% for the financial year commencing 1 April 2013 and to 22% for the financial year commencing 1 April 2014.

## Capital allowances

From April 2012 there will be a reduction in the amount of expenditure on plant and machinery that qualifies for a 100% year one write-off (via the Annual Investment Allowance (AIA)), from £100,000 to just £25,000.

In addition, from 1 April 2012 (for businesses within the charge to corporation tax) and from 6 April 2012 (for businesses within the charge to income tax), the rates of writing down allowances will be reduced from 20% to 18% (main rate pool) and from 10% to 8% (special rate pool). For businesses with years straddling 31 March/5 April, there will be a transitional AIA and writing down allowance.

From April 2012 the availability of capital allowances to a purchaser of fixtures will be conditional on businesses following a new statutory mechanism for fixing a value for fixtures within two years of a sale.

As announced in the Autumn Statement, the Enterprise Zones in assisted areas will qualify for enhanced capital allowances. In these areas, 100% First Year Allowances will be available for expenditure incurred by trading companies on qualifying plant or machinery. The qualifying expenditure must be incurred between 1 April 2012 and 31 March 2017.

## Research and development (R&D)

The additional corporation tax deduction given to SMEs for qualifying R&D expenditure rises from 100% to 125%, in respect of expenditure incurred on or after 1 April 2012. The £10,000 minimum expenditure requirement for large companies and SMEs will be abolished. The Government will introduce an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1% before tax. Loss making companies will be able to claim a payable credit.

## Media

Subject to State Aid approval and following consultation, the Government will introduce new corporation tax reliefs from April 2013 for the video games, animation and high-end television industries.

## Enterprise Management Incentives (EMI)

Subject to State Aid approval, the limit on the value of shares over which options may be held by an employee under EMI will be increased, as soon as possible, from £120,000 to £250,000. The Government will make reforms to the EMI in Finance Bill 2013 so that gains made on shares acquired through exercising EMI options on or after 6 April 2012 will be eligible for Entrepreneurs' Relief.

## Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs)

Legislation will be included in Finance Bill 2012 to simplify the EIS by relaxing the connected person rules, widening the definition of shares which qualify for relief, and removing the £500 minimum investment limit. The Government will also remove the £1 million limit on investment by a VCT in a single company (except for companies in a partnership or a joint venture).

The employee limit for both EIS and VCT purposes will be increased to fewer than 250 employees, while the gross asset limit will rise to £15 million before the investment and £16 million after, and the maximum annual amount that can be invested in an individual company will increase to £5 million (and not £10 million as had been previously announced). These changes will apply, subject to State Aid approval, to shares in investee companies that are issued on or after 6 April 2012. In addition, the maximum annual amount that an individual can invest under the EIS will rise to £1 million.

From April 2012, a new Seed Enterprise Investment Scheme (SEIS) will:

- apply to smaller companies, those with 25 or fewer employees and assets of up to £200,000, which are carrying on or preparing to carry on a new business
- give income tax relief worth 50% of the amount invested to individual investors with a stake of less than 30% in such companies, including directors who invest in their companies
- apply to an annual amount of investment of £100,000 per investor, with unused annual amounts able to be carried back to the previous year, as under EIS
- provide for relief within an overall tax favoured investment limit of £150,000 for the company
- provide for an exemption from CGT on gains on shares within the scope of the SEIS and on gains realised from disposals of assets in 2012/13, where the gains are reinvested through the new SEIS in the same year.

## Small businesses

From April 2013 a new cash basis for calculating tax for small unincorporated businesses will be introduced. The Government will consult on the details of the scheme including on extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000.



## Capital taxes

### Capital gains tax (CGT)

The annual exempt amount for individuals for 2012/13 is £10,600.

Gains that fall within an individual's otherwise unused basic rate income tax band are taxed at 18%; any remaining gains above the basic rate band limit are taxed at 28%. The rate of CGT for trustees or personal representatives is 28%.

### Foreign currency bank accounts

From 6 April 2012, currency gains and losses on the withdrawal of funds from foreign-denominated bank accounts for all individuals, personal representatives and trustees will be exempt from CGT.

### Inheritance tax (IHT)

The IHT threshold is frozen at £325,000 until 5 April 2015.

The rate of IHT remains 20% for lifetime transfers and 40% for death estates (including transfers within seven years before death brought back into the estate for the purpose of calculating the tax due at death).

A reduced rate of 36% will apply from April 2012 to death estates, where 10% or more of the net estate is left to charity.

### Avoidance using offshore trusts

With effect on and after 21 March 2012, if a person enters into arrangements through which they acquire an interest in excluded property such that the value of their estate is reduced, the reduction will be charged to IHT as if that person had transferred assets of that value directly to a relevant property trust.

The assets settled in the offshore trust will cease to be treated as excluded property and will instead become subject to the relevant property regime.

These provisions will also apply to existing schemes or arrangements entered into before 21 March 2012, but only in relation to periodic charges and exit charges that arise on or after that date.

## Real Time Information (RTI) and PAYE penalties

Currently, employers and pension providers send information about tax, National Insurance Contributions (NICs) and other payroll deductions to HMRC after the end of each tax year. The result is that HMRC cannot correct mistakes until the employer sends this information.

However, under RTI, employers and pension providers will tell HMRC about tax, NICs and other deductions when or before the payments are made.

The Government will consult before the Summer on a new model for PAYE late payment and late filing penalties.



### Value Added Tax Rates and Thresholds

From	4 Jan 2011
Standard Rate	20%
VAT Fraction	1/6
Reduced Rate	5%

#### Current Turnover Limits

Registration – last 12 months or next 30 days over	£77,000 from 01/04/12
Deregistration – next 12 months under	£75,000 from 01/04/12
Annual Accounting Scheme	£1,350,000
Cash Accounting Scheme	£1,350,000
Flat Rate Scheme	£150,000

## National Insurance Contributions

### 2012/13

#### Class 1 – not contracted out

Payable on weekly earnings of

Earnings Band	Employer	Employee
Below £107 (lower earnings limit)	Nil	Nil
£107 - £144 (employers' earnings threshold)	Nil	Nil
£144.01 - £146 (employees' earnings threshold)	13.8%	Nil
£146.01 - £770 (upper accrual point)	13.8%	12%
£770.01 - £817 (upper earnings limit)	13.8%	12%
over £817	13.8%	2%

Over state retirement age, the employee contribution is generally nil.

<b>Class 1A</b>	On relevant benefits	13.8%	Nil
<b>Class 2</b>	Self employed		£2.65 per week
	Limit of net earnings for exception		£5,595 per annum
<b>Class 3</b>	Voluntary		£13.25 per week
<b>Class 4*</b>	Self employed on profits		
	£7,605 - £42,475	9%	
	Excess over £42,475	2%	

\*Exemption applies if state retirement age was reached by 6 April 2012.





## Income tax and personal allowances

Income Tax Rates	2012/13	2011/12
<b>Basic rate band – income up to</b>	£34,370	£35,000
Starting rate for savings	*10%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
<b>Higher rate – income over</b>	£34,370	£35,000
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
<b>Additional rate – income over</b>	£150,000	£150,000
Additional rate	50%	50%
Dividend additional rate	42.5%	42.5%

\*Starting rate is for savings income up to the starting rate limit of £2,710 (£2,560) within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.

Personal Allowances	2012/13	2011/12
<b>Personal Allowance (PA) – under 65</b>	£8,105	£7,475
– 65 to 74	£10,500	£9,940
– 75 and over	£10,660	£10,090

### Married Couple's Allowance (MCA)

Either partner born before 6 April 1935  
(Relief restricted to 10%)

Age-related allowances reduced  
when adjusted net income exceeds

£25,400	£24,000
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Where income exceeds £100,000, the PA, including the minimum age-related allowances, is reduced by £1 for every £2 that net adjusted income exceeds £100,000 until it is nil.

## Child Benefit

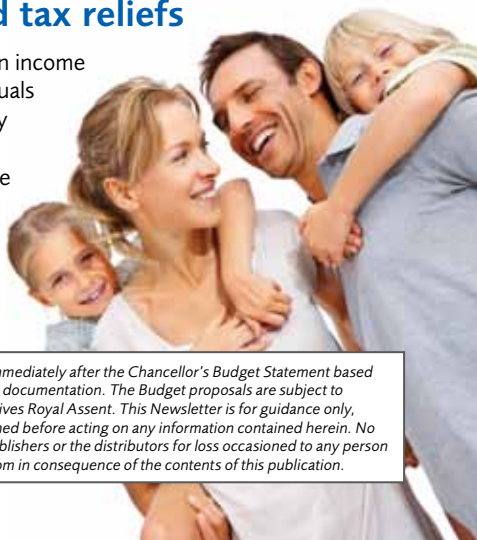
A new income tax charge will apply to taxpayers who receive Child Benefit or whose partner receives Child Benefit. The charge will only apply to those whose income is more than £50,000 for the tax year. If both partners have income of more than £50,000 for the tax year, the charge will apply only to the partner with the highest income.

For people with income between £50,000 and £60,000, the amount of the charge will be a proportion of the Child Benefit received. For those with income above £60,000, the amount of the charge will equal the amount of Child Benefit received.

This measure is to come into effect from 7 January 2013. HMRC will contact people earning over £50,000 about the new charge from Autumn 2012.

## Cap on unlimited tax reliefs

Legislation will apply a cap on income tax reliefs claimed by individuals from 6 April 2013 where they are currently unlimited. For anyone seeking to claim more than £50,000 in reliefs, a cap will be set at 25% of income (or £50,000, whichever is greater).



This Budget Newsletter was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Act receives Royal Assent. This Newsletter is for guidance only, and professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or the distributors for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.

## Personal allowances and tax rates for 2013/14

The basic and higher rates of income tax will remain at 20% and 40%, respectively, while the additional rate will be reduced to 45%. The dividend additional rate will be set at 37.5%, the trust rate will be set at 45% and the dividend trust rate will be set at 37.5%.

For 2013/14 the personal allowance for those born after 5 April 1948 will be set at £9,205 and the basic rate limit at £32,245.

From 2013/14, the age-related personal allowances will not be increased and their availability will be restricted to people born on or before 5 April 1948:

Born 6 April 1938 – 5 April 1948	£10,500
Born before 6 April 1938	£10,660

## Company cars

The table shows the VAT chargeable for quarters commencing on or after 1 May 2012 and the benefit in kind percentages. The car fuel multiplier for 2012/13 is £20,200; the van fuel benefit is £550.

CO <sub>2</sub> emissions (g/km)	Appropriate percentage		Quarterly VAT	
	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £
Zero	0	0	166	27.67
Up to 75	5	8	166	27.67
76 to 99	10	13	166	27.67
100 – 104	11	14	166	27.67
105 – 109	12	15	166	27.67
110 – 114	13	16	166	27.67
115 – 119	14	17	166	27.67
120 – 124	15	18	166	27.67
125 – 129	16	19	250	41.67
130 – 134	17	20	266	44.33
135 – 139	18	21	283	47.17
140 – 144	19	22	300	50.00
145 – 149	20	23	316	52.67
150 – 154	21	24	333	55.50
155 – 159	22	25	350	58.33
160 – 164	23	26	366	61.00
165 – 169	24	27	383	63.83
170 – 174	25	28	400	66.67
175 – 179	26	29	416	69.33
180 – 184	27	30	433	72.17
185 – 189	28	31	450	75.00
190 – 194	29	32	467	77.83
195 – 199	30	33	483	80.50
200 – 204	31	34	500	83.33
205 – 209	32	35	517	86.17
210 – 214	33	35	533	88.83
215 – 219	34	35	550	91.67
220 – 224	35	35	567	94.50
225 and above	35	35	583	97.17