

UK Budget Entrepreneurial Business Bulletin

If it counts, it's covered

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Introduction

The Chancellor, George Osborne, presented his first Budget statement today and, as expected, significant public sector spending cuts were announced. Overall, the Budget sought to achieve the targeted split of 20%/80% between tax increases and spending cuts by the end of this Parliament to combat the deficit.

For entrepreneurs, the most important tax areas were the anticipated change to capital gains tax and increase in the standard rate of VAT. VAT will increase to 20% in January 2011. However, the changes to capital gains tax were not quite what some people might have anticipated.

In addition, it was announced that both the main corporation tax rate and the small companies rate will be reduced.

1. Business Finance

The Enterprise Finance Guarantee ("EFG") assists small businesses with a viable track record in obtaining commercial loans on normal terms where they have

"This is the unavoidable Budget...everyone will be asked to contribute".
- George Osborne.

previously struggled to do so through lack of sufficient collateral. The EFG is being extended by a further £200 million in FY2010 to support additional lending until 31 March 2011.

The Government will create the previously announced Growth Capital Fund and launch a new Enterprise Capital Fund ('ECF') to invest in small businesses with substantial growth potential. The new ECF will be funded through a £25 million Government contribution and £12.5 million in private co-investment.

The Government plans to promote small business procurement by publishing central Government tenders online for free, which is due to become available by the end of 2010 and comes as part of the Coalition's push for greater transparency in the way that it does business.

2. Business Tax

2.1 Corporation tax rates

The main rate of corporation tax will be reduced from 28% to 27% from 1 April 2011. There will be further 1% reductions in the corporation tax rate in each of the next three years to bring the rate down to 24% by 1 April 2014.

The small profits rate of corporation tax will be reduced from 21% to 20% from 1 April 2011. The previous Government had planned for the rate to rise to 22%.

2.2 Capital allowances: reduction in writing down rates

The main rate of writing down allowances (WDAs) for expenditure on plant and machinery are to be reduced from 20% to 18% per annum and from 10% to 8% per annum for expenditure allocated to the special rate pool (e.g. long life assets).

The reduced WDA rates will apply 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 Annual Investment Allowance (AIA) allows businesses to set the full amount of their annual capital expenditure on most plant and machinery (apart from cars) against their taxable profits, subject to an annual maximum amount. The current maximum amount of £100,000 (increased from £50,000 in the March Budget) is to be reduced to a new limit of £25,000 from April 2012. Details of the transitional arrangements are yet to be published.

2.3 Patent Box

The Government is still considering proposals to introduce the patent box regime announced in the Pre-budget Report 2009.

2.4 Videogame Relief

The videogame development tax relief proposed in the March 2010 Budget has been abandoned by the new Government.

2.5 R&D Relief

Later this year, the Government will consult on a long term approach to the taxation of R&D, based on the proposals contained in Sir James Dyson's March 2010 report, 'Ingenious Britain'. The report suggests that R&D tax credits should be refocused on high tech companies, small businesses and new start-ups in order to stimulate a new wave of technology.

2.6 Time to pay

As previously announced, the Business Payment Support Service ("time to pay") is still continuing.

3. Personal and Employment Taxes

3.1 Personal Tax

3.1.1. Capital Gains Tax: Rates and Entrepreneurs' Relief

A new rate of capital gains tax ("CGT") of 28% will be introduced from 23 June 2010. This higher rate will apply to individuals with total taxable income and gains above the upper limit of the basic rate income tax band (£37,400 for 2010/11), as well as trustees and personal representatives of deceased persons. Where total taxable income and gains after allowable deductions are less than the upper limit of the basic rate income tax band for individuals, the rate of CGT will remain at 18%. The rate change will apply to all gains arising on or after 23 June 2010.

For shares that do not qualify for Entrepreneurs' Relief (though many owner-managed business shareholdings should), this narrows the gap between extraction of value from companies by way of dividend and by way of capital return/liquidation. It still leaves a substantial difference between employment income tax rates and equity incentive plan capital gains returns for employees earning over £150,000, although the Budget reiterated previous announcements that certain geared equity plans would be looked into.

The rate of CGT on gains qualifying for entrepreneurs' relief remains unchanged at 10% but the lifetime limit on gains will increase from £2 million to £5 million. There was no further concession for "business assets" which many had hoped for.

The Annual Exempt Amount will remain unchanged at £10,100 for 2010/11.

3.2 Employment Tax

3.2.1. NIC increases

The increases in employer's and employee's NIC rates as announced by the previous Labour government are still in place. However the threshold at which the employers will start to pay has increased by £21 per week above indexation.

3.2.2. Regional employer NIC holiday for new businesses

The Chancellor announced a regional employer NIC holiday for new businesses. New businesses setting up in certain regions (most notably excluding London, the South East and East Anglia) during a three year qualifying period will not have to pay the first £5,000 of employer's Class 1 NIC due in the first 12 months of employment for each of the first ten employees hired in the first year of business.

The exact criteria for qualifying for the scheme will be published shortly.

The NIC holiday will start as soon as is practicable, probably from 6 September 2010, but with some relief for those businesses setting up between 22 June 2010 and commencement.

3.2.3. IR35

The Chancellor also indicated the Government's commitment to reviewing IR35 or rules surrounding contracting issues and small business tax. However, details on this have yet to be published.

4. Indirect Taxes

4.1 VAT rate rise to 20% with effect from 4 January 2011

As had been widely expected, the Chancellor announced an increase in the standard rate of VAT to 20%. The change will take effect on 4 January 2011 and there will be anti-forestalling provisions. The reduced (5%) rate remains unchanged. The Chancellor confirmed that there is to be no change to the VAT base, so goods and services that currently qualify for zero-rating and exemption will remain zero-rated or exempt.

4.2 Adjustments to the VAT 'payments on account' scheme

In order to maintain the overall effect of the scheme, the 'payments on account' scheme, under which larger businesses (currently those paying £2 million or more in VAT a year) is to be amended 'to maintain the status quo of the scheme'. This suggests that the threshold for entry to the scheme will be changed to reflect the higher VAT rate.

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