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BudgetReview

March 2013

Chancellor 'confronts nation's problems head on'

Delivering his fourth Budget statement to an animated House of Commons, Chancellor George Osborne pledged his support for 'aspiration' and vowed to face the UK's economic challenges 'head on'.

Confirming widespread concerns over the grim economic outlook, the Chancellor announced that the Office for Budget Responsibility had slashed the official growth forecast for 2013 from 1.2% to 0.6%.

However, despite acknowledging that dealing with the deficit was taking 'longer than hoped', and that borrowing would rise to £114bn this year, the Chancellor insisted that the Government was 'slowly but surely fixing our country's economic problems'.

Heralding his Budget as a mandate for those who aspire to 'work hard and get on', the Chancellor unveiled some significant measures aimed at supporting businesses and individuals, with headline announcements including an additional reduction in the main rate of corporation tax, bringing the tax down to 20% from 2015, and a much-anticipated increase in the income tax personal allowance, which will see the threshold reaching the Coalition's £10,000 target in 2014, a year earlier than originally planned.

Other measures include an annual £3bn boost for UK infrastructure from 2015, together with support for homebuyers through the extension of shared equity schemes, offering loans of up to 20% to buyers of new build homes.

Meanwhile, acknowledging the financial pressures facing families, the Chancellor confirmed the cancellation of the rise in fuel duty planned for September, and raised some cheer in the House with the announcement of the scrapping of the beer duty escalator.

Duties

The duty rates for all tobacco products will be increased by 2% above the rate of inflation (based on RPI) from 6pm on 20 March 2013.

The duty rates for spirits, wine and made-wine, cider and perry will increase by 2% above the rate of inflation (based on RPI) with effect from 25 March 2013. This will add 2p to the price of a litre of cider, 10p to the price of a bottle of wine and 38p to the price of a bottle of spirits.

The duty rates on beer will decrease with effect from 25 March 2013. This will reduce the price of an average strength pint of beer by 1p.

VED rates from 1 April 2013

Band	CO_2 (g/km)	First Year Rate	Standard Rate: Petrol & Diesel	Standard Rate: 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	£105	£95
E	131 - 140	£125	£125	£115
F	141 - 150	£140	£140	£130
G	151 - 165	£175	£175	£165
H	166 - 175	£285	£200	£190
I	176 - 185	£335	£220	£210
J	186 - 200	£475	£260	£250
K*	201 - 225	£620	£280	£270
L	226 - 255	£840	£475	£465
M	Over 255	£1065	£490	£480

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

Inside...

Business tax and investment incentives

Corporation tax

Financial year to	31 March 2014	31 March 2013
Taxable profits		
First £300,000	20%	20%
Next £1,200,000	23.75%	25%
Over £1,500,000	23%	24%

The main rate of corporation tax will be reduced to 21% for the financial year commencing 1 April 2014 and from 1 April 2015 it will be further reduced and unified with the small profits rate, giving a new unified rate of 20%.

Annual Investment Allowance (AIA)

As announced in the Autumn Statement, the AIA has been temporarily increased for a two-year period from £25,000 to £250,000 per annum for all qualifying investments in plant and machinery made on or after 1 January 2013. Provisions apply to accounting periods that straddle the start and end dates.

Small businesses

From 6 April 2013 all unincorporated businesses will be able to choose to deduct certain expenses on a flat rate basis.

In addition, a new voluntary cash basis for calculating tax for small businesses will be introduced. The new cash basis will allow eligible self-employed individuals and partnerships to calculate their profits on the basis of the cash that passes through their businesses. Businesses will be eligible if they have annual receipts of up to £79,000 and they will be able to continue to use the cash basis until receipts reach £158,000. Businesses in the scheme will generally not need to distinguish between revenue and capital expenditure. Eligible barristers will be able to choose either to use the new cash basis and simplified expenses or the current accruals basis. The existing cash basis legislation for barristers will be repealed (except for barristers already using it, for the remainder of their qualifying period).

UK residential property

There is to be a package of taxes for certain companies, partnerships with company members and managers of collective investment schemes (collectively referred to as non-natural persons) which own residential property in the UK worth over £2m.

These taxes are: stamp duty land tax at 15% on acquisition of residential property (this came into effect on 21 March 2012); an annual tax of between £15,000 and £140,000 on relevant dwellings (effective from 1 April 2013); and capital gains tax (CGT) at 28% on any gain on disposal (effective from 6 April 2013).

There will be reliefs for property development, investment rental and trading businesses, residential properties open to the public for at least 28 days a year on a commercial basis, residential properties held for employee accommodation, residential properties owned by a charity and held for charitable purposes, working farmhouses, diplomatic properties, and some other publicly-owned residential properties.

Employment Allowance

As from April 2014 every business and charity will be entitled to a £2,000 Employment Allowance. Employers will need to confirm their eligibility through their regular payroll process.

This confirmation will ensure that up to £2,000 will be deducted from their employers' national insurance contributions liability over the course of the year's PAYE payments.

Seed Enterprise Investment Scheme (SEIS)

Any investors making capital gains in 2013/14 will receive a 50% CGT relief when they re-invest those gains into SEIS qualifying companies in either 2013/14 or 2014/15.

There will be a change to the legislation so that some eligible companies will not inadvertently be disqualified from taking advantage of the SEIS regime, by virtue of having been established by a corporate formation agent. This will have effect in relation to shares issued on or after 6 April 2013.

Enterprise Management Incentives (EMI)

As announced at the 2012 Budget, the Government will extend Entrepreneurs' Relief to cover gains made on shares acquired through the exercise of EMI qualifying options. The measure applies to shares acquired on or after 6 April 2012 that are disposed of on or after 6 April 2013. The relief will apply even if the individual does not hold a 5% stake in the company.

Disincorporation relief

The Government will introduce a disincorporation relief for five years from April 2013. The relief will allow a company to transfer goodwill and an interest in land to its shareholders so that no corporation tax charge arises on the transfer.

The relief will be available to businesses with total qualifying assets not exceeding £100,000.

Patent Box

From 1 April 2013, the Patent Box will allow companies to elect to apply a 10% rate of corporation tax to all profits attributable to qualifying patents, whether paid separately as royalties or embedded in the sales price of products.

The regime will also apply to other qualifying intellectual property rights such as regulatory data protection, supplementary protection certificates and plant variety rights.

Limited Liability Partnerships (LLPs)

The Government will consult on measures to remove the presumption of self-employment for LLP partners so as to tackle the disguising of employment relationships through LLPs, and counter the artificial allocation of profits to partners (in both LLPs and other partnerships) to achieve a tax advantage.

Capital taxes

Capital gains tax

The Annual Exempt Amount for 2013/14 has been increased to £10,900.

Inheritance tax (IHT)

The rate of IHT remains at 20% for lifetime transfers and at 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).

In Budget 2010 it was announced that the threshold below which estates are not liable for IHT, the nil-rate band, would be frozen at £325,000 until April 2015. The Government announced on 11 February 2013 that the IHT nil-rate band would remain frozen until April 2018.

IHT – spouses and civil partners domiciled overseas

All individuals, irrespective of their domicile status, benefit from an IHT nil-rate band, currently £325,000. Transfers of assets between spouses and between civil partners, whether gifts made during a person's lifetime or transfers of assets occasioned by the death of one of the couple, are generally exempt from IHT.

But where the spouse or civil partner to whom the assets are transferred does not have a UK domicile there is a lifetime limit (cap) on the value of the assets that can be transferred free of IHT. The cap is currently £55,000.

Legislation will be introduced in Finance Bill 2013 to reform the IHT treatment of transfers between UK-domiciled individuals and their non-UK domiciled spouse or civil partners in two ways:

- the cap will be increased to the level of the prevailing nil-rate band level, and
- under a new election regime, individuals domiciled other than in the UK and who are married or in a civil partnership with a UK domiciled person will be able to elect to be treated as UK-domiciled for IHT purposes.

New childcare scheme from Autumn 2015

A new childcare scheme will be introduced to support working families with their childcare costs. For childcare costs of up to £6,000 per year per child, support of 20% will be available worth up to £1,200. From the first year of operation, all children under five will be eligible and the scheme will build up over time to include children under 12.

The scheme will provide support for families where all parents are in work and not receiving support through the Childcare Element of Working Tax Credits/Universal Credit and where each is earning less than £150,000 a year. Support will be provided through a childcare account redeemable at any registered childcare provider.

Value Added Tax Rates and Thresholds

From	1 April 2013
Standard Rate	20%
VAT Fraction	1/6
Reduced Rate	5%
Current Turnover Limits	
Registration – last 12 months or next 30 days over	£79,000 from 01/04/13
Deregistration – next 12 months under	£77,000 from 01/04/13
Annual Accounting Scheme	£1,350,000
Cash Accounting Scheme	£1,350,000
Flat Rate Scheme	£150,000

National Insurance Contributions (NICs)

2013/14		Employer	Employee
Class 1 – not contracted out			
Payable on weekly earnings of			
Up to £109 (lower earnings limit)		Nil	Nil
£109 - £148 (employers' earnings threshold)		Nil	*0%
£148.01 - £149 (employees' earnings threshold)		13.8%	*0%
£149.01 - £797 (upper earnings limit)		13.8%	12%
over £797		13.8%	2%

**No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects certain basic state benefit entitlements. Over state pension age, the employee contribution is generally nil.*

Class 1A	On relevant benefits	13.8%	Nil
Class 2	Self employed		£2.70 per week
	Limit of net earnings for exception		£5,725 per annum
Class 3	Voluntary		£13.55 per week
Class 4**	Self employed on profits		
	£7,755 - £41,450		9%
	Excess over £41,450		2%

***Exemption applies if state pension age was reached by 6 April 2013.*

Income tax and personal allowances

Income Tax Rates	2013/14	2012/13
Basic rate band – income up to	£32,010	£34,370
Starting rate for savings	*10%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£32,010	£34,370
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	50%
Dividend additional rate	37.5%	42.5%

**Starting rate is for savings income up to the starting rate limit of £2,790 (£2,710) within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.*

Personal Allowances	2013/14	2012/13
Personal Allowance (PA)		
Born after 5 April 1948/under 65†	*£9,440	†*£8,105
Born after 5 April 1938 and before 6 April 1948/65-74†	*£10,500	†*£10,500
Born before 6 April 1938/75 and over†	*£10,660	†*£10,660

The PA for those aged under 65 increases from 6 April 2013 to £9,440. The advantage to higher rate payers is countered by a lowering of the higher rate threshold, to £32,010 from 6 April 2013.

Married Couple's Allowance (MCA) Either partner born before 6 April 1935 (relief restricted to 10%)	*£7,915	*£7,705
Age-related allowances reduced when adjusted net income exceeds	£26,100	£25,400

**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.*

Personal allowances for 2014/15

For 2014/15, the personal allowance for those born after 5 April 1948 will be increased to £10,000, and the basic rate limit will be reduced to £31,865.

Exemption threshold for employment-related loans

The threshold for employment-related 'taxable cheap loans' to be treated as earnings of the employment, will increase from the current threshold of £5,000 to £10,000 for 2014/15 and subsequent tax years. As long as the total outstanding balances on all such loans do not exceed the threshold at any time in a tax year, there is no tax charge.

Cap on unlimited tax reliefs

As previously announced, a cap will be applied to certain income tax reliefs claimed by individuals from 6 April 2013 where they are otherwise 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). However, following widespread controversy the cap on charitable donations will not go ahead.

Employee shareholder status

In October 2012 the Government announced its intention to introduce a new 'employee shareholder' status. Individuals adopting the status will be exempt from CGT on the disposal of up to £50,000 of shares acquired under the employee shareholder agreement.

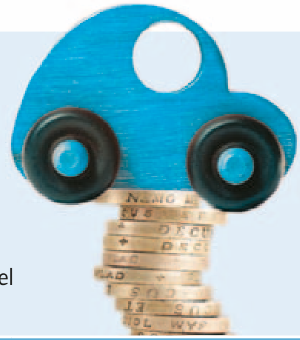
In addition, on acquisition of the shares the first £2,000 of share value received by the employee shareholder will not be subject to income tax or NICs.

These measures will apply to shares received from 1 September 2013, when the new status comes into force.

Pension savings

The Chancellor has confirmed the reduction of the standard lifetime allowance to £1.25m and the annual allowance to £40,000 for tax year 2014/15 onwards.

Company cars



The table shows the VAT chargeable for quarters commencing on or after 1 May 2013 and the benefit in kind percentages. The car fuel multiplier for 2013/14 is £21,100; the van fuel benefit is £564.

CO_2 emissions	Appropriate percentage		Quarterly VAT	
(g/km)	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £
Zero	0	0	168	28.00
Up to 75	5	8	168	28.00
76 - 94	10	13	168	28.00
95 - 99	11	14	168	28.00
100 - 104	12	15	168	28.00
105 - 109	13	16	168	28.00
110 - 114	14	17	168	28.00
115 - 119	15	18	168	28.00
120 - 124	16	19	168	28.00
125 - 129	17	20	253	42.17
130 - 134	18	21	269	44.83
135 - 139	19	22	286	47.67
140 - 144	20	23	303	50.50
145 - 149	21	24	320	53.33
150 - 154	22	25	337	56.17
155 - 159	23	26	354	59.00
160 - 164	24	27	371	61.83
165 - 169	25	28	388	64.67
170 - 174	26	29	404	67.33
175 - 179	27	30	421	70.17
180 - 184	28	31	438	73.00
185 - 189	29	32	455	75.83
190 - 194	30	33	472	78.67
195 - 199	31	34	489	81.50
200 - 204	32	35	506	84.33
205 - 209	33	35	523	87.17
210 - 214	34	35	539	89.83
215 - 219	35	35	556	92.67
220 - 224	35	35	573	95.50
225 and above	35	35	590	98.33