

MARCH 2010 - ENEWS

This month's enews is dominated by the Budget. With the General Election looming, Alistair Darling had some significant announcements to make which are set out below. We also report on other news including changes to the rules on VAT payments and the introduction of 'Fit notes'.

Please browse through this month's articles using the links below and contact us if any issues or questions arise.

Budget 2010

Annual investment allowance increased

Close company loan write offs

Entrepreneurs' Relief

Inheritance tax nil rate band frozen

Stamp duty land tax and first time home buyers

Payment of VAT

Employer supported childcare

National Insurance - new EU rules

HMRC will publish details of 'deliberate' offenders

Official rate of interest

Employment rate falls to 72.2%

Fit notes

BUDGET 2010

Alistair Darling presented his third Budget on Wednesday 24 March 2010.

Having acknowledged that the country is emerging from deep global recession and needing to provide a route to long term prosperity he announced a number of new measures.

Main Budget proposals:

- Entrepreneurs' Relief limit doubled to £2 million
- Annual Investment Allowance doubled to £100,000
- Changes to certain loan write off rules for close companies
- Inheritance tax nil rate band frozen at £325,000 until 2014/15
- SDLT relief is introduced for first time home buyers.

Please see the articles on these specific topics to find out more details of the changes.

Internet link: [Treasury website](#)

ANNUAL INVESTMENT ALLOWANCE INCREASED

Most businesses are able to claim an Annual Investment Allowance (AIA) on the first £50,000 spent on plant and machinery. This provides immediate 100% tax relief on qualifying expenditure.

The allowance is to increase to £100,000 from 1 April 2010 for a business within the charge to corporation tax and from 6 April 2010 for a business within the charge to income tax.

As the chargeable accounting periods of many businesses will span the operative date of change, a pro rata calculation of their maximum entitlement will be required.

Please do contact us if you would like advice on how this increased allowance will affect your business.

Internet link: [Budget report AIA](#)

CLOSE COMPANY LOAN WRITE OFFS

Close companies, generally meaning family and owner managed companies, are subject to special rules in relation to loans or advances made to participators and their associates. Participators primarily means shareholders. Where such loans are written off or released an equivalent amount is treated as a deemed net dividend for income tax purposes.

This aspect remains unchanged but the position of the company for corporation tax is to be altered.

Under the corporation tax rules governing corporate debt (the 'loan relationships' rules) the company may be entitled to a deduction against its tax liability. A loan released or written off will normally give rise to an expense recognised in the company's accounts.

The release or write off of loans to participators will not obtain a corporation tax deduction when made on or after Budget day.

HMRC is seeking to clarify the law so that there is no tax advantage to a shareholder/ director receiving a loan from a company which then claims a corporation tax deduction compared to the shareholder/director receiving a dividend (for which there is no corporation tax deduction for the company).

Please do get in touch if you would like further advice in this area.

Internet link: [Draft legislation](#)

ENTREPRENEURS' RELIEF

The amount of an individual's capital gains that can qualify for Entrepreneurs' Relief are currently subject to a lifetime limit of £1 million. Gains qualifying for the relief are charged at an effective tax rate of 10% rather than the usual rate of 18%.

The lifetime limit will be doubled to £2 million for disposals on or after 6 April 2010.

Internet link: [HMRC Budget note](#)

INHERITANCE TAX NIL RATE BAND FROZEN

As previously announced, the nil rate band for 2010/11 will be frozen at the current level of £325,000. This will now be extended to cover the tax years 2011/12 to 2014/15.

Internet link: [HMRC Budget note](#)

STAMP DUTY LAND TAX AND FIRST TIME HOME BUYERS

At present the Stamp Duty Land Tax rate is 1% for residential property purchases where the consideration is more than £125,000 but does not exceed £250,000.

Legislation will be introduced in the Finance Bill to give relief from SDLT where the consideration is more than £125,000 but not more than £250,000. This relief will apply where the purchaser or all the purchasers are first time buyers and intend to occupy the property as their only or main home.

The new relief will be available for residential property purchases where the effective date (normally the date of completion) is on or after 25 March 2010 and before 25 March 2012.

The current highest SDLT rate of 4% applies to residential property purchases where the consideration exceeds £500,000. A new rate of 5% will be introduced for transactions in residential property where the consideration exceeds £1 million.

This new higher rate will apply where the effective date is on or after 6 April 2011.

Internet link: [Budget report SDLT](#)

PAYMENT OF VAT

HMRC are advising businesses that from 1 April 2010 all cheque payments by post will be treated as being received by HMRC on the date when cleared funds reach HMRC's bank account. This change does not affect any cheque payments made by Bank Giro.

Affected businesses will need to ensure that they allow enough time for the payment to reach HMRC and clear into HMRC's bank account. This needs to happen no later than the due date shown on their VAT return.

According to HMRC's guidance:

"A cheque takes three bank working days to clear. Bank working days are Monday to Friday excluding bank holidays.

To allow for possible postal delays (for which HMRC is not responsible) please allow at least three working days for the cheque payment to reach them and a further three days for the payment to clear HMRC's bank account. If your cheque payment does not clear by the due date shown on your VAT return you may be liable to a surcharge for late payment."

From 1 April 2010 it will be mandatory for all VAT-registered traders with a turnover of £100,000 or more, plus any newly registered traders (regardless of turnover), to submit their returns online and pay electronically. For guidance about electronic payment methods use the second link below or please do contact us.

Internet links: [HMRC guidance](#) [HMRC how to pay VAT](#)

EMPLOYER SUPPORTED CHILDCARE

In 2009 the government announced changes to employer supported childcare and HMRC have now issued further guidance on the changes.

The amount of tax free childcare vouchers and directly contracted childcare for employees joining an employer's scheme will be restricted in cases where an employee's earnings and taxable benefits are liable to tax at the higher or additional rate.

Anyone already in a scheme by 5 April 2011 will not be affected by these changes as long as they remain within the scheme.

From 6 April 2011, employers who provide employer-supported childcare will be required, at the beginning of the relevant tax year, to estimate the level of employment earnings that their employee is likely to receive during that year, ignoring potential bonus and overtime payments, but including other known taxable benefits.

If the level of estimated earnings and taxable benefits is equal to or below the equivalent of the sum of personal allowances and the basic rate limit for the year, the employee will be entitled to relief on £55 exempt income for each qualifying week. This is the same as the current amount.

If the level of estimated earnings and taxable benefits exceed the equivalent of the sum of personal allowances and the basic rate limit for the year, but falls below the limit at which tax becomes payable at the additional (50%) rate limit for the year, the employee will be entitled to relief on £28 exempt income for each qualifying week.

If the level of estimated earnings and taxable benefits exceed the equivalent of the additional (50%) rate limit for the year, the employee will be entitled to relief on £22 exempt income for each qualifying week.

If you would like to review your childcare provision options in light of the above please do get in touch.

Internet link: [HMRC childcare](#)

NATIONAL INSURANCE - NEW EU RULES

HMRC have released new guidance for employers about forthcoming changes to EU rules regarding national insurance for people moving around Europe for work. The rules apply from 1 May 2010. To read the guidance in full, please use the link below.

Internet link: [HMRC NIC guidance](#)

HMRC WILL PUBLISH DETAILS OF 'DELIBERATE' OFFENDERS

HMRC have the necessary power under existing tax law to publish the details of taxpayers where it is established that they have committed 'deliberate' tax offences. HMRC have confirmed that they will apply this provision for tax periods starting on or after 1 April 2010 and for offences which are committed on or after this date.

Internet link: [HMRC press release](#)

OFFICIAL RATE OF INTEREST

From 6 April 2010 the official rate of interest applying to interest-free or low interest loans made to employees will be 4%. The current rate is 4.75%. Employees are generally liable to tax on a benefit equal to the amount of interest, calculated at the official rate, where the balance of the loan exceeds £5,000 at any point in the tax year.

Internet link: [HMRC beneficial loan interest rate](#)

EMPLOYMENT RATE FALLS TO 72.2%

The government has announced the latest employment statistics which show the number of people in employment has dropped by 54,000.

Ian McCafferty, CBI Chief Economic Adviser, reacting to the latest statistics said:

“Although the fall in unemployment is welcome, the figures also show that the number of people actually in work continued to fall, which is a concern.

The number of people in full-time employment dropped by 54,000 in the three months to January, while the number of part-time jobs was unchanged. Unlike previous months, an increase in part-time work did not help to offset falls in full-time employment.

Clearly, the labour market is still very fragile. Growth is not yet sufficient to generate net new job creation.”

Internet links: [Government Statistics](#) [CBI press release](#)

FIT NOTES

Fit notes will be brought into effect from April 2010 and are a replacement for sick notes. The information that doctors will be asked to provide means that instead of giving patients a sick note saying they are too ill to work, they will be able to advise whether a person may be fit for work with some help and support, and what employers can do to assist in this process. Assistance could include a phased return to work, altered hours, amended duties or workplace adaptations.

According to the advice given on the Business link website:

“If a doctor uses this option, they will give advice about the effects of the patient's health condition and, if appropriate, some suggestions about the types of adjustment or adaptations you could consider making to help your employee back to work.

While you won't have to act on the doctor's advice in a 'may be fit for work' statement, it may help you make simple and practical adjustments to help your employee return to work and reduce unnecessary sickness absence.

If for any reason you can't make the changes necessary to support your employee's return to work, you should - for sick pay purposes - consider the statement as if the doctor had advised that your employee is 'not fit for work'.”

The initiative is designed to encourage employers to be more responsible regarding employee rehabilitation and aims to help reduce the impact of long-term sick leave.

Internet links: [Department for Work and Pensions](#) [Business link guidance for employers](#)