



Capital Gains Tax Changes



CGT now more complex

Chancellor George Osborne surprised many when he announced the rate of capital gains tax (CGT) would rise from 23 June 2010. A change of tax rates in the middle of the tax year is almost unheard of, and it makes the calculation of CGT due for 2010/11 rather complex.

The old CGT rate of 18% applied to everyone, irrespective of the amount of the gain or the person's level of income. The new higher rate of 28% only applies if your total taxable income and gains exceed the higher tax rate threshold of £37,400. That sum includes your total income for the full tax year less allowances and all allowable deductions, plus all capital gains made on or after 23 June less your annual CGT exemption of £10,100. Any gains made before 23 June 2010 are not included in this total.

When you make a large capital gain after 22 June 2010, some or all of the taxable amount may be taxed at 28%. If the gain was made between 6 April 2008 and 22 June 2010 it will all be taxed at 18%. However, if the gain qualifies for entrepreneurs' relief, and it is within the life-time cap (see below), it will be taxed at just 10%.

Entrepreneur's relief generally only applies to disposals of trading businesses, shares in your own trading company, or assets disposed of after the business ceases or you have withdrawn from it. 'Trading' has a special meaning for CGT, and it does not generally include the letting of property. However, the letting of furnished holiday accommodation can be treated as 'trading' if certain conditions are met.

The life-time cap for entrepreneurs' relief is the total amount of gains that can be included in a claim for that relief in a person's lifetime. This cap was originally set at £1 million, it was raised to £2 million from 6 April 2010 and has been raised to £5 million from 23 June 2010.

If you are planning to dispose of any large asset or a whole business, please talk to us first, as the timing of the deal may well affect the amount of CGT you have to pay.

McMillan & Co LLP Office News

Charity Event.

The Cancer Research UK Relay For Life mentioned in our last newsletter has been postponed until 4 September 2010 so there is still time to sponsor us at: <http://www.donatetomyrelay.org/steppingout>

This newsletter is written for the general interest of our clients and is not a substitute for professional advice. This edition is based on the HMRC Budget documents of 22 June 2010; more information will be available when the legislation is published. Please contact McMillan & Co LLP before taking any action.

Tax Deadlines

- 23 June**
CGT rates now 18% and 28%.
- 30 June**
Private company accounts for year to 30 September 2009 must reach Companies House.
- 5 July**
Finalise PAYE settlement agreements for 2009/10. Returns of rents paid to overseas landlords and tax deducted in 2009/10 must reach HMRC.
- 6 July**
File P11D/P9Ds and issue copies to employees. Report shares and share options acquired in 2009/10 on the relevant form. Redundancy packages for 2009/10 including benefits in kind and exceeding £30,000 must be reported to HMRC.
- 19 July**
Pay PAYE/NIC for month to 5 July and class 1A NICs for 2009/10.
- 22 July**
Electronic payments for PAYE/NIC and class 1A NIC must clear HMRC bank account.
- 31 July**
Private company accounts for year to 31 October 2009 must reach Companies House. Second instalment of income tax due for 2009/10. Unpaid tax for 2008/09 attracts 5% penalty. Renew child and working tax credit claims for 2010/11. Online VAT returns for quarter to 30 June due in.
- 2 August**
Submit form P46 (car) for quarter to 5 July, newly provided cars only.
- 19 August**
PAYE/NICs payments to 5 August and CIS returns must reach HMRC.
- 17 September**
PAYE/NICs payments to 5 Sept and CIS returns must reach HMRC.
- 1 October**
National minimum wage rates increase.
- 31 October**
Deadline for submitting 2009/10 paper tax returns.

Corporation Tax Rates Reduced

The previous Government had planned to increase the small profits rate of corporation tax to 22% on 1 April 2011, but the policy is now to cut the rate from 21% to 20% on that date. The small profits rate applies to profits of up to £300,000 if there are no associated companies.

The main corporation tax rate that applies on higher profits will also be cut from 28% to 27% from April 2011. In each of the three following years the rate will reduce by 1%, down to 24% from April 2014.

This reduction in tax rates will be partly funded by a reduction in the allowances businesses can claim for capital equipment. Currently the cost of all equipment covered by the annual investment allowance (AIA) can be set-off in full against profits in the year of purchase. The AIA was increased

from £50,000 to £100,000 per year from April 2010, but it will be cut back to £25,000 per year from April 2012. The rates of allowances for equipment not covered by the AIA will be reduced to 18% and 8% from April 2012.

Companies pay corporation tax on any capital gains they make, but individuals pay CGT, (now at 28% for higher earners). If you have a choice between holding a commercial property in your own name, or within your company, the company may pay less tax on any future gain. However, there may be a tax cost when extracting the funds from the company. Discuss the issue with us before you buy.



Future rate reductions

National Insurance Holiday



Holiday for employers' NI, not employees

This is a new scheme designed to help businesses that start-up on or after 22 June 2010 in any of the following areas of the UK: Scotland, Wales, Northern Ireland, the North of England, Yorkshire, the Midlands, or the South West.

The business will be exempt from paying employer's class 1 NICs for 12 months for up to 10 employees, with the relief capped at £5,000 per employee. Certain businesses are excluded, such as

those under the IR35 or Managed Service Company rules, and businesses in grant-supported sectors such as agriculture, fisheries and coal. The exemption is expected to apply from September 2010, but details are thin on the ground.

National insurance was referred to as a 'tax on jobs' before the election and the opposition parties promised to remove the proposed 1% increase in NIC rates. However, the 1% increase will go ahead from 6 April 2011, although the starting threshold for NICs will be raised to protect the lower paid from this increase. We won't know the exact thresholds for NICs in 2011/12 until October 2010.

VAT Goes Up

The standard rate of VAT will rise from 17.5% to 20% from 4 January 2011, which is the first working day after the New Year break. You need to plan for this rise if you want to help your non-business customers who can't reclaim VAT.

You could invoice in advance at the lower rate, if the amount is agreed, or supply the goods or service before the rate changes. If you are supplying a service over a period that straddles the VAT increase, you can charge VAT at 17.5% for the portion of the work done before 4 January 2011 and 20% for work done on or after that date.

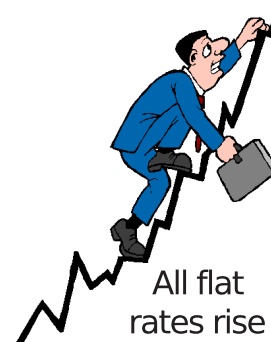
There are tax-avoidance rules which will add an extra 2.5% supplementary VAT charge where the customer can not reclaim all the VAT and the value of the sale is more than £100,000, or the customer and supplier are connected, or the payment is due

more than six months after the date of the invoice. Talk to us if your sales are likely to fall into any of these categories.

Flat Rate Scheme

If you use the flat rate scheme for small businesses you will need to apply a new flat rate to your gross sales from 4 January 2011. The new flat rates are set out in Budget Note 45, (<http://www.hmrc.gov.uk/budget2010/bn45.pdf>).

We should review whether it will still be worth your while using the flat rate scheme after 4 January 2011.



All flat rates rise