



How The Budget Affects Small Businesses

Tax Cuts

The good news is the rate of corporation tax paid by small companies is cut from 21% to 20% from 1 April 2011. However, large companies (profits over £1.5 million) benefit from a bigger rate cut: 28% to 26%, and that tax rate is due to drop to 24% in 2013.



We'll work it out

IR35

The bad news is IR35 will not be abolished. This tax law aims to cancel out tax savings made by paying dividends, in place of salary, to the working shareholder of a personal service company. The IR35 regulations are very difficult to apply, so the Government has asked HMRC to improve the guidance they give to companies concerning these rules.

R&D

If your company carries out research to develop new products it could claim 175% tax relief for qualifying expenditure on those R&D projects. This tax relief will increase to 200% from 1 April 2011. The rules that govern what type of expenditure qualifies will be amended from April 2012 to make it easier for very small companies to claim this tax relief.

New Assets

Businesses get 100% tax relief on the first £100,000 they spend on plant and machinery in a year. This cap will be reduced to £25,000 per year from April 2012. Excess expenditure over this cap goes into a pool with tax relief given at 20% or 10% per year, but these rates will drop to 18% and 8% from April 2012. It will thus take many years to gain full tax relief for those pooled assets. To counter this you can elect for certain assets (not cars) to be kept out of the pool, if they have a useful life of less than 4 years. This cap on useful life is extended to 8 years from 1 April 2011.

NI Reform

Many employers would like to see a merger of income tax and national insurance (NI) in order to simplify the application of these two taxes to wages and benefits. The Government will now look at aligning the collection of these taxes, but it doesn't mean that NI will be applied to savings, dividends or pensions. Don't expect any big changes soon.

VAT

The compulsory registration threshold for VAT will increase to £73,000 from 1 April 2011, and if your turnover is lower than £71,000 you can apply to deregister from VAT. If you still complete paper VAT returns you will have to switch to online filing from 1 April 2012, but we can help you with this change.

Tax Data 2011/12

Income Tax

Personal Allowance: £7,475

Rates:

Savings only to £2,560 @ 10%
Earned to £35,000 @ 20%
£35,001 to £150,000 @ 40%
Over £150,000 @ 50%

Tax on dividends:

to £35,000 @ 10%
£35,001 to £150,000 @ 32.5%
above £150,000 @ 42.5%

National Insurance

Class 1 employers:

13.8% over £7,072

Class 1 employees:

12% on £7,225 to £42,475
plus 2% above £42,475

Class 4:

9% on £7,225 to £42,475 plus
2% on profits above £42,475

Class 2: £2.50 per week

Class 3: £12.60 per week

Capital Gains Tax

Gains in basic rate band: 18%
Gains above basic rate band: 28%
Entrepreneurs' relief rate: 10%
Annual exemption: £10,600

Inheritance Tax

Nil rate band: £325,000
Excess taxed at 40% on death.

Pension Contributions

With no earnings: £3,600 gross
Otherwise: 100% of earnings.
Tax relief cap: £50,000
(expanded by unused relief
from 3 years)
Pension fund cap: £1.8 million

Corporation Tax

Small profits: 20% to £300,000
Marginal: 27.50% to £1.5 m
Large co: 26% over £1.5 m

VAT Rates:

Reduced: 5%
Standard: 20%

Turnover Thresholds 1 April 2011

Registration £73,000
Deregistration £71,000
Flat rate small business:
£150,000
Cash & Annual Accounting:
£1.35m

Tax free mileage rates

Own car:

Up to 10,000 miles: 45p
(excess 25p)

Company car (from 1 Mar 11):

	Petrol	Diesel	LPG
To 1400cc	14p	13p	10p
To 2000cc	16p	13p	12p
2000cc +	23p	16p	17p

Personal Tax And Investments

The personal tax allowance is increasing by £1,000 to £7,475 for 2011/12 and will rise to £8,105 for 2012/13. This higher allowance will mean many low earners will not pay any income tax. However, the threshold where 40% becomes payable has been reduced to £35,000 for 2011/12 and will reduce to £34,370 for 2012/13, to ensure those paying 40% or 50% tax do not benefit from the increased allowance.

The total pension contributions that can attract tax relief for you in one year is restricted to £50,000 from 6 April 2011. Although this cap can be expanded by unused relief brought forward from the three immediately preceding tax years.

The ISA overall savings limit is increased to £10,680 for 2011/12, and up to £5,340 can be saved in a cash ISA. Junior ISAs will be introduced later this year for

children who do not have a child trust fund account. The investment limits for Junior ISAs have not been announced.



Money in, money out

If you are attracted by riskier investments you can get 20% income tax relief by subscribing for shares under the Enterprise Investment Scheme (EIS). This tax relief will increase to 30% from 6 April 2011, and the cap on EIS investments qualifying for income tax relief will rise from £500,000 to £1 million in 2012. The range of companies that can attract investment under the EIS and the similar VCT scheme will be expanded from 2012.

Tax On Cars And Fuel

If you use your own car for business journeys your employer (which may be your own company), can pay you an approved mileage allowance (AMAP) free of tax and NI. This AMAP rate will rise from 40p to 45p per mile on 6 April 2011, for the first 10,000 business miles per year, with any additional miles reimbursed at 25p per mile. If your employer does not pay the full mileage rate you can reclaim the additional amount on your tax return form.

If you are self-employed, with profits below the VAT registration threshold (£73,000 from 1 April 2011), you can use the AMAP rate as an approximation for your private motor expenses claimed in your accounts.

Company car drivers are used to the tax charges for their car increasing each year. The tax benefit for each car is based on its CO2 emissions and a percentage of the vehicle's list price. The percentage increases by one point each year for most cars, and will continue to do so for the next three tax years.

Where you receive free fuel for your company car, the tax charge is based on a flat value of £18,000. This value will increase to £18,800 for 2011/12. The maximum tax benefit for receiving road fuel for private use will rise from £6,300 (for 2010/11) to £6,580 (for 2011/12).

Tax On Death And Capital Gains



Review your Will

The tax free band for inheritance tax (IHT) due on a deceased person's estate has been frozen at £325,000 until 2015. The value of this exemption will be eroded over time by inflation.

From 6 April 2012 if you leave at least 10% of your estate to charity, the IHT due on the balance of your estate will be charged at 36% rather than 40%. Gifts made to charities are exempt from IHT. You may need to review your Will to ensure that if charitable gifts are made, the reduction in the rate of IHT is achieved.

The annual exemption for capital gains increases by

£500 to £10,600 for 2011/12. This exemption cannot be carried forward so you have only a few days left to use the £10,100 exemption for 2010/11.

The rates of capital gains tax (CGT) have not increased for 2011/12. Your capital gains, after deduction of losses and the annual exemption, are added to your taxable income to work out the rate of CGT payable, either 18% or 28%. Where you claim entrepreneurs' relief on a disposal of a business or shares, the capital gain is taxed at 10%.

The maximum value of gains that can be included in entrepreneurs' relief claims by one taxpayer will double to £10 million on 6 April 2011. Both the taxpayer and the business must meet a number of conditions for entrepreneurs' relief to apply. If you are planning a large sale please check in advance of the sale whether those conditions will be met.