



Our newsletter this month is the first since the changes announced by George Osborne in his Emergency Budget, 22 June 2010. We have included a summary of how the UK Emergency Budget will affect your business, a reminder of a number of critical filing and payment deadlines this month, an explanation of National Insurance Contribution terminology and clarification of additional tax payable by higher rate taxpayers on dividend income.

Our next newsletter will be published on 11 August 2010.

## **Emergency Budget Update**

Here is a brief summary of how the UK Emergency Budget will affect your business.

### **Capital Gains Tax Regime from 23 June 2010**

Entrepreneurs' relief increased so that there is a new lifetime limit of £5 million taxed at 10%. Otherwise, you will now pay CGT at 18% if the gains added to your taxable income do not exceed the basic rate band and 28% on any excess.

### **Corporation Tax Rates and the impact of a reduction in the Small Companies Rate**

The smaller company rate of corporation tax is to be cut from 21p to 20p in the pound. Any reduction in the small companies rate is welcome, but yet again there is no move to increase the profit level of £300,000 to which the lower rate applies - that last went up in 1994! Larger companies are being treated more generously, with the current 28p rate to be reduced to 24p over the next four years. A fresh look needs to be taken when considering how to distribute profits of a limited company, given the increases in the rate of income tax and National Insurance Contributions and the small reduction in the corporation tax rate for small companies.

### **Capital Allowances changes from April 2012**

Annual investment allowance (AIA) is fast becoming a political football. It was £50,000 on its introduction from 1 April 2008 and doubled to £100,000 from 1 April 2010. From 1 April 2012 it will reduce to £25,000.

### **Pension Scheme Changes - Higher rate tax relief**

Consideration is being given to abolishing the rules in Finance Act 2010 whereby from 6 April 2011 those with income of at least £150,000 in the tax year concerned suffer a loss of some or all of the higher rate tax relief otherwise available. The aim is to raise at least the same amount of revenue (£3.5 billion annually) however, and this may be achieved by drastically reducing your annual allowance to in the region of £30,000 to £45,000. The lifetime allowance of £1.8 million may also be reduced.

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## Critical Filing Deadlines July 2010

Apart from the requirement to keep up-to-date with PAYE, Self Assessment, Corporation Tax and VAT filing and payment, there are two deadlines exclusive to the month of July. They are:

1. Tax Credits - If it is likely that you are going to be eligible for Tax Credits in 2010-11 you must have your application filed by the 6 July 2010 to qualify for a complete year. If you have missed the deadline all is not lost. You can file an application after this date, but you will lose some of the benefits to which you may have been entitled. The reason for the loss of benefits is the rule that applications can only be backdated for 3 months. If you have missed the deadline file your application asap.
2. P11Ds - You should have completed and filed these returns by 6 July 2010 and be sure to pay any Class 1A National Insurance Contributions due on benefits declared by 19 July 2010.

## National Insurance and State Pension Credits

Lower Earnings Limit (LEL) - For 2010-11 the amount you can earn without involving National Insurance is £97 per week. However, at this rate you will not qualify for credits towards your State Pension.

Primary and Secondary threshold - For 2010-11 you will not pay Class 1 contributions until your earnings exceed £110 per week. However, earnings over £97 and up to £110 per week will qualify as credits towards your State Pension.

Consequently, you can clock up contributions towards your State Pension without actually paying National Insurance!

Note: Coincidentally £97.65 a week is the current, basic State Pension.

When you do actually pay Class 1 contributions you will accumulate credits towards a basic State Pension and the additional State Pension.

The above comments apply to employed persons. If you are self-employed and pay Class 2 and possibly Class 4 contributions you will accumulate credits towards the basic State Pension but not the additional State Pension.

## Emergency Budget Update

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### VAT Increase from 4 January 2011

The new 20% standard rate applies to goods or services to be delivered or performed on or after 4 January 2011. Anti-forestalling rules will apply to artificial arrangements involving a VAT invoice being issued, or payment being made in advance, where the goods or services are not due to be delivered or performed until on or after 4 January 2011.

### Flat rate scheme

The percentages are recalculated to reflect the VAT increase to 20%. The new rates need careful scrutiny. This scheme is available to a VAT-registered business with annual turnover up to £150,000.

### Income tax allowances and rates

1. Personal allowance for the under 65's increasing by £1,000 to £7,475 for 2011/12, but with the basic rate band reduced so that higher rate taxpayers do not benefit (they of course gradually lose their personal allowance if annual taxable income exceeds £100,000).
2. Higher rate band level frozen to 2013/14.

### ISAs

From 6 April 2011 the annual Individual Savings Account limit (currently £10,200, of which a half can be in cash) will increase in line with the Retail Price Index, and rounded to a convenient multiple of 120 for the ease of monthly savers.

### Non-domiciled individuals

The tax treatment is to be reviewed. This will consider whether changes can be made to the current rules "to ensure that non-domiciled individuals make a fair contribution to reducing the deficit in return for greater certainty and stability for those bringing skills and investment to the UK".

### Deduction of tax at source by individuals and non-corporate entities

Currently the requirement is to deliver an account to HMRC for income tax deducted at source from interest and royalty payments they make, and HMRC can then assess the amount of tax due to them. There is no set form for submitting an account and the new Finance Bill will allow HMRC to issue regulations specifying how and when an individual or other non-corporate should account for, and pay, income tax deducted at source.

### PAYE System

This is being reviewed, to see how the system could be improved so as to reduce costs and make it easier to administer for both employers and HMRC. Initially there will be consultation with employers and payroll providers on mechanisms which could support more frequent or real time PAYE data.

If you need any advice or further information please contact Robert Ellis or Peter Way-Rider on 01244 353405.

## Higher Rate Tax Due on Dividends Received

We are often asked to clarify the amount of tax payable by shareholders when dividends are paid, particularly, by private companies.

Dividends are distributions of company retained profits, after any corporation tax due has been deducted. To acknowledge the corporation tax deduction dividends paid are treated as if a tax credit of 10% has been deducted prior to payment. This 10% tax credit clears any standard rate income due but cannot be refunded. Accordingly, if your total, taxable income, after all allowances and reliefs have been deducted, is less than £37,400 for the tax year 2010-11, there is no further income tax to pay on dividends received.

Because the tax credit of 10% only covers your basic rate income tax liability, higher rate taxpayers will have to pay additional tax. The amount applied to the notional gross dividend (cash dividend plus the notional tax credit) is as follows:

- If you are a higher rate tax payer but your income does not exceed £150,000 then the additional tax due is 22.5% of the notional gross dividend;
- If your income exceeds £150,000 the additional tax due is 32.5% of the notional gross dividend.

This produces marginal rates of tax on the actual cash dividends received of 25% and 36.1%! If your dividend income causes you to cross tax bands, then the dividends will be taxed partly at each tax rate.

## Tax Diary July/August 2010

**19 July 2010** - Pay Class 1A NICs (by the 22 July 2010 if paid electronically).

**19 July 2010** - PAYE and NIC deductions due for month ended 5 July 2010. (If you pay your tax electronically the due date is 22 July 2010)

**19 July 2010** - Filing deadline for the CIS300 monthly return for the month ended 5 July 2010.

**19 July 2010** - CIS tax deducted for the month ended 5 July 2010 is payable by today.

**1 August 2010** - Due date for corporation tax due for the year ended 31 October 2009.

**19 August 2010** - PAYE and NIC deductions due for month ended 5 August 2010. (If you pay your tax electronically the due date is 22 August 2010)

**19 August 2010** - Filing deadline for the CIS300 monthly return for the month ended 5 August 2010.

**19 August 2010** - CIS tax deducted for the month ended 5 August 2010 is payable by today.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this document are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.



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