"Avoidable Gloom and Doom from an Unavoidable Budget" - E3 Consulting's Response to June 2010 Emergency Budget

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The Coalition Government's target is to eliminate current structural budget deficit by 2015/2016 and to raise at least £85bn from tax rises; the balance from spending cuts. This 80-20 approach (Pareto's Principle) means it isn't all doom and gloom, as is often the case immediately following a budget! The majority of the tax changes having already being widely anticipated in national and financial press with no nasty surprises.

In today's Budget Report (22nd June) the new Chancellor of the Exchequer, George Osborne announced a package of controversial spending cuts and tax increases that will, in his words, "pay for the past and plan for the future." The three tenets of the Budget were Responsibility, Fairness & Freedom. Although it was the word "unavoidable" which was voiced repeatedly by the Chancellor; in part justifying the "VAT bombshell" that was very much expected.

VAT – Change of Standard Rate

It was announced the standard rate of VAT will rise from 17.5% to 20% from 4th January 2011. The Chancellor declared the years of debt and spending made this decision "unavoidable" and this single measure will, by the end of parliament, generate revenue of £13bn. The lower VAT rate will remain 5% and basic foodstuffs, children's clothing and books will continue to be treated as zero rated supplies.

The fact that the rise will not come into effect until January next year will give businesses time to prepare and may also help stimulate spending during the rest of 2010 as businesses seek to bring forward major spending plans – within the boundaries of the 'anti-forestalling' rules.

Capital Allowances - Plant and Machinery Rate Changes

The rate of capital allowances on the general pool of plant and machinery assets will fall from 20% to 18%, while the special rate pool of allowances, (including long life assets, thermal insulation and integral features) will fall from 10% to 8% from 1 April 2012 (CT) or 6 April 2012 (income tax). For businesses whose chargeable period spans the change date, hybrid rates will have effect for the whole of that transitional chargeable period.

E³ Consulting is pleased to see that the Coalition Government has recognised the benefit that Capital Allowances bring to supporting businesses investing in growth. These relatively small rate changes will not alter the amount of qualifying tax relief available but stretches out the cash flow benefit. Property owners, investors and occupiers, where possible should consider accelerating plans to invest in new plant and machinery and/or their premises; so as to benefit from the current rates of allowances available. As with VAT, these changes are deferred, enabling businesses to also benefit from the reduced rates of Corporation Tax before 'slowing' the allowances from April 2012.

Annual Investment Allowance – Changes to allowance

The Annual Investment Allowance (AIA) is to be reduced from £100,000 to £25,000 from April 2012. Details of the transitional provisions are to be announced before the reduction is implemented. It is expected however that over 95 per cent of businesses will still have all their annual investment covered by this allowance. The AIA can be set against any qualifying expenditure, providing 100% allowances and enabling the most beneficial tax savings. Capital expenditure above the £25,000 or £100,000 threshold will continue to be eligible for standard capital allowances – e.g. plant and machinery or integral feature allowances and offset against taxable profits.

Corporation Tax Rates

Businesses stand to benefit from continued support of AIAs & capital allowances as well as the future reduction in the main rate of Corporation Tax (CT) from 28% to 24% over the course of four financial years from April 2011. Similarly, there will be a reduction in the smaller companies rate to 20%, instead of the planned increase to 22 per cent as previously expected, from April 2011. Although these reductions in CT are in very large part being funded by the WDA deferrals, the changes are more positive than first feared, with the coalition clearly being convinced of the economic merit odf capital allowances in supporting business investment and growth.

There was no update to the Enhanced Capital Allowances (ECAs) scheme or within the rules governing Land Remediation Tax Relief (LRTR). E³ Consulting is pleased to see the continued presence of the ECA & LRTR regimes which provide additional tax savings to businesses that invest in 'energy efficient' and water conservation technologies and the development of brownfield sites respectively.

Furnished Holiday Lettings

Following a year of mixed signals over whether Furnished Holidays Lettings (FHLs) would be delayed or abolished, the new Government have confirmed the preservation of the FHL rules to April 2011. As expected, following Finance Act 2010, the FHL rules will continue to apply to holiday lettings situated in the UK and in the wider European Economic Area (EEA) during the tax year 2010-11. The Government will publish a public consultation and draft legislation later in the year about plans to change the tax treatment of FHLs from April 2011. The proposed changes would ensure the FHL rules apply equally to properties in the EEA; increase the number of days that qualifying properties have to be available for and actually let as a commercial holiday letting, currently at least 140 days and 70 days respectively; and change the way in which FHL loss relief is given.

E^3 Consulting considers this a welcome boost whereby the Coalition has maintained in their pre-election promises to support Tourism and the Rural economy. However the consultation will make it imperative for all FHL owners to carefully consider the use of their properties and ensure they optimise the tax allowances available to them.

Elsewhere…

From 23rd June, higher-rate taxpayers will pay 28% on their capital gains. It was stated that at any higher rate 'the tax take' would fall, defeating the intention. The rate of CGT for standard Income Tax payers remains 18%; however indexation and taper reliefs have been removed to simplify calculation and administration. Also to support entrepreneurs, the first £5m of lifetime gains (increased from £2m) will benefit from entrepreneurs relief and only attract 10% CGT.

It was good news for cider drinkers as the planned increase in cider duty was cancelled, but even though there were no new increases in duties on alcohol, tobacco or fuel, they will inevitably cost more from January due to the VAT increase.

E^3 Consulting, property taxation specialists, operate from Offices in Southampton, London and Manchester and work with clients that own, operate or invest in property across the UK and overseas. If you would like to discuss any aspects further please contact our team to see if you, or your contacts or clients, could optimise the available tax savings from any property expenditure on healthcheck@e3consulting.co.uk or 0845 230 6450.