



Welcome...

To our special Emergency Budget issue.

STANDARD VAT RATE CHANGES

The standard rate of VAT will increase to 20% on 4 January 2011.

Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the reduced 5% rate, such as domestic fuel and power, are not affected by this change.

There are no changes to the Cash Accounting or Annual Accounting Scheme.

ANTI-FORESTALLING

Following the increase in the standard rate of VAT from 17.5% to 20% on 4 January 2011 anti-forestalling legislation is included in the Finance Bill 2010 to prevent the 17.5% VAT rate applying to supplies of goods or services provided on or after 4 January 2011, subject to certain conditions.

Draft legislation and an explanatory note for this change have been published on the HMRC web site.

FLAT RATE SCHEME CHANGES

As a consequence of the increase of the standard rate of VAT from 17.5% to 20%, the Flat Rate Scheme sector flat rates have also been recalculated to reflect the increase.

Some of the thresholds applicable to the scheme have also been revised to reflect the increase in the standard rate of VAT to 20%.

For more information visit <http://www.hmrc.gov.uk/budget2010/bn45.htm>

Topics

- Standard VAT rate changes
- Anti-forestalling
- Flat rate scheme changes
- Income Tax for individuals
- Taxation of non-domiciled individuals
- Furnished holiday lettings
- Capital gains tax - rates and entrepreneurs' relief
- Capital allowances: plant and machinery - rate changes
- Annual investment allowances: changes to allowance
- Corporation Tax Rates
- Corporation Tax Reform
- Corporation Tax - CFC and foreign branch reform
- Stamp Duty Land Tax

For more information on the emergency budget visit: <http://www.hmrc.gov.uk/budget2010/index.htm>

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INCOME TAX FOR INDIVIDUALS

Legislation will be introduced to provide for the following Income Tax and National Insurance Contributions (NICs) changes for the tax year 2011-12:

- the personal allowance for those aged under 65 will be increased by £1,000 to £7,475;
- the basic rate limit will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. The exact figure will be confirmed when September's Retail Prices Index (RPI) is known;
- the alignment of the Upper Earnings/Profits Limit with the higher rate threshold (the total of the personal allowance for those aged under 65 and the basic rate limit) will be maintained by reducing the Earnings/Profits Limit; and
- The secondary threshold, which is the point at which employers start to pay Class 1 NICs, is to be increased by an extra £21 per week above indexation.

Taken together, these measures reduce the tax liability for those on lower incomes and have no impact on most higher rate taxpayers who are employees or self employed and will help employers.

TAXATION OF NON-DOMICILED INDIVIDUALS

The Chancellor has announced that the Government will review the taxation of non-domiciled individuals. This reiterates a statement made previously in the Coalition Agreement.

FURNISHED HOLIDAY LETTINGS

The furnished holiday lettings rules will not be withdrawn from 6 April 2010 (1 April 2010 for companies).

Since 22 April 2009 (Budget 2009), HM Revenue & Customs (HMRC) has applied the current furnished holiday lettings rules to UK taxpayers with qualifying holiday lettings situated elsewhere in the European Economic Area. Such businesses can currently choose whether to be taxed under the furnished holiday lettings rules or under the normal rules for property businesses. These arrangements will continue to apply for the tax year 2010-11.

The Government will publish a public consultation over the summer about plans to change the tax treatment of furnished holiday lettings from April 2011. The consultation will specifically look at a proposal which would:

- ensure the furnished holiday lettings rules apply equally to properties in the European Economic Area;
- increase the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- change the way in which furnished holiday lettings loss relief is given.

Full details about the proposed changes will be published over the summer.

Draft legislation will be published in the autumn, with a view to inclusion within Finance Bill 2011.

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CAPITAL GAINS TAX - RATES AND ENTREPRENEURS' RELIEF

From 23 June 2010 there will be two main rates of capital gains tax, 18% and 28%, in place of the single rate of 18% for all gains. The rate paid by individuals will depend upon the amount of their total taxable income. Gains qualifying for entrepreneurs' relief will be taxed at a rate of 10%, and the lifetime limit of gains qualifying for entrepreneurs' relief will be raised to £5 million (from the previous figure of £2 million). Gains of trustees or personal representatives of deceased persons will be charged at 28%.

CAPITAL ALLOWANCES: PLANT AND MACHINERY - RATE CHANGES

The Government has announced that the rates of writing-down allowances for new and unrelieved expenditure on plant and machinery will be reduced:

- from 20% to 18% per annum for expenditure in the main rate pool; and
- from 10% to 8% per annum for expenditure in the special rate pool.

Expenditure on long life assets, thermal insulation, integral features and cars with emissions of 160g/km or more (in the case of cars purchased on or after April 2009) is allocated to the special rate pool.

These rate changes will take effect from 1 April 2012 (for corporation tax) or 6 April 2012 (for income tax).

For businesses whose chargeable period spans 1 April (corporation tax) or 6 April (income tax) there will be a hybrid rate for unrelieved expenditure in any pool, including single asset pools. There will be two hybrid rates, one for expenditure previously relieved at 20% and the second for expenditure previously relieved at 10%.

ANNUAL INVESTMENT ALLOWANCES: CHANGES TO ALLOWANCE

The Annual Investment Allowance allows most businesses, regardless of size, to reduce their taxable profits by the full amount of their annual capital expenditure on most plant or machinery (apart from cars) up to a maximum amount, which is currently £100,000 a year.

The maximum amount of the Annual Investment Allowance will be reduced to £25,000 a year with effect from April 2012. Details of the transitional provisions will be published in good time before the reduction takes effect.

STAMP DUTY LAND TAX

Residential transaction rates from 6 April 2011 will be as follows:

- | | |
|--------------------------|----|
| • Up to £125,000 | 0% |
| • £125,001 to £250,000 | 1% |
| • £250,001 to £500,000 | 3% |
| • £500,001 to £1,000,000 | 4% |
| • £1,000,001 upwards | 5% |

Targeted relief for first time buyers for residential purchasers between 25 March 2010 and before 25 March 2012.

CORPORATION TAX RATES

The Chancellor has announced that:

- Legislation will be introduced to cut the main rate of corporation tax (CT) to 27% for the Financial Year (FY) commencing 1 April 2011;
- The small profits rate of corporation tax for FY 2011 will be 20%. This will be legislated in Finance Bill 2011; and

there will be further cuts in the main rate in future years: 26% in 2012-13, 25% in 2013-14, 24% in 2014-15.

CORPORATION TAX REFORM

The Government understands the importance of the whole corporate tax system to business and will set out a more detailed programme for reform in the autumn. This will allow it to take a considered approach to implementing tax reforms and to listen to the needs of business through greater consultation. The Government will provide greater certainty for business by committing to principles for corporate tax reforms. In particular, it intends to develop its view that in general a broad tax base, a low rate and a more territorial approach will improve competitiveness. It will establish a business forum, chaired by the Exchequer Secretary, to consult with multinational businesses on the UK's tax competitiveness, including the long-term aims of reform of the corporate tax system.

CORPORATION TAX - CFC AND FOREIGN BRANCH REFORM

The Budget announcements include confirmation of the Government's intention to reform the Controlled Foreign Company regime. Consultation will take place over the summer on interim improvements to be legislated in spring 2011 to make the current rules easier to operate and where possible increase competitiveness.

Wider reform will be legislated in spring 2012 allowing time to consider carefully how to make the rules more competitive, to enhance long-term stability, and provide adequate protection of the UK tax base.

The Government has also stated that it will move to a more territorial basis for taxing the profits of foreign branches, and will consult in summer 2010 on options for retaining foreign branch loss relief as part of this, reforming the rules in 2011.

Sender:
SS Bookkeeping & Accountancy Services
63 Harbottle Rise
SHEFFIELD
S2 1RL
www.ssbookkeeping.co.uk



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