

RESCUE REMEDY

WAS THE EMERGENCY BUDGET A CURE FOR OUR ECONOMIC AILMENTS? **ACCOUNTANCY** SPOKE TO ADVISERS ON THE GROUND

Britain is now 'open for business' according to chancellor George Osborne, and the measures he unveiled in his emergency Budget on 22 June were clearly intended to give a much-needed shot in the arm to companies of all sizes.

Both the large and the small companies tax rates will be cut (to 24% by 2014 for companies with profits above £300,000 and to 20% from 2011 for those with profits below), the entrepreneur's relief rate of 10% on the first £2m of gains will be extended to £5m and a scheme will be launched that provides a national insurance exemption for new businesses outside London, the South East and the eastern region worth up to £50,000.

A reader poll on our website in the run-up to the Budget found that accountants felt nervous about Osborne's first outing with the famous red briefcase, with almost half believing it would be either bad or very bad for their clients. But the medicine doled out in an attempt to control the country's £155bn budget deficit didn't taste as bitter as expected, partly as a result of the Treasury's clever psychological ploy over capital gains tax in which a rise to a higher rate of 40% - 50% was hinted at, but a rate of 28% announced.

The accountants we spoke to after Osborne's speech were pleased there had been no nasty tax surprises in the Budget and thought that, overall, he had achieved a good balance between spending cuts and tax rises. They did, however, have concerns that some of their clients might be adversely affected by the savage spending cuts of 25% over the next four years planned for government departments except for health and international aid. They were also worried about changes to the annual investment allowance and the implications of the VAT rise.

For an overview of the key emergency Budget changes, see p26

Phil Roberts, managing partner, and Paul Shaw, tax partner, Beaver & Struthers, Manchester

Phil Roberts and Paul Shaw thought the Budget was good news for the firm's entrepreneurial clients, who will benefit from the extension of the entrepreneur's relief threshold to £5m (Shaw dubbed it a '£10m tax break at 10% for Mr and Mrs'), the cuts in corporation tax and the £5,000 national insurance exemption for a new company's first 10 workers.

Roberts thought many clients had breathed a sigh of relief that the CGT hike was just 28% and not higher as anticipated. Shaw said that many clients had already disposed of gains prior to Budget day, however.

The massive public sector spending cuts were a cloud on the horizon as a number of the firm's construction clients are involved with building roads, railways and hospitals and they may be affected. The pair were also concerned by the impact on HM Revenue & Customs service levels. But Roberts thought there could be an upside, even though around 30% of the firm's fee income comes from the public sector: 'We suspect that a number of our Housing Association clients may wish to rationalise and avail themselves of our services.' He also predicted that people made redundant from the public sector would feel incentivised to start their own businesses. Shaw was disappointed the 50% top rate of income tax still remained. 'We have two or three clients who are emigrating because of the income tax rates,' he said. He also wanted to see greater certainty around the taxation of companies' overseas subsidiaries.



Keith Winter, director, Dyke Yaxley, Shrewsbury

Despite the relief over the CGT announcement, Keith Winter thought the Budget was 'quite hard for small managed businesses'.

Winter was especially concerned with the annual investment allowance changes, which allow businesses to write off the full costs of their expenditure on plant and machinery in the first year. The allowance has been reduced from £100,000 to £25,000, greatly affecting the relief some businesses have previously had.

'In 2012, you could see a cut-back on buying of plant and machinery, which will impact manufacturing,' said Winter.

The VAT increase, he said, would affect all businesses.

'Businesses in retail will probably see a spending spree for the next six months or so, but that will end in January, which is going to cause a downturn in trade and spend, which will affect retail.'

The clients that he expects to be affected in the Shropshire region include those in retail, manufacturing, farming and construction.

'Perhaps with the increase in VAT, extensions to homes could be affected, and in this way, hit trade in this area again,' he said.



Daniel McAllister, partner, Simpson Wood, Huddersfield

Businesses offering retail services on the high street and clients reliant on capital allowances are most likely to be affected by the Budget, according to Daniel McAllister.

McAllister said the VAT increase to 20% will hit clients such as hairdressers and retailers who fear having to hike their prices when competition is fierce.

The reduction in annual investment allowances from £100,000 to £25,000 could also prove problematic for small businesses and sole traders. 'I think that will hit the people who invest in plant and machinery and it's a concern,' he says. 'I think the government has tried to offset the capital allowances reduction with the cuts in corporation tax but the problem is the small companies aren't getting as big a tax cut but they're getting cuts in their capital allowance regime.'

Clients who rely on public sector contracts are also likely to be hit by spending cuts in the short term, he says.

The firm will now be busy focusing on giving clients advice on VAT, CGT and the timing of capital expenditure and when clients should buy equipment to maximise allowances.

**Kevin Thomas, tax director, Bird Luckin, Chelmsford**

Kevin Thomas said that clients had been concerned about public spending cuts and tax rises, and the spread effect of these on their businesses. In particular, many had been worried about the CGT rate going above 40%. He also warned that clients in the business-to-consumer market may be hampered by VAT. 'This is an added cost to them, which they must either pass on or absorb. But this is not a temporary rate increase, and in the medium term, they have to consider passing this on to customers and the effect then on their sales,' said Thomas.

Other clients, who rely on public sector work, remain nervous. 'We've got lots of clients in construction, or who are contracted to the Ministry of Defence. The concern for them is about how they will be affected in the medium term. Will building projects, for example, continue, or will they be put on ice?'

In Essex, construction businesses are expecting an economic boom related to additional work at Stansted Airport in preparation for the Olympics. 'But this could be cut back, so some of these clients remain vulnerable, including those seeking to renew contracts or obtain new work. Hopefully, this is as bad as it gets,' said Thomas.

**Paul Webb, tax partner, Robert James Partnership, Thames Ditton, Surrey**

Paul Webb felt the emergency Budget was not as bad as anticipated, saying that it had been cleverly done, and appeared to represent a fresh approach with little hidden detail.

For Webb, the 'jaw-dropping moment' came when George Osborne announced the extension of entrepreneur's lifetime relief on capital gains tax from the current £2m to £5m. 'As many of our clients are entrepreneurial businesses we had been concerned about what would happen to capital gains tax,' he said. 'Clients who might have been looking to sell their businesses previously might now hang on to take advantage of the full £5m relief.'

One of his concerns is national insurance as he believes the changes could have gone further. 'I would have liked to have seen the national insurance contribution "holiday" allowed in the South East and London,' he said, but acknowledged that the move will help those companies setting up in areas that have been hit hard by the recession.

He welcomed the fact that changes to capital allowances and the annual investment allowance would not take effect until April 2012, which would give his clients time to plan investment expenditure.

Webb fears government spending cuts could further exacerbate the increasingly poor levels of service his clients are experiencing with HM Revenue & Customs. In one instance, he was told that HMRC had a 42-day post backlog.



EMERGENCY BUDGET HIGHLIGHTS

BELOW IS AN OVERVIEW OF THE MAIN CHANGES ANNOUNCED BY CHANCELLOR GEORGE OSBORNE IN HIS EMERGENCY BUDGET ON 22 JUNE

CORPORATION TAX

The main rate of corporation tax will be cut from 28% to 24% over the course of four financial years from April 2011. The small profits rate (formally known as the small companies rate) will be cut by 1% to 20% from April 2011.

CAPITAL GAINS TAX

CGT rose from 18% to 28% for taxpayers with total income and gains above the higher rate threshold from midnight 22 June 2010. For basic rate taxpayers, the rate of 18% remains. The threshold remains unchanged at £10,100 for 2010/11 but will rise in line with inflation. The effective 10% lifetime limit for entrepreneur's relief rate will be extended from the first £2m to the first £5m of gains made over a lifetime.

EMPLOYER'S NATIONAL INSURANCE

The threshold at which employers are required to pay National Insurance for their employees will go up by £21 per week above indexation in April 2011. New businesses outside London, the South East and the eastern region will be offered relief on the first £5,000 of NI for their first 10 new employees.

VAT

VAT from will rise from 17.5% to 20% from 4 January 2011. Exemptions on food and children's clothes remain. Insurance premium tax will also rise to 6% from 5% and the higher rate to 20% from 17.5% from the same date.

CAPITAL ALLOWANCES

The main rate for capital allowances is to be cut from 20% to 18% from April 2012. At the same time, the annual investment allowance will be reduced from £100,000 to £25,000. The move on capital allowances remains broadly aligned with economic depreciation rates, while changes to the annual investment allowance are expected to still cover 95% of businesses.

BANK LEVY

A bank levy is to be introduced by January 2011. The tax will be based on banks' balance sheets from 1 January 2011. Smaller banks will not be liable for deductions. Final details will be published later this year.

CONTROLLED FOREIGN COMPANIES

The government intends to introduce new rules governing the taxation of controlled foreign companies. Legislation will be introduced in spring 2012 and consultation will take place over the summer on interim improvements for legislation in spring 2011.

ANTI-AVOIDANCE

The government's intention is to examine whether there is a case for developing a general anti-avoidance rule. The government also announced an extension to the rules dealing with 'derecognition' of loan relationships and derivative contracts. These schemes involve profits arising to a company from a financial asset falling out of account for tax from the derecognition of a loan or derivative.



TAX SIMPLIFICATION

The government is to create an independent Office of Tax Simplification and will announce further details shortly. It is also publishing proposals to improve the way tax policy is made.

PUBLIC SECTOR ACCOUNTANTS

Accountants working in the public sector will be affected by the two-year pay freeze announced. Public servants earning more than £21,000 will be subject to the freeze. Around 72% of the public sector workforce earns more than £21,000. There is also a £17bn reduction in government departmental spending by 2014/15.

PERSONAL ALLOWANCES

The personal allowance for income tax will be increased by £1,000 to £7,400 in April next year. But the threshold at which higher rate income tax becomes payable will be frozen. The move will mean some 880,000 taxpayers will pay no income tax. The long-term aim of increasing the allowance to £10,000 by the end of this Parliament remains.

PENSION TAX RELIEF

The government will engage with employers, pension schemes and experts to determine the design of a new pension tax relief framework and proposes to repeal existing legislation.

GREEN MEASURES

The government said it will need £200bn of investment by 2020 to provide secure low-carbon energy. It will publish its proposals to reform the climate change levy to 'provide more certainty and support for the carbon price'. There will also be proposals on the creation of a Green Investment Bank to help the UK meet a low-carbon investment challenge.