

paylesstax

2012 budget edition

A Budget which rewards work, supports working families and unashamedly backs business, ensures Britain earns its way to recovery and deals with its record debts. But what does it mean to the working or retired individual, the family and the small/medium sized business? Surprisingly the UK has the highest top rate of income tax in the G20 ahead of Germany, France and Australia at between 46% - 47.5% and the USA at 35%. HM Revenue & Customs (HMRC) was asked to review the effectiveness of the 50% rate of tax and its findings were published in March 2012. Stating that the 50% rate of tax was on the whole a distortive and economically inefficient way of raising revenue... from high earners', making the UK an unattractive country to work in for those who are internationally mobile. Ultimately, the wider economic impact is that the yield might be less from income tax. A call by HMRC to reduce the tax rates?

Personal Tax

From April 2012, the personal allowance for individuals goes up to £8,105 as announced in the 2011 Budget. Don't forget, that same Budget reduced the amount of income which is taxed at the 20% basic rate by £630 to £34,370. So what will you see in your pocket from April 2012? Well these changes, taking effect from April 2012 will mean for incomes from £10,000 to £100,000 a net increase in our retainable income of £126 per year. The personal tax allowance will be increased for the individual to £9,205 from April 2013. This increase in the personal allowance will remove 840,000 individuals out of income tax altogether in 2013-14. The increase will provide an increase of about £170 to most basic rate taxpayers and £42.50 to higher rate taxpayers in 2013-14.

However some will lose an average of £185 a year. This includes those with incomes above £118,410, whose personal allowance will be reduced to zero.

As widely predicted, the highest ("additional") rate of income tax will be reduced from 50% to 45% from 6 April 2013 causing the UK to fall into seventh place in the international beauty parade of statutory rates of Income Tax. Given that the introduction of the additional rate has not delivered the increased tax revenues expected, it will be interesting to see if this 5% reduction is sufficient to prevent taxpayers from taking steps to mitigate their Income Tax bills in the way that they clearly have been since the additional rate was introduced in April 2010.

T Tip

Don't forget that you lose your personal tax allowance at the rate of 50p for every pound that your income goes over the threshold of £100,000 making the effective rate of tax in the region of 62%! Speak to us about effective ways to keep your income below the £100,000 limit, for example making a pension contribution or taking out a salary sacrifice scheme for child care.

Age Related Allowances

Those over 65 years of age, who currently benefit from the Age Related Allowance (ARA), will see that allowance frozen at the 2012/13 rates of £10,500 for those born between 6 April 1938 and 5 April 1948 and £10,660 for those born before 6 April 1938. From April 2013, ARA will no longer be available except to those born before April 1948. The ARA was always withdrawn on a £1 for every £2 basis over a threshold of around £25,000 and many individuals over 65 years of age found themselves in the Self Assessment system simply because they had occupational pensions in addition to their State pension taking them into the allowance withdrawal income bracket. 4.41 million people will be worse off in real terms with an average loss of £83. Individuals aged 65 lose an average £285, as they will not gain the benefit of the ARA and a further 230,000 people will be brought into income tax.



Child Benefit

Child Benefit is to be withdrawn on a gradual basis from households where someone has an income of over £50,000 per annum. For those with income between £50,000 and £60,000, there will be a phased withdrawal and only when the income of the individual reaches £60,000 will the benefit be fully withdrawn. With Child Benefit at a rate of £20.30 per week for the eldest child and £13.40 for other children this can amount to a substantial contribution toward the cost of raising a young family and, as the ability to claim tax credits is removed from many middle income families, the Child Benefit can be a help towards childcare costs.

Child benefit will be withdrawn by way of a tax charge of 1% of the Child Benefit per £100 of income over £50,000 on the parent with the higher income. It will be possible to elect not to receive the Child Benefit to prevent this charge being levied. The charge will be levied in the first year, 2012/13 between January 2013 and March 2013 and this will make a substantial impact on salaries for those months. A review of your income prior to the year end will enable the team to plan for the Child Benefit Income Tax charge and review your current profit extraction structure.



Small Businesses and their Accounting Options

Small businesses received boosts in the 2012 budget, being seen as a vital contributor to the growth of the recovering UK economy.

HM Revenue and Customs (HMRC) want to make it easier for small business owners to register, file their tax returns and pay their tax. The Office for Tax Simplification (OTS) has recommended that businesses with a turnover of up to £77,000 can record their receipts and deduct their expenses using the standard rate for business mileage. This regime will be available from April 2013.

Simple yes, but consider the implications if the small business purchases a substantial item of equipment for which Capital Allowances would be available, or if the business owner has a Tax Credit claim which is close to the income thresholds but is vital to the family's budget. The new regime is entirely voluntary. We would recommend that the small business owner reviews his own circumstances, alongside his professional advisor, not only to ensure that the correct method of accounting is used, but also, to ensure it would not be in his best interest to opt out of the scheme.

The Enterprise Management Incentives (EMI) Scheme

The EMI scheme is a tax efficient method of rewarding and retaining key employees by encouraging them to feel 'ownership' of the company. It may be a method of reward to consider if financial reward is not an option whilst the economy is in 'recovery phase' and the Budget has seen the maximum amount of individual options which can fall into this scheme increase from £120,000 to £250,000.

When these options are exercised and subsequently sold, the gains will qualify for Capital Gains Tax Entrepreneurs' Relief making any gain chargeable at 10% (up to the life time limit of £10million).

National Insurance Contributions (NIC)

The Budget did not announce any increases in the rates of National Insurance Contributions (NIC), however the amalgamation of Tax and NIC is still an ongoing aspiration. For the self employed, the level where profits no longer require NIC to be paid has increased from April 2012 to £5,595 and, if your profits are below that amount, we can claim the Small Earning Exemption on your behalf. Please speak to a member of the team if you would like us to review this. And, of course, if you are employed and also have a self employed source of income, we can review these income levels to assess if deferment of NICs is relevant.

Companies see a further 1% reduction in the rate of Corporation Tax

The main rate of Corporation Tax (CT) was targeted to fall to 22% by 2015. However, the Budget speeds this process up by reducing it to 24% from April 2012 making the UK rate of CT lower than France, Germany, Italy, Japan and the USA. This is designed to encourage business investment in the UK.

For smaller enterprises it may be worth considering incorporation at this time as a tax efficient method of extracting the profits. With Corporation Tax levels on the decrease and the possibility of taking a salary up to the personal tax allowance without suffering income tax and then taking dividends up to the basic rate threshold of £34,370 with no further tax to pay that makes a total of £42,475 with no income tax to pay! Of course the actual benefit is that you receive a corporation tax deduction of between 20% and 24% on the salary element of the payment. A tax saving of up to **£1,945**. Please speak to a member of the team if you wish to consider incorporating your business.



Cap on Unlimited Income Tax Reliefs

The Budget introduced a cap to the amount of tax relief which can be claimed on reliefs which were previously unlimited. The cap will come into effect from 6 April 2013 and will apply to those reliefs which were previously unlimited, for example qualifying interest payments. The cap will be the greater of 25% of income or £50,000.

VAT

There will be a general “tidying up” of VAT measures to remove some anomalies around self-storage, hairdressers’ chairs and holiday caravans and sundry other areas. These measures will have effect from October 2012 but with powers in place to enable HMRC to backdate the rules to 21 March 2012.

The threshold for VAT registration and de-registration will rise to £77,000 and £75,000 respectively from 1 April 2012 and the quarterly fuel scale charges have increased from 1 May 2012.

Company Cars

The Budget removed the 3% additional charge for diesel fuelled cars from 2016/17 bringing petrol and diesel company cars into line. Tax is paid on the list price of the company car at a given percentage which is based on the CO2 g/km2 emissions of the vehicle. All company cars, irrespective of their emissions, will be taxed from 2016/17.

Fuel for Company Cars

The amount of car fuel benefit which is taxable is calculated by applying the same percentage, which is used to calculate the taxable car benefit, to a fixed amount and this amount has been increased from £18,800 to £20,200 from April 2012. This takes the maximum tax charge for your company paying for your private fuel up to **£3,535!**

Minimising the amount of Car and Car Fuel benefit charged is one way we can help you to pay less tax, please speak to us to see how we can help.



Tip

Car Benefits and Car Fuel rates increase each year. If you plan to change your company car in the near future, advising you of the amount and minimising the amount of tax you pay is one way we can help you to pay less tax. Please speak to us to see how we can help.

Non-Natural Persons?

This is the new name for entities other than an individual or individuals, when purchasing UK properties. The term will include companies, investment schemes, for example unit trusts, and partnerships where a company or other entity is a partner. Stamp Duty of 15% will apply to those entities buying properties which complete after Budget day 21 March 2012.

Often, a property might be purchased through a company when the individual is a non resident or individuals use a company to purchase property to prevent the property becoming part of their estate for Inheritance Tax purposes. Often, avoidance of tax is not the main reason for wanting to purchase a property through a company or investment scheme as Capital Gains Tax would not normally arise on the sale of a property which had been a principal private residence and, when a property is transferred into an investment or corporate structure, Stamp Duty would be payable. Many simply want a property to pass on to a beneficiary without the need to apply for a grant of probate following their death or for protection from the possible diluting of their estate by divorcing partners or off-spring divorcing. These options will now suffer a potentially prohibitive level of Stamp duty.



Tax Credits

The changes announced in the pre-Budget speech back in December will hit hard from April 2012. A family with one child will lose their Tax Credits entirely when the household income hits £26,000. This, together with no further credits when the income falls by £2,500 or less, means many households will be feeling the pinch in 2012/13. Planning now around, for example, large capital purchases for small business owners, pension payments, sole traders incorporating could mean retaining the vital Tax Credits for the coming year. Please speak to a member of our team if your Tax Credits are reducing or stopping.

No change!

There were no changes announced in the rates or annual exemption for Capital Gains Tax nor in the nil rate bands for Inheritance Tax (IHT). However, the 2011 Budget announced a lower IHT rate of 36% on a deceased's estate, after 6 April 2012, where 10 percent or more of the deceased's net estate is left to charity. We can help with all aspects of Tax planning and our team would be more than happy to help.



We Can Help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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