

# The Budget

## *A summary for entrepreneurs*

Chancellor George Osborne's second Budget speech on 23<sup>rd</sup> March 2011, while well delivered and containing some points of interest, on reflection left one feeling, like Macbeth, that it was "full of sound and fury, signifying nothing". The speech did include a range of measures intend to help businesses and encourage enterprise, however, once analysed it felt more like the deckchairs being rearranged, albeit, one sincerely hopes, on the new Queen Mary rather than the Titanic.

## Corporation Tax

To be very fair, there are definitely some grounds for celebration. Corporation Tax, which was already set to fall, will be 26% in the 2011/12 tax year, and is planned to reduce further, by 1% in each of the next three tax years, to 23% by year commencing 1<sup>st</sup> April 2014. It was confirmed that the rate for small businesses (profits up to £300,000) reduces to 20% this year, but no future reductions were announced.

Businesses based in Northern Ireland should note that the Government published a consultation paper on giving Stormont the power to vary the Corporation Tax rate, to allow NI businesses to compete on a level playing field with businesses from the Irish Republic, where the rate is 12½%.

## Income Tax & National Insurance

Income Tax rates remain at 20%, 40% and 50% but the planned rise in National Insurance Contributions (NICs) by 1% for both employee and employer went ahead. This raises the total rate of personal taxation for any salaries or bonuses over £150,000 to 57.8%, once the effect of Employers NIC on salaries and bonuses is taken into account.

Higher rate taxpayers will lose Child Benefit in 2013; Working Families Tax Credit is affected in 2011 for those earning £40,000 or more, to be revisited in 2012-13.

## Capital Gains Tax

The scope of Entrepreneurs' Relief was also widened. Now gains of up to £10 million benefit from the reduced Capital Gains Tax (CGT) rate of 10%. This is good news for entrepreneurs planning to exit their business by way of a sale.

## Cars & fuel

As was widely anticipated, the Chancellor cancelled the rise in fuel duty that the previous Labour administration had programmed; not only that, but he cut the duty by 1% and introduced a Fair Fuel Stabiliser which limits the increase on fuel duty as long as oil prices remain above \$75 a barrel. This has got to be good news for anyone whose business is dependent on the roads, for

### HIGHER NICS AND LOWER

Corporation Tax may mean that taking remuneration in the form of dividends rather than salary is even more attractive.

**GIVEN THAT PERSONAL TAX** rates can now be effectively 57.8% (including NICs) for the highest earners, that Corporation Tax rates are relatively low, and that more capital gains can be taxed at 10%, some owners may choose to retain funds in the company for the time being, either to take advantage of potential lower future tax rates, or sell and benefit from CGT rather than Income Tax. This might also be a strategy worth considering for those in receipt of Child Benefit.

**RATHER THAN HAVING FUEL** paid for by the company, it may now be more tax-efficient for employees to pay for all fuel and claim for business fuel at HMRC rates.

transportation of goods and sales activity. This is particularly valuable to NI businesses, where public transport is so hopeless.

Partly in recognition of the high cost of fuel, the rate at which business mileage can be claimed tax free was increased for the first time in many years, to 45p for the first 10,000 miles per annum (and 25p thereafter).

On the downside, the tax on company cars and fuel continues to rise, except for those cars with the lowest emissions. Note also that the cap of £80,000 on the list price cap used to calculate company car tax has been removed; this means that users of very expensive company cars will see a substantial increase in the tax charge. And users of private jets will be subject to air passenger duty for the first time.

## Pensions

The annual allowance for pension contributions on which one can benefit from tax relief has been cut to £50,000 however unused contributions from the previous three years can be carried forward. The total amount of pension fund an individual can accumulate drops to £1.5 million in 2012/13; funds in excess of this will be subject to tax when the benefits are vested.

There is no longer a requirement to buy an annuity at age 75 which means the remaining fund can be passed on death (subject to a tax charge) even after age 75. Provided there is sufficient guaranteed income from other sources, one can take advantage of “flexible drawdown” to draw out as much as desired from one’s pension fund, without reference to any limits.

**ANYONE WITH A PENSION** fund exceeding £1.5 million should take advice before 5<sup>th</sup> April 2012 about protecting the fund against the fall in the Lifetime Allowance.

**THE ADDED FLEXIBILITY IN** taking benefits should make pensions a more attractive option for extracting profits from businesses.

## Tax simplification

One of the first actions of the coalition government was to set up an Office of Tax Simplification (OTS). Just ahead of the Budget, the OTS published its recommendations and the Chancellor agreed to abolish 43 “complex reliefs”. The OTS has also suggested simplifying, among other things, Entrepreneurs’ Relief and Enterprise Investment Schemes – I suspect that for “simplifying” they might mean “abolishing”! The Chancellor also intends to consult on merging Income Tax and NIC for the future. This would not be a straightforward task, because NICs only apply to those in work but Income Tax applies to everybody, including the retired. But if it could be achieved it should result in a welcome reduction in payroll administration for businesses.

The Chancellor also said he was putting in place a moratorium on new red tape for small businesses for the next three years, but what this means in practice is not quite clear. He said, “I hold out for a dream, a distant dream, that people actually understand the laws they are being asked to comply with. Aye, George, ’tis a consummation devoutly to be wished”!

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