



WILTONGROUP

WiltonGroup is a discreet, independent, professional firm providing comprehensive taxation, financial and business services to our clients throughout the world.

Our business is to ensure that you receive expert advice and practical support to enhance and protect your interests - from individual wealth management to complex international business structures operating across multiple taxation regimes.

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UK Budget 2010

The budget was delivered on 24th March 2010 in the House of Commons by Alistair Darling, the UK Chancellor of the Exchequer.

It was a good budget in that it has satisfied the primary criteria which was, on one hand, to act as an interim measure prior to a General Election in the summer and not ruin Labour's chances of being re-elected and on the other hand to ensure that the quality of UK credit in the international financial markets was not reduced by the rating agencies. He seems to have achieved this on both fronts.

The reaction of the financial markets has been muted and reflects the lack of any major changes made to the tax system. The good news is that the income of the UK government has been greater than expected and so the debt levels are less than anticipated. It may not be much but at least it is in the right direction. In initially Sterling and UK bonds slipped but this should be seen in the wider context that Europe remains in some trouble and there is lack of resolution on the way that they are going to assist the weaker countries. Currency valuation is only relative.

The Economy and Overview.

The theme for this pre-election budget was that of how to sustain a recovery whilst persuading investors that the deficit and debt will be returned to lucrative and maintainable levels.

Mr Darling's response was, initially, to preserve government demand during 2010 as a vehicle to a recovery which he said "remains in its infancy". Additionally, he reiterated the Pre Budget Report plan to halve the deficit over four years through a combination of growth, higher taxes, lower spending and efficiency savings.

The Chancellor left his forecast of growth for this year unchanged from December's Pre-Budget Report at 1-1½%. He has reduced his 2011 forecast marginally from 3¼-3¾% to 3-3½%.

The minimal measures announced in the budget which focused on businesses will inject approximately £1.4bn to the economy this year, which is small change for the UK Treasury with an annual budget of around £700bn.

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The 2010 Budget winners are:

- pensioners, to the tune of £600m this year,
- first-time home buyers (£230m).

The 2010 Budget losers are:

- savers whose money is in Lichtenstein, from whom the government expects to raise £500m over three years,
- people who buy houses worth more than £1m from April 2011 (£390m over three years)
- public sector workers, with the public sector pay bill constrained to rise by no more than 1% in cash terms in 2011 and 2012.

Below we summarise the key measures announced in the Budget that have the potential to affect your situation;

Corporation Tax

The main rate of corporation tax applicable to taxable profits above £1.5m for the financial year commencing 1 April 2011 is to be maintained at 28%.

The small companies' rate of corporation tax has remained static at 21% for the financial year commencing 1 April 2010. The lower and upper limits for marginal relief calculation remain unchanged at £300,000 and £1,500,000 respectively.

VAT - Increased Registration and Deregistration Thresholds

The taxable turnover threshold, which determines whether a person must be registered for VAT, will increase from £68,000 to £70,000, from 1 April 2010. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £66,000 to £68,000. The registration and deregistration limits for relevant acquisitions from other European Union Member States will also be increased from £68,000 to £70,000.

Annual Investment Allowance (AIA) - Increase of Threshold

The Annual Investment Allowance (AIA) allows businesses, regardless of size, to reduce their taxable profits by the full amount of their annual capital expenditure on most plant and machinery (apart from cars), up to a maximum amount of £50,000 each year.



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In order to provide further cash flow support and an incentive to increase business investment, the Government will increase the maximum amount of the AIA to £100,000 from 1 April 2010 (for corporation tax) or 6 April 2010 (for income tax). Capital expenditure above this threshold will continue to be eligible for standard capital allowances against taxable profits.

Small Business Rates Relief

The Government will fund a temporary increase in the level of small business rate relief. Eligible small businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from October.

Government Procurement and Payment

The government will increase the proportion of central government contracts that go to SMEs by 15%. The estimate is that this will result in a £15bn increase in capital for these businesses, however does not specify over what time frame.

Time to Pay Scheme Extended

Through to the end of the next parliament. Businesses will be able to continue to spread their tax payments, which will continue to bolster cashflows and limit business failures.

Personal Taxation

Budget 2010 confirms the income tax rates and personal allowances for 2010-11:

- the basic rate will remain at 20%;
- and higher rate will remain at 40%;
- the additional rate will be set at 50%;
- the basic rate limit will remain at £37,400;
- the starting rate limit for savings will remain at £2,440;
- the personal allowances will remain at their 2009-10 amounts.
- The amount that can be invested in an Individual Savings Account will rise to £10,200 from £7,200.

From 2010-11 the additional rate will apply to taxable income above £150,000.

From 2010-11 the amount of the personal allowance will be gradually withdrawn for all individuals (regardless of age) with "adjusted net incomes" above £100,000. The rate of reduction is £1 for every £2 above the income limit.



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Inheritance Tax Nil Rate Band

The Pre Budget Report announced legislation to freeze the IHT nil rate band for 2010/11 at £325,000. This freeze will now be extended for a further four years and will therefore have effect for chargeable IHT events made up to 6 April 2015.

The nil rate band was originally due to rise to £350,000 for transfers made on or after 6 April 2010.

Furnished Holiday Lettings - Abolition of rules April 2010

At Budget 2009, the Chancellor announced that the furnished holiday lettings (FHL) rules would be withdrawn from 6 April 2010, (or from 1 April 2010 for companies). The legislation for this is in Finance Bill 2010. This will mean the tax treatment of furnished holiday lettings will be the same as for other property rental businesses.

Stamp Duty

The Government have outlined that stamp duty thresholds and the rates payable at the top and bottom bands will change:

- A two year increase in the stamp duty threshold to £250,001 for first time buyers (FTB) with immediate effect for two years only; and
- A stamp duty rate of 5% will take effect from 2011/12 for properties over £1million.

These changes will not have a significant impact on overall housing market activity but will introduce clustering in transactions and house prices at the revised thresholds. At the £250,000 threshold buyers will go from zero stamp duty to 3% - a cost of £7,500 at the threshold price.

Entrepreneurs' Relief Extension

Extended from the first £1 million to the first £2 million of gains made over a lifetime.

Capital Gains Tax Rate

The flat rate of capital gains tax at 18% and the exemption amount of £10,100 remain as per last year.



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Anti Avoidance: Tackling Offshore Tax Evasion

Legislation will be introduced with effect from 6 April 2011 to counter avoidance arrangements, for example schemes such as Employee Benefit Trusts and other similar intermediaries designed to disguise payments of remuneration.

This measure increases the sanctions available to HMRC for tackling offshore non-compliance. Building on the existing behaviour-based penalty structure, the measure provides for increased penalties where the non-compliance arises in a jurisdiction which does not automatically share tax information with the UK.

As now, penalties will be calculated by looking at the behaviour of the taxpayer, the degree of disclosure and the amount of tax lost. However, the level of the tax-gear penalty will be determined by the tax transparency of the jurisdiction in which the non-compliance arises.

This outlines that deliberate failures to report income or gains from the most opaque tax jurisdictions could be met with penalties of up to 200% of the tax owed.

The new penalty frameworks for offshore non-compliance will apply to income tax and capital gains tax.

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