

THE UNAVOIDABLE BUDGET

A 'tough but fair' emergency budget took an hour for George Osborne to deliver, with a drive towards lower spending, such that tax measures accounted for only 23% of the planned changes.

After months of waiting, the expected root and branch reform of Capital Allowances failed to materialise; instead the Chancellor only reduced the headline rates of plant and machinery, as well as cutting the Annual Investment Allowance. The furnished holiday lettings regime was also reinstated. Below we highlight the major changes, which include:

- The main Capital Allowances pool reduces from 20% to 18% from April 2012.
- The special rate pool, including integral features, reduces from 10% to 8% from April 2012.
- For many companies, the rate changes will require the calculation and application of hybrid rates depending on company year-end dates.
- At present, there have been no published changes to the Enhanced Capital Allowances regime for certain energy-saving and water-saving technologies, which will continue to benefit from valuable 100% first year allowances and payable credits.
- Small businesses and private investors will be particularly badly hit by the reduction in Annual Investment Allowances to £25k from April 2012; particularly as the rate had only just doubled to £100k! The transitional rules are still to be published.
- As expected, the planned scrapping of furnished holiday lettings regime has been withdrawn, although the cost to the Treasury is not expected to be significant.
- The Business Premises Renovation Allowance incentive remains, providing 100% relief for expenditure in disadvantaged areas.
- The timing differences between the phased reduction in corporation tax rates and Capital Allowances, when combined with the VAT increase will provide a window of planning opportunity, subject to anti-avoidance provisions.
- The previously stated tax relief condition, requiring ownership of any intellectual property deriving from research and development expenditure was published. Consultation on the long-term approach to research and development tax relief was announced.
- There was a greater than expected reduction in corporation tax from 28% to 24%, although this will be stepped over a four year period from April 2011.
- There was much media speculation regarding capital gains tax prior to the budget; and while the rate has increased to 28%, this only applies above the higher rate threshold. No taper relief or indexation applies.
- The measure announced in the March 2010 budget to enable REITs to pay their distributions using shares has been confirmed. Whilst this preserves REITs valuable cash resources in the short-term, careful consideration will be necessary too because of the future cash dividend impacts of issued stock.
- REITs will be hit by the reduction in Capital Allowances rates. These reductions will increase their tax-adjusted profits and the resulting 90% dividend distributions.
- The much expected increase in VAT to 20% was announced, with effect from 4th January 2011. This is expected to generate well over £12 billion of revenue per annum, going a long way towards the Chancellor's target of reducing the structural fiscal deficit.
- The VAT increase will affect exempt and partially exempt taxpayers, including property companies, but will give further planning opportunities for mixed-use schemes with zero and reduced rates. Opportunities will be circumscribed, however, by the anti-forestalling legislation proposed.
- Further restrictions under Lennartz accounting will be introduced on 1st January 2011 to ensure VAT recovery is restricted to the private use of business assets. This will result in consequential changes to the capital goods scheme from 1st January 2011.
- Land remediation relief remains unaffected meaning that developers can still benefit from this valuable 150% relief and payable credit.
- The reduction in corporation tax rates also means that the relative benefits of taking the land remediation tax credit increases. The tax credit allows a company to surrender losses for a 16% tax credit up to the value of land remediation expenditure expensed x 150%.
- The Government intends to examine whether to make changes to the SDLT rules to prevent avoidance on high value property transactions.
- The previously announced increases to landfill tax and aggregates levy have been confirmed. These increase by £8/tonne per annum until at least 2014 for landfill tax and to £2.10/tonne on 1st April 2011 for the aggregates levy.
- Other than confirmation of the March budget's small business rate relief, there have been no published changes to empty property rate relief.

The Banking Tax & Finance team will be issuing a detailed 'Budget Tax Special' next week, once the impact on various sectors, industries, owners, occupiers and property investors have been fully worked through and any 'small print' uncovered. Whilst we are analysing the results we will be posting news and comment on our website; <http://www.bankingtaxfinance.com>.

The team are also currently planning a 'July Seminar Road Show', covering the impact of the changes, spending cuts and tax rises with venues throughout the UK and more details will be released shortly via our Bottom-Line Thinking publication and the website. If you would like to register your details to ensure that you receive our newsletter, please 'click here'.

Our helpline will be working as usual throughout this period should there be a need to speak to an adviser about a specific issue, project or query. Our helpline number is 0800 526262.

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