

# CHANCERY MANAGEMENT NEWS UPDATE

Issue 07

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## On This Day In Previous years

1875 Universal Postal Union was established.

1890 Great Britain and Germany sign Zanzibar-Heligoland Treaty.

1899 The Gideon Society was established to place Bibles in hotels.

1913 Serbia and Greece declare war on Bulgaria.

1916 Coca-Cola brings current Coke formula to the market.

1930 Great Britain signs accord for the Independence of Iraq.

## Budget Update

On Tuesday 22 June 2010 the Chancellor, George Osborne announced the first Budget from the new Government. He promised a tough but fair emergency budget aiming to reduce debt by a larger proportion of cuts in spending and a smaller proportion of tax increases. From a business perspective this appears to be what was delivered.

### CAPITAL GAINS TAX

The exempt allowance remains unchanged at £10,100 and the rate of 18% for basic rate taxpayers remains unchanged. However, for higher rate taxpayers the tax has been increased from 18% to 28% effective from midnight on 22 June 2010.

### INCOME TAX

The Liberal Democrats succeeded in securing one of their pre-election pledges in the Emergency Budget with the implementation of an increase in the threshold for income tax. From April 6 2011 the personal allowance for those under the age of 65 will be increased by £1,000 to £7,475.

The basic rate limit of tax will be reduced to ensure that higher rate tax payers do not benefit from the increase in personal allowance.

### NATIONAL INSURANCE

One surprise however, is that the planned rise in the National Insurance rates announced by the previous administration which was a highly controversial policy during the General Election campaign as the Conservatives had planned to reverse it, will go ahead. This means that from

April 2011 National Insurance contributions will increase by 0.5% in addition to the 0.5% increase announced in 2008. The increases apply to employee, employer and the self employed.

The secondary threshold being the amount that employers start to pay employer National Insurance known as Class 1 National Insurance will increase by an extra £21 per week above indexation.

#### VAT

VAT will increase by 2.5% from 4 January 2011. This will impact on businesses that sell goods and services to consumers who cannot recover their VAT and it will affect many businesses in certain sectors such as the financial sector who are not normally registered for VAT.

Note: There are measures in the new rules to stop people improperly charging VAT this year for next year's supplies. People need to decide if VAT planning will reduce the impact of the rise in VAT by making certain purchases earlier than originally envisaged. Such planning should normally apply to people and businesses that cannot reclaim the VAT element.

#### INSURANCE PREMIUM TAX

Insurance Premium tax is also going to rise from 4 January 2011.

#### CORPORATION TAX

The rate of corporation tax for companies with profits above £1.5 million will be set at 27% from 1 April 2011 and will be reduced to 24% by 1 April 2014.

The rate of corporation tax for companies with profits of less than £300,000 will be set at 20% from April 1 2011.

#### CAPITAL ALLOWANCES

Allowances for new and unrelieved expenditure on plant and machinery will reduce from 20% to 18% per year for expenditure allocated to the main rate pool and it will reduce from 10% to 8% per year for expenditure allocated to the special rate pool.

TAX ALLOWANCES	EFFECTIVE APRIL 6 2010-	EFFECTIVE 6 APRIL 2011	THE CHANGE
Personal allowance	£6,475	£7475	+ £1,000
Then 20% basic rate	£37,400	£34,900	- £2,500
40% higher rate tax over	£43,875	£42,375	- £1,500
Personal allowance restricted from	£100,000	£100,000	£0
50% top rate band over	£150,000	£150,000	£0
Personal allowance 65-74	£9,490	£9,490	£0
Personal Allowance 75 & over	£9,640	£9,640	£0
Married couple allowance 75 & over	£6,965	£6,965	£0
Age related restriction from	£22,900	£22,900	£0
Annual I Capital gains tax exemption	£10,100	£10,100	£0
National Insurance employee	11% from £110 a week	12% from £139 a week	Up 1%
National Insurance employee	Over £844 per week 1%	Over £815 per week 2%	Up 1%
Self employed National Insurance	8% from £5,715 per year then 1% over £43,875	9% over £7,209 per year then 2% over £42375	Up 1% Up 1%

#### Winter Fuel Payments

Up to this year people who reached the age of 60 in the third week of September qualified for the winter fuel payment. This year for the first time July is the qualifying month.

From this year the age to qualify will rise alongside the rise in the age for women to get the state pension.

To qualify for the coming winter you must have been born on or before July 5 1950.

To qualify for the first time the rule is you must be living in the UK on the dates of the week 20 –26 September 2010. Thereafter you will be entitled to receive the payment if you move anywhere within the European Economic Area and Switzerland.

The payment is per household so a married couple will get half each.

People in care homes are only entitled to the payment if they support themselves and they will normally receive half the full rate.

Although the payment for a Winter Fuel Payment is personal according to statistics about 34,000 payments are made to people who do not qualify but whose partners do. This happens if one partner is under 60 and receives an income related benefit and the other partner is over the qualifying age.

The Government has undertaken to protect Winter Fuel Payments and it is expected to be £250 for those under the age of 80 and £400 for those born on September 30 1930 or earlier.

The Liberal Democratic plan to withdraw the payment from people aged 60 - 64 and use the money to extend the payment to younger disabled people has been scrapped.

We understand that the treasury have considered taxing or means testing the payment but up to now nothing has been announced.

QUALIFYING	FOR THE WINTER FUEL PAYMENT
Winter	Born on or before
2010-2011	July 5 1950
2011-2012	January 5 1951
2012-2013	July 5 1951
2013-2014	January 5 1952
2014-2015	July 5 1952

## Increase In State Pension

The Government has undertaken to increase the basic state pension from next April in line with prices or earnings whichever is the higher.

In any event there will always be an increase of 2.5% even if both prices and earnings rise by less than 2.5%.

The increase will take effect from April 2011 and they will pass a law to ensure that this is guaranteed in the future.

This rule will only apply to the basic state pension.

We understand that SERPS will be linked to the Consumer Price Index (the CPI) rather than the Retail Price Index (the RPI). The RPI is higher than the CPI and therefore the SERPS part of the pension will rise at a slower rate than the basic state pension.

During the late seventies the state pension used to rise in line with earnings but since the eighties the state pension has risen each year in line with the RPI although at times it has increased slightly higher than that.

According to statistics if it had gone up matching the RPI it would now be £85 per week compared with what it is now at the rate of £97.65. If it had been left increasing in line with earnings it would have been nearer £140 per week by now.

## Buying Wine

According to a number of articles in the financial news recently, for higher rate taxpayers wishing to avoid paying higher rate tax on their investments, buying wine could be a good option. As long as the wine purchased is considered to be a wasting asset (having a life of 50 years or less), it will not attract income tax or capital gains tax when sold for a profit always

provided that the seller is not judged to be involved in the trade. The reason for this is that HM Revenue & Customs is reluctant to classify private sellers as traders as it will mean that all associated costs and losses will have to be taken into consideration that would reduce the short term tax take.

As an investment wine has much to recommend it because the greatest producers can only make a finite quantity and as supply diminishes, prices rise.

The safest and most secure investments are French wine from the leading 30 chateaux.

Over the medium to long term a well balanced wine portfolio should offer returns of about 10%-12% per year better than the FTSE 100. If any bottles do not rise in value they can always be consumed.

## The Real Squeeze To Come

Many businesses have enjoyed extended credit from their suppliers of goods and services over the last thirteen years.

However, with the credit crunch not far behind us, which is now being followed by cuts in spending and increases in taxation many businesses especially those in the manufacturing sector will soon experience suppliers of goods and services enforcing their stricter terms of payment.

With arrangements for loans and increased overdraft facilities taking up to six months to arrange compared with the three months it was taking previously, the number of businesses facing a cash flow crisis is likely to increase considerably.

It will be essential to negotiate arrangements as advantageous as possible with suppliers early on and ensure the extension allowed even if slightly shorter than previously allowed, is adhered to.

### Quotations for the Month

When there is a single thief, it is robbery. When there are a thousand thieves, it's taxation.

Failure doesn't mean you are a failure it just means you haven't succeeded yet.

Common sense is not so common.

Pick battles big enough to matter small enough to win.

Never ruin an apology with an excuse.

The most exhausting thing in life is being insincere.

Source: The CML Collection

### Statistics of the Month

Crime in England and Wales fell by 7% last year, according to both police figures and the British Crime Survey. Source: The Week.

Popular tourist attractions have paid out millions of pounds in compensation to visitors who had accidents on the premises according to a survey in the Sunday Telegraph. A woman who fell into the moat of Carlisle Castle while trespassing at 2am was awarded £15,000 and a man who burnt his thumb while helping himself to soup at the V&A's restaurant got £400. Source: The Week.

During the 13 years of Labour Government, the 5 ministers at the Department of Health were each supplied with £8 worth of fruit a day, at an overall cost to the taxpayer of more than £100,000. Source: The Sunday Times

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