

# JTC BRIEFING

June 2010

## June 2010: Changes announced in the Emergency Budget

The changes to the tax system in the budget were relatively straightforward to implement and understand. Whether they will help construction recover from the recession is less easy to predict.

A VAT rise will be very difficult for all traders who need to win work in the domestic sector. It will even be difficult for the largest firms because not all customers can recover their VAT and at times when all budgets are being pruned an extra cost will probably lead to less work.

The sweeteners were the reduction in Corporation Tax and the reduction in the levels at which employers NIC is paid. Both of these changes are good news.

### Increase in the rate of VAT to 20%

The rate of VAT changes at 0.01am on 4 January 2011. The industry has done two changes of rate recently so should be experienced in the rules.

- If you are working under a contract that provides for stage payments the tax point for each stage payment is when you issue a VAT invoice or receive a payment – whichever happens first.

- However there are also rules which say that if work has actually been completed before 4 January 2011 you can charge at 17.5% on the measured work completed by that date, even if it hadn't been invoiced or paid for by that date.

- If you are working on a contract where there is to be a single payment – or a payment less retention and a release of the retention, your tax points are whenever you receive a payment or invoice or 14 days after the work is completed – whichever happens first. Where a tax point is triggered before the 4 January 2011 the rate is 17.5%.

- Customers may offer to prepay for work to be done in 2011 – as long as the amount is less than £100,000 and is for a genuine contract at arms length the rate can be 17.5%.

Talk to your accountant or Liz Bridge if you have any reason to think that a prepayment for work is artificial – for example if you are asked to loan the money to pay yourself, or you are connected to the customer, or the invoice allows more than six months credit.

### Flat Rate Scheme VAT rates change

From 4 January 2011 the VAT rate for general building and construction is 9.5%, labour only building or construction is 14.5%.

### Corporation Tax

The rate of Corporation Tax will be cut to 27% for the year starting 4 January 2011 – the small profits rate will be 20%. Each year thereafter the rate will reduce by 1% down to 24% in 2014-2015. This is very good news for those that pay Corporation Tax!

There will be a full consultation to consider reform of the Corporation Tax system.

### Capital Allowances - Annual Investment Allowance

The Annual Investment Allowance which allows most businesses to reduce their taxable profits by the full amount of their annual capital expenditure on most plant and machinery is to be reduced from £100,000 to £25,000 with effect from April 2012. The transitional arrangements have yet to be announced. This is disappointing news – this allowance was much used in construction

### Capital Allowances – Cars and other special items

Writing down allowances for new and unrelieved expenditure on plant and machinery will be reduced from 1 April 2012.

- From 20% to 18% in the main pool
- From 10% to 8% in the special rate pool.

### Personal Allowances

The Personal Allowance for those under 65 will be increased by £1000 to £7475 but the basic rate limit will be changed so that higher rate taxpayers do not benefit.

### National Insurance Contributions

The point at which employers start to pay Class 1 NICs – the secondary threshold – will be increased by £21 over indexation – this will help many employers and is good news.

### Main Changes to Tax Credits and Child Benefit

There will be a radical curtailment of many credits and benefits. These may drive many men back into work or from part time black economy work into looking for full time jobs. This may be useful for those contractors looking for labour, and in holding wage rates.

### Higher Rate Taxpayers

What was not announced was any change to the proposals to introduce a 50% tax for those earning over £150,000. This tax will go ahead.

## **Capital Gains Tax**

The changes are simple. There will be two rates - 18% for basic rate taxpayers, 28% for higher rate taxpayers. Gains qualifying for Entrepreneur's Relief will be at 10% with a lifetime limit of £5 million.

## **Pension tax relief**

The last government proposed to restrict relief to high earners by limiting relief to the basic rate of tax. That is likely to be dropped. Relief will now be allowed at all rates but with relief only on contributions of less than £30-45k.

## **Landfill Tax**

This will continue to increase by £8 a tonne each year to 2014. It will not fall below £80 a tonne 2014-2020.

## **Regional Employer NIC Holidays for new businesses**

This tax break is for businesses in their first three years of trading in most regions of the UK except London, the South East and East Anglia. Within this period employers will not have to pay the first £5000 of employers class 1 NICs for each employee (up to 10) in their first year of employment.

## **Bank Levy**

There is to be a new tax on the banks based on their balance sheets. The only concern for construction is whether this will limit their ability or willingness to lend for projects or to ease firms with cash flow problems.

## **Landline (telephone) Duty**

This will not now come into law. ■

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