

# UK Budget 2011-12: 23 March 2011: How did you do?

## Corporation Tax

The main highlight of this year's government Budget for Northern Ireland wasn't really the 1p per litre fuel decrease, but the possibility that there could be a much more significant reduction here in Corporation Tax to 12.5%. This could be very good news for small business and good news for the N.Ireland economy in general. Of course we realise that in order to pay for this that N. Ireland would have to take a cut in its block grant from Westminster.

However, I think we should be positive about this proposed reduction in Corporation Tax which would be a real boost for 1) attracting new and bigger business to Northern Ireland and 2) probably more importantly - helping businesses already established in Northern Ireland develop even further. Of course this reduction would give us a competitive edge over the rest of the UK and with our Irish Republic neighbours especially where the corporation tax rate is already 12.5% despite tougher economic restraints in the south.

What is definite at the moment, in the UK in general is that the new government has promised to reduce the higher rate of Corporation Tax from 28% to 23% over a three year period and in fact it already fell to 26% from April 2011. This will only really help large business organisations. However if you're classed as a small company (profits less than £300k) the rate will stay at 20% for the next few years. We presume that if a new N.Ireland Corporation tax rate of 12.5% was introduced this would be for large and small companies.

## Income Tax

There was good news in the budget for basic rate tax payers. We knew already that the annual personal tax free allowance is going to be £7,475 (up from £6,475) from April 2011 but now its been announced that this personal tax free allowance will increase to £8,105 from April 2012 which isn't too bad and most people will benefit from this! Also, business people such as Sole Traders will have higher tax free allowances and directors in limited companies can pay themselves higher (tax free) salaries.

## High rate tax payers

We should not get too carried away as the news does not seem so good for higher rate taxpayers. Higher rate tax payers will not gain at all in 11/12 from the £1,000 increase in the Personal Allowance because the higher rate threshold is decreasing. (they will benefit in the year 12/13 though) Also those earning £100k will suffer as they begin to lose the Personal Allowance anyway when their income goes above £100k.

On the positive side, these taxpayers who have just moved into the high rate tax bracket (if you earn more than £42,475 in 11/12) now a greater potential to save more tax by investing in pension schemes or making payments to their favourite charity. If you already earn more than £42,475 and are making payments into a personal pension scheme or to a charity make sure you get that extra 20% tax relief you are entitled to.

Don't forget too that tax payers, those earning more than £150,000 also now pay tax at 50% - already in the tax year 10/11. (although, the chancellor plans to abolish the 50% tax rate at some time before the next general election) These high tax payers have even greater potential to save tax especially by investing in their pensions.

If you are self employed (and a top rate taxpayer), it would be very wise to convert to a limited company as you would still be considered a 'small company' and taxed at only 20% and maybe even 12.5% in the future!

## National Insurance

George Osborne said he plans to merge Taxation and National Insurance which would make sense but it might be difficult to put into practice - especially as he can't even keep the two basic thresholds the same at

the moment! So from April 2011 the basic threshold for paying national insurance is £602 per month but the tax free threshold is £623 per month. He also said he 'had to go ahead' with Labour's National Insurance increases even though the election was held a year ago. So, for the first time in eight years all the National Insurance rates were increased from April 2011! Employee N. Insurance rates will increase from 11% to 12% and Employer rates will also increase from 12.8% to 13.8%.

To compensate in some way for these increases the basic National Insurance threshold will increase to £602 per month (in other words you don't pay any NI if your income is below this amount).

### **National Insurance for Self employed**

Self employed people also pay National Insurance (two different types) and both of these rates are going to increase from April 2011. Sole Traders national insurance on their profits will now increase from 8% to 9% next month which is quite a high increase! However, to compensate lower earners the basic annual NIC threshold will increase to £7,225. It's now becoming even more attractive for Sole Traders in Northern Ireland to convert to a limited company as Corporation tax rates are reducing but National Insurance rates are increasing! Directors in limited companies can always avoid paying national insurance by receiving most of their income as dividends instead. From April 2011 they will be able to pay themselves £600 per month tax free and national insurance free.

### **Car expenses and benefits**

It was nice to see the 40p car allowance finally increased (after nine years) although 5p extra to 45p isn't a huge improvement. Employees can now claim 45p per mile if they use their own car, as long their employers agree – and most will agree. Also self employed people can claim 45p for every mile. Although, having said all that, the chancellor is quite clever in getting company car drivers to pay for this - he will increase the cost of taxable benefits in kind if you drive a company car.

### **Charity payments**

The chancellor announced that they are simplifying the whole area of gift aid for smaller charities. Those charities that had to recover money from HMRC through the gift aid scheme will realise how time consuming the whole process of collecting money from the tax man was. So this is good news for charities suffering because of the recession! Don't forget too that if your charity or club receives payment from a high rate tax (someone earning more than £42,475) both the charity and the tax payer can make a saving. If you are a charity or a not-for-profit company make sure to let your patrons know that they could also possibly claim extra tax relief on payments they make to you.

The second thing that the chancellor said in regard to charity giving was that if you leave 10% of your estate to a charity then you will get a 10% reduction in your inheritance tax bill. Remember inheritance tax is payable at 40% on estates worth more than £325,000. I should point out though that the beneficiaries in a will could lose out a little too. So for instance if your estate was worth £1million and you made a payment to a charity of 10% of the amount of above £325k, the charity would receive £67,500 and your beneficiaries would receive £713,800 (£16,200 less than if you didn't make the donation). The tax man would lose £51,300 and I suppose most people would agree that it's better to leave at least some of your inheritance to your favourite charity rather than letting the tax man have it!