

## **Tax Points: Budget 2012**

**Issue 1/2012**

### **Summary**

The Chancellor this year has delivered a budget which goes some way to appeasing those who want to improve the climate for growth and clamp down on tax avoidance. However, in trying to deliver these goals the tax due from middle class families is likely to increase while the allowances for pensioners will reduce to align with the working age pension allowance.

The issues affecting optical businesses and practices covered below are

- Corporate and Business taxes
- Tax Simplification for Small Business
- Indirect Taxes
- Anti-Avoidance, Tax Administration and Transparency
- Personal Tax.

### **Corporate and Business taxes**

#### **Corporation Tax**

The main rate of Corporation Tax has been reduced to 24% for the Fiscal Year commencing 1 April 2012, with a further reduction to 23% effective from April 2013, and a subsequent reduction to 22% effective from April 2014. This reduction in the main rate was actually greater than had been previously announced by the Chancellor (in Budget 2011).

#### **Business Rates**

A 5.6% increase in business rates (based on last September's Retail Price Inflation figure) has been left unchanged and will come into effect in April 2012.

### **Tax Simplification for Small Business**

From April 2013, small unincorporated businesses with receipts of less than £70,000 per annum will have the option of calculating their taxable income on a simpler cash receipt and payment basis. This should result in easier calculations of tax liability – allowing the business to determine taxable income by totalling business receipts and subtracting allowable expenses.

The anticipated benefits of this new scheme are

- No need to adhere to or understand tax rules designed for larger business.
- Tax will not be due until payment is received (i.e. from the customer).
- No requirements to provide details of stock, creditors, debtors etc.
- No need to be familiar with Capital Allowances.

On joining the scheme, the intention is that a small business will remain enrolled until its receipts exceed £150,000. Upon leaving, the business would revert to normal tax accounting. HMRC will shortly be consulting on the mechanics of the small business scheme. Furthermore, HMRC will consider how smaller incorporated businesses can disincorporate to take advantage of this.

From October 2013 HMRC will implement a 'Real Time Information' programme to streamline PAYE reporting for all businesses by linking it to the employer's normal payroll activity (using payroll software to collect and send the information that HMRC needs).

For those businesses that do not currently use payroll software, HMRC will provide a basic PAYE software package that will allow the transmission of RTI data to them. This software package will be free for employers with nine or fewer employees.

In the 2011 Budget it was announced that HMRC would look at ways of integrating the operation of PAYE and NI for smaller businesses. A detailed consultation document will be published shortly setting out a range of options for consideration.

## **Indirect Taxes**

### **VAT**

From 1 April 2012, the VAT registration limit will rise significantly from £73,000 to £77,000 making it the highest such turnover limit in the EU. If they are below this limit, smaller businesses will need to consider whether it remains beneficial to be registered for VAT.

From 1 May 2012, there will also be an increase in the VAT fuel scale charge.

Over recent years there have been a number of disputes over the application of VAT in the following areas

- definition of catering with regards hot take away food
- what constitutes 'premises' in connection with the supply of take away food
- sports drinks
- self-storage facilities
- holiday caravans
- rental of hairdresser chairs
- approved alterations to listed buildings.

HMRC has decided to strengthen the legislation in all of the above areas to ensure that these supplies fall within the standard rate VAT net. These changes are designed to close perceived loopholes used by some to reduce their VAT charges. A consultation will take place prior to the changes being implemented on 1 October 2012.

### **Excise Duty**

Beer will rise by 3p a pint, with 11p on a bottle of wine and 41p on a bottle of spirits. This biggest percentage increase in duties was reserved for cigarettes increasing by 37p per packet, with a pack of five small cigars increasing by 12p. As was previously announced, petrol and diesel will rise by almost 4p per litre on 1 August 2012.

## **Anti-Avoidance, Tax Administration and Transparency**

### **Anti-Avoidance**

A number of measures have been introduced to counter tax avoidance in specific areas including

- Employer asset-backed pension contributions
- Solvency II and the taxation of life insurance companies
- Stamp duty land tax (SDLT) – rate in respect of residential property over £2 million
- Stamp duty land tax – enveloping of high value residential properties
- Stamp duty land tax – sub-sales rules
- Site restoration payments
- Inheritance tax – offshore trusts
- Income tax – corporate settlor-interested trusts
- Sale of lessor companies
- Plant or machinery leasing
- Life insurance – income tax avoidance

Further details of these measures can be found in the Overview of Tax Legislation and Rates (paragraphs 1.53 to 1.66) <http://www.hmrc.gov.uk/budget2012/ootlar-main.pdf>

### **Tax Administration and Transparency**

In April 2012, HMRC will launch an online Business Tax Dashboard, which will offer a quick and easy way for businesses to see how much tax they have already paid and how much they still owe.

From 2014/15, HMRC will also improve transparency for individual taxpayers by publishing a new Personal Tax Statement to all individuals who file their Self-Assessment return online (and will include selected PAYE taxpayers). This will detail how much tax and National Insurance they have paid, their average tax rates, and show how they contribute to public expenditure.

### **Personal Tax**

For the Tax year 2012-13 the personal allowance for those aged below 65 will be £8,105 and the basic rate limit at £34,370. For tax year 2013-14 the personal allowance will increase to £9,205 and the basic rate limit will reduce to £32,245.

From 2013-14, the amount of an individual's personal allowance depends on their date of birth and their income in the tax year and will ultimately result in the withdrawal of the age-related allowances. As expected from 2013-14 the Higher Rate of Income Tax will be reduced to 45%.

### **Optical Confederation**

**March 2012**