

Budget 2012 Briefing for Owner Managers

Key tax allowances and rates for owner managers

Personal	2012/13		
Personal allowance (aged under 65)	£8,105		
	The personal allowance is gradually withdrawn for those with income over £100,000 and is completely withdrawn where income exceeds £116,210		
Income tax rates		Income except dividend income	Dividend (incl. tax credit)
First £34,370		20%	10%
£34,371 to £150,000		40%	32.5%
Above £150,000		50%*	42.5%
CGT Annual exemption	£10,600		
CGT rates	28% (or 18% if gain within basic rate band)		
Entrepreneurs' relief rate	10%		
Company - FY 2012 (12 months to 31 March 2013)			
Company tax rates			
Profits below £300,000**	Small profits rate - 20%		
On profits between £300,001 and £1,500,000**	Marginal rate on excess over £300,000 - 25%		
If profits above £1,500,000**	ALL profits taxed at main rate of 24%		

** limits apportioned where there are associated companies

Note - this increases to £9,205 from 2013/14

**Top tax rate reduces to 45% from 2013/14*

Main CT rate reduces to 22% by April 2014

Profit extraction

Owner managers who trade through a company typically extract their 'surplus' profits in the form of bonuses or dividends.

Remember that the effective *dividend* tax rates - i.e. the tax rate on the cash amount received is 25% (where dividend taxed within £37,401 and £150,000 band) and 36.1% (where dividend taxed above £150,000 band).

Example - Assume an owner manager's annual salary exceeds their basic rate band and they pay income tax at the 40% rate. Their effective tax extraction rates for 2012/13 are as follows:

	<i>Bonus</i>	<i>Dividend</i>	
	£'000	CT @ 20% £'000	CT @ 24% £'000
Surplus profits	100	100	100
Employer's NIC @ 13.8%	(12)		
Corporation tax		(20)	(24)
	88	80	76
Income tax @ 40% / 25%	(35)	(20)	(19)
Employees' NIC @ 2%	(2)		
Net cash available	51	60	57

Conclusion - It is normally preferable to pay dividends rather than bonuses.

Employee share participation

The Government is clearly keen to encourage employee share participation in owner-managed companies.

Two beneficial changes are being made to share options granted under the Enterprise Management Incentives (EMI) Scheme:

- The maximum limit on the market value of the EMI option shares (at the date of the option grant) will rise from £120,000 to £250,000 (from a date to be announced)
- EMI option shares can be sold with the benefit of the beneficial entrepreneurs' relief (ER) 10% CGT rate without having to satisfy the normal ER 5% ownership requirement.

The 10% ER CGT rate applies to options granted *after 5 April 2012* but the employee must hold the actual for at least one year. Thus, the EMI option shares cannot be sold with the benefit of the 10% ER CGT rate until after 5 April 2013. Some companies may wish to take advantage of these new beneficial rules by inviting option-holders to release existing EMI options and re-granting fresh EMI options.

<p>Enterprise Investment relief (EIS) and Venture Capital Trusts (VCTs)</p>	<p>As previously announced, from 6 April 2012, an individual's maximum subscription limit for EIS investment increases to £1,000,000.</p> <p>There are welcome increases to the various company limits that operate for EIS and VCT investment.</p> <ul style="list-style-type: none"> • Employee limit - 250 (previously 50) • 'Gross assets' limit (at date of relevant share issue) - £15 million (previously £7 million) • Total venture capital limit - £5 million in any 12-month period (previously £2 million). Note - this was previously proposed to be £10 million but has now been confirmed at the lower amount of £5 million! <p>These changes are subject to EU State Aid Approval, which is expected shortly.</p>
<p>Seed Enterprise Investment Scheme (SEIS)</p>	<p>The new SEIS regime starts on 6 April 2012 and provides income tax relief <i>at 50% (regardless of the investor's marginal tax rate)</i> on share capital subscribed in qualifying 'seed stage' companies. Investment under SEIS also enable capital gains to be deferred and the disposal of SEIS shares are exempt from CGT after they have been held for three years.</p> <p>The SEIS is closely modelled on the existing EIS regime, with some notable differences. For example, directors can invest under the SEIS providing their equity stake in the company is less than 30%.</p> <p>As well as meeting the general EIS conditions, a qualifying seed stage company must (crucially) be less than two years old from when it started trading and must be carrying on a genuine new trade (having not traded before). The company must also have:</p> <ul style="list-style-type: none"> -have fewer than 25 employees; -have gross assets of less than £200,000;and -not have raised any money from EIS or VCT investors
<p>Corporate tax reliefs for the creative sector</p>	<p>As part of a clear policy intention to keep 'Wallace and Gromit' and similar animation productions in the UK (!), the Government plans to introduce beneficial corporation tax reliefs for the production of culturally British video games, television animation programmes and high end television productions.</p> <p>These reliefs will be modelled on the existing regime for UK film productions and should be introduced from April 2013.</p>
<p>General 'anti-abuse' rule</p>	<p>The Government has accepted the recommendation of the Aaronson report and intends to introduce a narrowly focused General Anti-Abuse Rule (GAAR) from April 2013.</p> <p>The GAAR will apply to income tax, capital gains tax, corporation tax, NIC and SDLT. There appears to be growing acceptance that a narrowly targeted GAAR, which seeks to counter artificial, aggressive schemes, would not adversely affect businesses.</p>

<p>Proposed cash basis for small businesses</p>	<p>The Government proposes to introduce a <i>voluntary</i> cash basis for <i>unincorporated</i> businesses (with an annual turnover below the VAT threshold - currently £77,000).</p> <p>The proposed 'cash-basis' regime would include a simplified expenses system for calculating the business use of cars and home. Note that small businesses trading through <i>companies</i> will <i>not</i> be eligible for the 'cash-basis'</p>
<p>Company cars and fuel benefits</p>	<ul style="list-style-type: none"> • Company car percentage benefit rates are as already announced for 2012/13. • The private fuel multiplier increases to £20,200 from April 2012. The same increase applies for VAT on private fuel provided to employees. • 100% capital allowances on the most eco-friendly cars are extended to April 2015 but note from April 2013, the CO₂ emissions limit reduces to 95g/km.
<p>Watch out for...</p>	<ul style="list-style-type: none"> • Penal rates of SDLT on purchases of <i>residential</i> property <ul style="list-style-type: none"> - On <i>residential</i> properties costing more than £2 million - SDLT rate is now 7% - On <i>residential</i> properties purchases exceeding £2 million purchased through companies' a very unpalatable SDLT rate of 15% applies. <p>Note - the SDLT rates on commercial property remain unchanged - maximum rate is 4%.</p> • Overall cap on tax reliefs from 6 April 2013 - where total tax relief exceeds £50,000, the available income tax deduction will be limited to 25% of total income. • New statutory residence rules are expected to apply from April 2012

This briefing note is not intended to be an extensive summary of the Budget 2012 proposals and is intended for general guidance only. Appropriate professional advice should always be obtained when acting on the general guidance provided. The Budget 2012 proposals are subject to change during the normal legislative process.

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