

A guide to Budget 2012

A SIMPLE GUIDE TO THE BUDGET 2012

This is a basic guide prepared by the Technical Advisory Service for members and their clients. It should not be used as a definitive guide, since individual circumstances may differ. Specific advice should be obtained.

Business finance

Budget 2012 highlighted a number of initiatives undertaken by the Government to help smaller businesses raise finance. On 20 March 2012 the Government launched the **National Loan Guarantee Scheme (NGLS)** which is aimed at helping smaller businesses in the UK to access cheaper finance.



The scheme allows Small and Medium Sized Enterprises (SMEs) with an annual turnover of not more than £50 million to obtain a discount of 1 per cent compared to the interest that they would have paid to a participating bank without the use of the scheme.

The scheme is opened to all UK businesses, including branches of foreign entities with a genuine business in the UK. The banks taking part to the NGLS are listed on the HM Treasury website at <http://www.hm-treasury.gov.uk/nlgs>.

Participating banks are able to offer NLGS discounts on new term loans, hire purchase and leasing arrangements. Refinancing of existing facilities where the term or amount has changed is also permitted. The minimum term for a loan will be 1 year.

Overdrafts, revolving credit, invoice finance and business credit cards are excluded from the NGLS and banks will be able to choose, subject to the scheme rules, which products will be offered under the scheme.

The Government also announced making significant tweaks to the **Enterprise Finance Guarantee (EFG)** scheme. Currently Government guarantees under EFG could not exceed 13 per cent of each lender's portfolio of EFG loans. From 2012-13 the limit will increase to 20 per cent and therefore it may incentivise more lending to smaller businesses.

Another finance initiative announced is the increased allocation of funds for the **Business Finance Partnership (BFP)** from £1 billion to £1.2 billion. The BFP is a scheme that will make finance available to SMEs through non-bank lending channels. The scheme will be operated by HM Treasury and initially will focus on co-investment with private managed funds that lend directly to UK businesses.

To support the objective of doubling UK exports to £1 trillion by 2020, the Government has announced that it will expand the overseas role of **UK Export Finance**, the UK export credit agency; so that it will be able to develop finance packages that could help UK exporters secure opportunities identified via the UK Trade and Investment's High Value Opportunities programme and it will provide temporary private sector office space for new UK exporters in high growth countries.

You can find out more about exports and preparing your business to export at:
http://www2.accaglobal.com/uk/members/technical/business/your_business/

Finally the Government has announced that this year it will pilot the introduction of a programme of **Enterprise Loans** that will help young people set up and grow their own business.

Anti-avoidance

Budget 2012 is particularly focused on anti-avoidance measures its new strategic approach to tax avoidance will be looking at a General Anti-Abuse Rule (GAAR), the review of high risk areas subject to avoidance attacks and specific targeted anti-avoidance rules (TAARs).

The Government was expected to issue a formal response to the recommendation of the Aaronson Report that a **General Anti-Abuse Rule (GAAR)** targeted at abusive and artificial tax avoidance schemes should be introduced in the UK tax system. A consultation document will be due in summer 2012 with the intention of introducing the new legislation in the Finance Bill 2013.

The consultation will cover the new draft legislation based on the illustrative rule included in the Aaronson Report and will extend to SDLT in addition to the main direct taxes - income tax, corporation tax and capital gains tax.

The new high-risk area selected for review is that of the tax rules on manufactured payments, including the rules on manufactured overseas dividends. The Government will consult to simplify the current rules and improve understanding of the results of the proposed changes.

There are a large number of **targeted anti-avoidance rules (TAARs)** in Budget 2012. Of particular relevance are the rules in respect of Stamp Duty Land Tax (SDLT) for residential properties over £2 million which are highlighted separately in this newsletter. Additionally the Government announced that it will extend the capital gains tax regime to gains on the disposal of UK residential property and shares or interests in such property by non-resident, non-natural persons. The rule will apply from April 2013 after consultation on the details.

Budget 2012 also announced that a package of measures will be introduced to tackle avoidance through the use of personal service companies and aim to make the IR35 legislation easier to understand. This will include HMRC strengthening specialist compliance teams, simplifying the way IR35 is administered, and consulting on proposals which would require office holders/controllers persons who are integral to the running of an organisation, to have PAYE and NICs deducted at source. The new rules should be introduced in Finance Bill 2013. This will *be difficult and a clear simple system is required. IR35 has introduced a lot of uncertainty into the legislation. One of the basic principles of legislation is that it should be certain.*

Stamp duty

There will be a new rate of charge to Stamp Duty Land Tax (SDLT) on the purchase of a residential property where the purchase price exceeds £2 million. The new rate of 7% will apply from 22 March 2012.

The SDLT charge on a freehold purchase, a lease premium or the assignment of a lease is governed by section 55 Finance Act 2003. In the case of linked transactions, the amounts of consideration are aggregated in order to determine the rate of tax payable.

Transitional provisions will ensure that the old rates will continue to apply in respect of contracts entered into before 22 March but completed on or after that date.

Another change is the announcement of a new 15% rate of SDLT will be charged on acquisitions of property where the consideration exceeds £2million and the purchaser is a 'non-natural persons'. A non-natural person for this purpose includes companies, collective investment schemes (including unit trusts) and partnerships which include a non-natural partner.

This measure will affect purchases of residential property where the effective date is 21 March 2012 or later. There will be transitional rules that will apply to transactions that would otherwise be within the higher rate charge but where the contract was signed and completed by all parties to the transaction before 21 March 2012.

New legislation will be introduced to insert a new subsection into section 45 Finance Act 2003 to make it explicit that the grant or assignment of an option cannot be a transfer of rights. This amends the sub-sales legislation to put beyond doubt that an SDLT avoidance scheme, involving the sub-sales rules and an option to purchase land, is ineffective.

The measure will have effect for transactions on or after 21 March 2012.

Income tax

For 2012-13 the personal allowance will be increased by £630 to £8105. The basic rate limit will be reduced by the same amount (£630) to £34,370. For 2013-14, the personal allowance will increase further, by £1,100 to £9,205. This is another step towards the government's aim of personal allowances at £10,000. In 2013-14, the basic rate limit will however be reduced by £2,125 to £32,245, placing many more thousands of tax payers into the higher rate tax band.

Income tax rates remain unchanged for 2012-13. However for 2013-14, the additional rate of income tax will be reduced from 50% to 45%. Basic rate and higher rate tax will remain the same at 20% and 40% respectively. The dividend additional rate will be set at 37.5% from 2013-14.

Higher personal allowances for people aged 65 and over are to be phased out from 2013-14. In 2012-13 an age-related personal allowance of £10,500 is available for people aged 65 to 74, and £10,660 for people aged 75 and over.

From 2013-14, these allowances will not be increased. Also from 2013-14, the allowance of £10,500 will be restricted to people born after 5 April 1938 but before 6 April 1948; and the allowance of £10,660 will be restricted to people born before 6 April 1938.

Corporation tax

The Chancellor announced a reduction of the main corporation tax rate from 26% to 24% from 1 April 2012. The main rate of corporation tax will be reduced further for the financial year commencing 1 April 2013 to 23%.

A lower corporation tax rate will make the UK more attractive (relative to other locations) as a destination to locate activity and profits. A reduction in the main rate of corporation tax will reduce capital costs for businesses and promote higher levels of business investment.

The small profit rates remains at 20% for the financial year commencing 1 April 2012.

ACCA LEGAL NOTICE

This is a basic guide prepared by the ACCA UK's Technical Advisory Service for members and their clients. It should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.