

# news release



MacIntyre Hudson

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## Budget must help SMEs, says MacIntyre Hudson

MacIntyre Hudson, the top 20 accounting firm, has today issued its predictions and recommendations for this year's budget, to be announced on 23 March.

Nigel May, Tax Principal, says: "With the Office of Tax Simplification (OTS) reports on tax simplification and small business taxation, we now have a clear call to action to help SMEs, to which we sincerely hope George Osborne will react quickly. Mr Osborne also promised to be 'bold in unleashing enterprise', we hope to see some very clear measures to support small and medium enterprises that go beyond the enterprise zones he announced earlier this month: SMEs regardless of geographical location require a coherent system that can promote growth."

However, a note of warning was issued by the accountancy firm today.

Patrick King, Tax Principal, said: "The pressure on the Government to help with spiralling fuel costs is so great that it is likely that help on this issue will restrict the Chancellor's ability to take action elsewhere including the Government's ability to carry out the reforms recommended by the OTS."

The tax team at MacIntyre Hudson has generated its annual odds table around the likelihood of positive change for SMEs. A summary behind each prediction follows.

Issue	Likelihood of change
Introduction of a fuel price stabiliser	Evens
Residence relief: reduction in the period from three to two years	5-1
Entrepreneurs' relief	10-1
CGT for non-UK residents' property	15-1
Income splitting	20-1
Suspension of IR35	50-1
Scrapping 50% tax rate	100-1
Capital allowances	100-1
Residency rules	100-1
Inheritance tax relief	200-1

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### **Green Taxation**

Patrick King said: "This seems to have disappeared from the Government agenda completely in the race to tackle the budget deficit. Will it be put back on the agenda in this budget? Given the pressure on the Government to mitigate huge increases in fuel costs, it is highly unlikely anything further will be done at this stage."

Prediction: Little to appease the Green lobby. Introduction of a fuel price stabiliser  
Odds: Evens

### **Private Residence Relief**

In their recent report dealing with a review of tax reliefs, the OTS has looked at private residence relief and have suggested among other things that a minimum period of residence be required to qualify for the relief, or that the whole relief is replaced by a form of rollover relief. However, no suggestions have been made of changes to the 'last three years' relief which encourages flipping, an issue that came into the spotlight with the MPs' expenses scandal.

Nigel May said: "Following recommendations from the Office of Tax Simplification, we may expect more substantial changes to Private Residence Relief in the future. In the meantime, an entire removal of the final three year exemption would be harsh, particularly given current property market conditions, but a reduction in the period to two or even one year could be justified."

Prediction: Reduction in the period from three to two years.  
Odds: 5-1

### **Entrepreneurs' Relief**

Nigel May said: "There have already been several beneficial changes to the rules for Entrepreneurs' Relief making it a valuable relief for business owners. Further substantive changes would appear unnecessary, but some loosening of the conditions so that Enterprise Management Incentive option holders can benefit from the 10% rate of CGT would be desirable. This would re-instate this part of the EMI incentive that had previously been available under the Taper Relief rules.

In their recent report dealing with a review of tax reliefs, the Office of Tax Simplification have suggested the removal of the requirement to hold 5% of the ordinary share capital in a qualifying company. This is good news, but while the requirement to hold shares for at least 12 months prior to the disposal is retained, many EMI holders will not see the benefit."

Prediction: Some amendments can be expected following the OTS report, but changes benefitting EMI option holders look less certain given their recommendations.  
Odds on change: 10-1

### **CGT for non-UK residents' property**

Patrick King said: "Currently UK property owned by non-residents is exempt from UK CGT. This is out of step with most states including those in the EU, and a removal of this exemption would offer the government a new source of income while also being politically popular (the only people to

suffer would be non-voting foreigners). Such a step might also dampen overly speculative activity, particularly in the London property market.”

Prediction: Unlikely, as it may harm inward investment in addition to the extra revenue.  
Odds on change: 15-1

### **Income Splitting**

Proposed legislation to counter income splitting was dropped by the previous government but has returned vampire like from the grave to the tax avoidance agenda.

Nigel May said: “It is time once and for all for a stake to be hammered through the heart of this measure. The idea of a coherent tax measure to counter income splitting on an equitable basis has defied governments since the introduction of independent taxation. If the difficulties involved with IR35 are great, these would be as nothing compared to the uncertainty, anomalies and potential harshness involved with legislating to counter income splitting.”

Prediction: No changes in this budget, and not mentioned in the OTS small business tax review.  
Odds on change: 20-1

### **IR35**

Patrick King said: “Given the OTS suggestion that either IR35 is abolished or retained, it is apparent that the OTS has recognised our long held view that on the one hand the legislation in places is too complicated but on the other, finding an alternative approach is almost as difficult. We have no expectation of the matter being resolved in the near future. We would reiterate that there is a real need for change in this area, but the issue is so complex we must be careful not to end up with half measures, as these could serve to make the tax regime less clear and harder to navigate. We do not want to end up with processes that are too draconian.”

Prediction: Suspension of IR35  
Odds on change: 50-1

### **50% Tax Rate**

Nigel May said: “David Cameron has indicated that the amount of money raised by the 50% tax rate is under investigation. The UK has in the past led the way with low prevailing income tax rates and resulting high tax yields. The 50% tax rate, whilst understandable perhaps from a viewpoint of having a progressive system, simply misses the mark if it results in lower overall yields and impaired tax competitiveness for the UK. The 50% tax rate needs to go, We back the CBI’s call for this to be scrapped.”

Despite the above, we hold out little hope for change on 23 March

Prediction: No attempt to catch up with the rest of Europe.  
Odds on Change: 100-1

### **Capital Allowances**

Nigel May said: "The OTS have proposed the reduced annual investment allowance of £25,000 is frozen for a number of years to bring consistency to an area that has seen repeated changes over recent years. Although this would bring some simplification, it would have the effect of the fiscal drag beloved by the previous government and we would hope that Mr Osborne will not want to follow in Mr Brown's footsteps.

"The overall environment for capital expenditure by UK business has become significantly harsher with the relief given generally under the capital allowance system simply not keeping up with ordinary rates of commercial depreciation.

Prediction: Again, the team at MacIntyre Hudson predicts that despite the harshness of the measure, it is unlikely to change on 23 March.

Odds on Change: 100-1

### **Residency Rules**

Nigel May said: "It is time for the UK to introduce clear residency rules. We are the only country does not have a formula for whether someone is resident and therefore liable for income tax.

"We currently have guidelines, but they are grey and the Revenue have argued against them in several high profile cases over recent months. The position is wholly unsatisfactory. To make the UK attractive in a global marketplace, everyone needs clarity."

Prediction: Uncertainty to continue

Odds on change: 100-1

### **Inheritance Tax Relief**

Patrick King said: "We need a reform of the taper relief on inheritance tax as it benefits only the very rich.

"As the Taper only serves to reduce tax on lifetime gifts, rather than reduce the value of those gifts for inheritance tax purposes, it only benefits those who make gifts in excess of their available nil rate band (currently £325,000 or £750,000 in the case of a married couple). The relief therefore only applies to those who can afford to give away significant sums before they die. A simple change to the rules to reduce the value of the gift over time, rather than simply the rate of tax, would see this relief being beneficial to a much larger proportion of the population."

Prediction: Narrow band of beneficiaries likely to continue

Odds on change: 200-1

### **Alignment of NI and Income Tax**

Patrick King says: "We would cautiously welcome this move as a major step in reduction of red tape. There are however major problems to be resolved, in particular ensuring that tax burdens are not unfairly shifted through a move towards integration of the two systems. Those reliant on pensions and investment income would seem to have little to gain from integration and this proposal may be a worry for pensioners groups etc. We think it is inconceivable that George

Osborne will commit to this in the 23 March budget. We would hope that a significant period is allowed for detailed consultation before any moves forward are made with this proposal.

Finally, Nigel May commented on tax simplification generally: “The tax law rewrite program between 2003 and 2010 has left us with a massive tax code that in spite of the assertion that plain English had been used, is close to unintelligible and simply not fit for purpose”.

– ends –

### **Media Contacts**

Nigel May and Patrick King are available for pre- and post-budget comment. Contact Carole Scott, Antonia Taylor or Kate Baker at BOTTLE PR. 01865 882988 [mhllp@bottlepr.co.uk](mailto:mhllp@bottlepr.co.uk)

### **Notes**

#### **About MacIntyre Hudson LLP**

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The firm has 47 Principals and 400 staff in ten offices in London and the South East, and across East Anglia and the Midlands, servicing the whole country. The firm is an independent member of MHA, a national association of UK accountancy firms and the UK member of Morison International, a global association of independent accountancy and business advisory firms worldwide, and is registered to carry on audit work and regulated for a range of business activities by The Institute of Chartered Accountants in England and Wales.

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