



Samera

"Helping dentists build better businesses"

BUDGET March 2010 **Summary**

1. INCOME TAX FOR SELF EMPLOYED INDIVIDUALS

The following are the new allowances and bands which will come into force from April 2010.

Personal Allowance

The personal allowance will remain at £ 6,475 for 2010/11. This will be subject to an income limit of £ 100,000. It will be reduced by £1 for every £2 of adjusted net income above this limit. This means the personal allowance will be reduced to nil when the income exceeds £112,950.

	2009-10	2010-11	Change
Personal Allowance	6,475	6,475	0

Income tax – Taxable bands

There is an additional rate of 50% for the new tax year for the earnings above £150,000.

	2009-10	2010-11	Change
Basic rate: 20%	Up to £37,400	Up to £37,400	0
Higher rate: 40%	N/A	Up to £150,000	N/A
Additional rate: 50%	N/A	Over £150,000	N/A

National Insurance Contributions

	2009-10	2010-11	Change
Class 2 Contribution (per week) (£)	2.40	2.40	0
Class 4 lower limit (£)	5,715	5,715	0
Class 4 upper limit (£)	43,875	43,875	0

Implications of the change to a high earning individual

We have analysed the impact on a self employed individual who earns £200,000 per annum.

Comparison of earnings of £200,000 for self employed person

	2009/10	2010/11
Income	200,000.00	200,000.00
Personal Allowance	(6,475.00)	-
Taxable Income	<u>193,525.00</u>	<u>200,000.00</u>
Tax		
First £ 37,400 @ 20%	7,480.00	7,480.00
Next £ 156,125 @ 40%	62,450.00	
Next £ 112,600 @ 40%		45,040.00
Balance £50,000 @ 50%		25,000.00
Total tax	69,930.00	77,520.00
Class 4 NI	4,614.05	4,614.05
Net Disposable Income	<u>125,455.95</u>	<u>117,865.95</u>
Increase in Tax	7,590.00	

This shows an increase of £7,590 in tax for the new tax year. This is due to the introduction of the new 50% rate and the abolishing of the personal allowance for higher rate earners.

Change in the Entrepreneurs' relief

The lifetime limit will be increased to £2million for disposals after 6th April 2010. Gains qualifying for the relief are charged at an effective capital gains tax rate of 10%.

This is beneficial when incorporating the businesses where if there is a higher goodwill value (more than £1million), the Capital Gain Tax will still be at 10%.

2. CAPITAL ALLOWANCES

The Government has increased the Annual Investment Allowance (AIA) from £ 50,000 to £ 100,000 with effect from 5th April 2010.

This is good news for the practices which are planning to expand/purchase new dental equipments.

Example: If the business invests £ 100,000 in plant and machinery in 2010/11.

	2009-10	Capital Allowance	2010-11	Capital Allowance
1st year				
Cost	100,000.00		100,000.00	
FYA	-50,000.00	50,000.00		
AIA			-100,000.00	100,000.00
WDA 20%			-	-
	50,000.00		-	
2nd year				
WDA 20%	-10,000.00	10,000.00		
WDA 50%			-	-
	40,000.00		-	
3rd year				
WDA 25%	-8,000.00	8,000.00		
WDA 20%			-	-
Total Capital Allowance for 03 years		68,000.00		100,000.00

As you can see from the above calculation, the new rule will expedite the capital allowance claim of the investment.

Therefore for taxable purposes it would be beneficial to invest up to £100,000 per tax year to enable a reduction in taxable profits.

3. PERSONAL TAX SAVINGS OPTIONS FOR HIGHER RATE TAX PAYERS

From April 2010 the following tax saving benefits are available for higher rate tax payers.

- Tax-exempt limits on individual savings accounts (ISA) have been raised to £5,100 a year from £3,600 for cash accounts.