

Budget Update 23 March 2011

Against a background of rising inflation, considerable public debt and borrowing requirements, George Osborne has stepped up to the plate today to confirm his changes to the UK tax system. Prior to the event we were advised that he would be confirming significant increases to personal allowances, taking steps to help with rising petrol prices and perhaps simplifying the tax system, in particular a possible merger of National Insurance and Income Tax.

This update summarises some of the changes disclosed today. And finally, note that the growth forecast for 2011 has been downgraded to 1.7%.

New tax changes announced today

(Legislation to be included in the Finance Bill 2011)

Enterprise Investment Scheme and Venture Capital Trusts — the rate of income tax relief given under the Enterprise Investment Scheme (EIS) will be increased from 20% to 30% with effect from 6 April 2011, subject to State aid approval.

Company Car Tax Rate 2013-14 — Legislation will be introduced in Finance Bill 2011 to reduce the appropriate percentages by 1% for all vehicles with carbon emissions between 95g and 220g from April 2013. Zero emissions cars will remain at 0% and ultra-low emissions cars with emissions up to 75g will remain at 5%.

Fuel Benefit Charge 2011-12 — Employees and directors who are provided with a company car and who also receive free fuel from their employers are subject to the fuel benefit charge. The cash equivalent of the taxable benefit is determined by multiplying a set figure (currently £18,000) by the appropriate percentage for the car, based on its CO2 emissions (grams per kilometre). This set figure will increase to £18,800 with effect from 6 April 2011.

Approved Mileage Allowance Payments Rates from 2011-12 — Where employees use their own cars for business mileage, they can claim reimbursement from their employers through the approved mileage allowance payments rates (AMAPs). These payments are not treated as taxable benefits. The current higher rate of 40p per mile for the first 10,000 business miles is to be increased to 45p. The rate for mileage over 10,000 miles remains at 25p.

Capital Gains Tax Entrepreneurs' Relief — The lifetime limit on gains qualifying for entrepreneurs' relief is to be increased from £5 million to £10 million with effect from 6 April 2011.

Capital Gains Tax Annual Exempt Amount — This will increase to £10,600 with effect from 6 April 2011.

Corporation Tax Rates:

- The main rate of corporation tax is being reduced by 2% to 26% for the financial year commencing 1 April 2011.
- The main rate of corporation tax will be further reduced to 23%, at the rate of 1% for each of the following three financial years commencing 1 April 2012, 2013 and 2014.
- The small profits rate of corporation tax will decrease to 20% from the financial year commencing 1 April 2011.

Capital Allowances: Short Life Assets — Businesses incurring expenditure on an item of plant or machinery from April 2011 onwards will be able to make a short life asset election in respect of that

item if they expect to sell or scrap it within an eight-year cut-off period. This is an extension from the current four year period.

Research and Development Tax Credits for SMEs — The rate of the additional deduction for expenditure on research and development (R&D) for companies that are small or medium sized enterprises (SMEs) is to increase from 75% to 100% from 1 April 2011, giving a total deduction of 200%.

Supplementary Charge — To help fund fuel duty decreases announced today, the rate of the supplementary charge levied on profits from UK oil and gas production will increase from 20% to 32%.

Bank Levy — The Bank Levy rates will be increased from 1 January 2012 to offset the benefit to banks of the further decreases in corporation tax rates.

Business Rate Discounts in Enterprise Zones — The Government announced the creation of 21 new Enterprise Zones. 100% business rate discount for five years will be offered to businesses located in Enterprise Zones.

Extend Small Business Rate Relief (SBRR) Holiday — The SBRR holiday will be extended by one year from 1 October 2011.

Gift Aid Donor Benefit Limits — The maximum value of benefits that individuals and companies may receive as a result of making a donation to a charity of more than £10,000 under Gift Aid is to be increased from £500 to £2,500. The new limit will be subject to the existing rule that the benefit must not exceed 5% of the gift.

Alcohol Duty Rates — Changes announced today will add:

- 4p to the price of a pint of beer,
- 15p to the price of a bottle of wine, and
- 54p to the price of a bottle of spirits.

The changes will take effect on 28 March 2011.

Tobacco — Tobacco duty rates will increase by 2% above the rate of inflation. Duty on hand rolling tobacco will increase by an additional 10%. The Government is also restructuring cigarette duty. Ad valorem duty on cigarettes has been reduced to 16.5% and specific duty has been increased by 25% above inflation. These changes came into effect at 6pm on 23 March 2011.

Fuel Duty Rates — The following changes in fuel duty were announced today:

- the main fuel duty rate has been reduced by 1p per litre (ppl) from 6pm on 23 March 2011;
- the 1 April 2011 increase will be deferred and implemented on 1 January 2012 when the main fuel duty rate will increase by 3.02p per litre.

Vehicle Excise Duty — From 1 April 2011, VED rates will increase by indexation only apart from VED rates for heavy goods vehicles which will be frozen in 2011-12.

VAT: Registration and Deregistration Thresholds — The following changes will be made to the VAT registration and deregistration thresholds from 1 April 2011:

- the taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £70,000 to £73,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £68,000 to £71,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £70,000 to £73,000.

Anti Avoidance Measures — A number of complex anti avoidance measures are to be introduced. In summary the schemes affected include:

- Sale of lessor companies
- SDLT anti-avoidance
- Corporate gains: degrouping charges

Time To Pay — Budget 2011 also confirmed that HMRC will continue its Business Payment Support Service to provide advice and time to pay to viable businesses experiencing temporary financial difficulty.

Tax reliefs to be Abolished — As part of the Governments Tax Simplification process the following tax reliefs are withdrawn from April 2011:

- Charities - transitional relief on distributions
- Millennium Gift Aid
- National Savings Bank ordinary account interest
- Payroll giving 10% supplement
- Exemption for certain assignments by seamen
- Instruments relating to National Savings, and
- Transfers in relation to ships and vessels

Future changes announced today:

Income tax and NICs Reform — The Government has announced that it will consult on the options, stages and timing of reforms to integrate the operation of income tax and National Insurance contributions (NICs). If this progresses to legislation, it will be a major reform of the UK tax system.

Enterprise Investment Scheme and Venture Capital Trusts — Subject to State aid approval, legislation will be introduced in Finance Bill 2012 making the following changes to the Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT) which will have effect on and after 6 April 2012:

- an increase in the thresholds for the size of qualifying company for both EIS and VCTs to fewer than 250 employees and to the company having no more than £15million of gross assets before the investment;
- an increase in the annual amount that can be invested through both EIS and VCTs in an individual company to £10million; and
- an increase in the annual amount that an individual can invest through EIS to £1million.

Inheritance Tax Changes:

- The inheritance tax nil rate band is frozen until April 2015.
- The Government has announced that a reduced rate of inheritance tax (IHT) will apply where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the current 40% rate will be reduced to 36%. The new rate will apply where death occurs on or after 6 April 2012.

Business Premises Renovation Allowance — The Government has confirmed it will extend the allowance for a further five years from 2012.

VAT:

- Registration, deregistration and changes in registration details will have to be completed online from 1 August 2012.
- VAT registered traders at April 2010, that are presently not legally required to file returns online (those with turnover under £100,000), will be brought into the online filing net for returns beginning on or after 1 April 2012.

Review of Non-Domicile Taxation — At the June Budget 2010, the Government confirmed that it would review the taxation of non-domiciled individuals. The Government will introduce the following reforms:

- remove the tax charge when non-domiciles remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses;

- simplify some aspects of the current tax rules for non-domiciles to remove undue administrative burdens;
- increase the existing £30,000 annual charge to £50,000 for non-domiciles who have been UK resident for 12 or more years and who wish to retain access to the beneficial tax regime (the remittance basis). The £30,000 charge will be retained for those who have been resident for at least seven of the past nine years and fewer than 12 years;
- additionally, a statutory definition of residence is to be created to provide greater certainty for taxpayers.

Changes previously announced for 2011-12, now confirmed

Income Tax Personal Allowances:

- Personal allowance under 65, £7,475
- Personal allowance aged 65 to 74, £9,940
- Personal allowance aged 75 or over, £10,090

Income limit for aged related allowances is £24,000.

Income Tax Rates – unchanged at 20%, 40% and 50%. Basic rate limit £35,000.

Review of HMRC powers, deterrents and safeguards security for PAYE and National Insurance contributions — Legislation will be introduced in Finance Bill 2011 to give HMRC the power to require a security from employers for PAYE and NICs that are seriously at risk of non-payment. It will be treated as a criminal offence if security is not provided when required.

Furnished Holiday Lettings (FHL) – The following changes are confirmed from April 2011:

- Loss relief may only be offset against income from the same FHL business.
- UK losses can relieve UK FHL income only and similarly with the EEA losses.

From April 2012, to qualify as a furnished holiday lettings business, a property must:

- Be available to let for at least 210 days and actually let for 105 days in a year.

Businesses meeting the actually let threshold in one year may elect to be treated as having met it in the two following years (“period of grace”), providing certain criteria are met.

Employer-Supported Childcare — Relief is to be restricted for higher earners who join employer-supported childcare schemes from 6 April 2011.

Restricting Pensions Tax Relief — Changes announced are:

- the annual allowance for tax relief on pension savings for individuals will be reduced from £255,000 to £50,000 from 2011-12, and
- the lifetime allowance will be reduced from £1.8m to £1.5m from 2012-13.

Pensions Annuitisation — The requirement to annuitise by the age of 75 is to be removed from April 2011.