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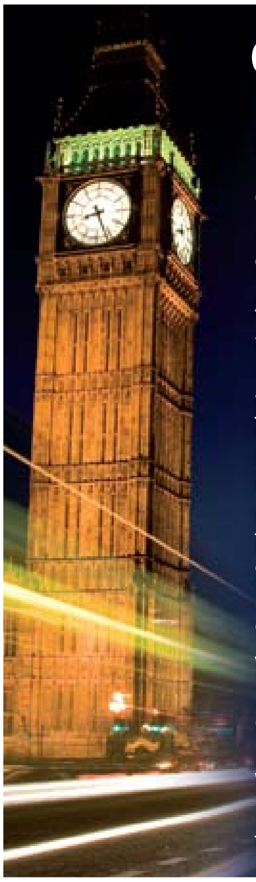
BudgetReview



Osborne presents 'a Budget for growth'

In a speech revealing significant cuts in UK growth forecasts, Chancellor George Osborne announced a range of measures intended to boost business enterprise.

Among the key announcements was an acceleration of the planned reduction in corporation tax, accompanied by an adjustment in the bank levy to ensure that banks do not pay less tax as a result. The scrapping of £350 million of business regulations and a three-year moratorium on new regulations for firms with fewer than 10 staff were also confirmed, and the business rate relief 'holiday' for small businesses will be extended for another year.

With the cost of living posing a problem for many British families, the Chancellor confirmed a number of measures aimed at providing support. While a postponing of the planned rise in fuel duty had been anticipated, the Chancellor went a step further by cutting the duty by 1p a litre, and introducing a Fair Fuel Stabiliser, measures which will be paid for by additional taxes on North Sea oil firms. Meanwhile, first-time buyers will be offered further help to purchase new property by means of a proposed shared equity scheme, and help for those with mortgage arrears will be extended.

The Chancellor stated his intention to make the UK the 'most competitive tax regime in the G20', but also outlined plans to abolish 43 tax reliefs. While air passenger duty rates have been frozen, users of private jets will be subject to the duty for the first time.

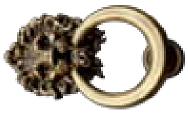
Also of note for the future were plans to consult on a merger of the income tax and national insurance regimes, proposals to review the effect of the 'temporary' 50% tax rate, and the long-term creation of a flat-rate state pension worth around £140 a week.

Vehicle Excise Duty (VED) rates

VED ('Car Tax') rates also reflect emissions, with lower scale rates for cars using alternative fuels.

This table shows the rates which apply from 1 April 2011 for cars registered on or after 1 March 2001.

**includes cars emitting over 225g/km registered before 23 March 2006.*



Band	CO_2 (g/km)	First Year Rate	Standard Rate: Petrol & Diesel	Standard Rate: Alternative Fuels
A	Up to 100	£0	£0	£0
B	101 - 110	£0	£20	£10
C	111 - 120	£0	£30	£20
D	121 - 130	£0	£95	£85
E	131 - 140	£115	£115	£105
F	141 - 150	£130	£130	£120
G	151 - 165	£165	£165	£155
H	166 - 175	£265	£190	£180
I	176 - 185	£315	£210	£200
J	186 - 200	£445	£245	£235
K*	201 - 225	£580	£260	£250
L	226 - 255	£790	£445	£435
M	Over 255	£1,000	£460	£450

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Business tax and investment incentives

Corporation tax

Corporation tax rates and bands are as follows:

Financial year to	31 March 2012	31 March 2011
Taxable profits		
First £300,000	20%	21%
Next £1,200,000	27.5%	29.75%
Over £1,500,000	26%	28%

The main rate of corporation tax will be reduced to 25% for the financial year commencing 1 April 2012 and to 24% for the financial year commencing 1 April 2013.

Associated companies

Where companies are held to be associated the profit threshold at which they fall within the main rate of corporation tax is lowered, in proportion to the number of associated companies.

A new measure will ensure that companies are not held to be associated through an attribution of rights (solely by virtue of relationships between individuals), but only where the level of commercial interdependence between the companies themselves makes it appropriate to do so.

Patents

A reduced 10% rate of corporation tax for profits arising from patents will come into effect from 1 April 2013.

Capital allowances

The period over which expenditure can be given short life asset treatment will be increased from four years to eight years. This will have effect for expenditure incurred on or after 1 April 2011 for businesses within the charge to corporation tax and on or after 6 April 2011 for businesses within the charge to income tax.

Research and development (R&D)

The additional corporation tax deduction given to SMEs for qualifying R&D expenditure will increase from 75% to 100%, giving a total deduction of 200%. Subject to State aid approval, this will have effect for expenditure incurred on or after 1 April 2011. A further increase to 125% will have effect for expenditure incurred on or after 1 April 2012.

CGT Entrepreneurs' Relief

Qualifying gains are taxed at 10%. The lifetime limit for Entrepreneurs' Relief rises from 6 April 2011 to £10 million. The increased limit applies only to qualifying disposals on or after that date.

Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs)

Subject to State aid approval, the rate of income tax relief given under EIS will increase to 30% for shares issued on or after 6 April 2011.

For EIS and VCTs, the following increases will, subject to State aid approval, be introduced for shares in investee companies that are issued on or after 6 April 2012:

- the employee limit to fewer than 250 employees
- the size threshold to gross assets of no more than £15 million before investment
- the maximum annual amount that can be invested in an individual company to £10 million
- the annual amount that an individual can invest under the EIS to £1 million.

Companies whose trade consists wholly or substantially in the receipt of Feed-In Tariffs (FITs) or similar subsidies will only be eligible for the two schemes where commercial electricity generation commences before 6 April 2012.

Shares issued before 23 March 2011 will not be affected.

Business rates

The Government will offer up to 100% business rate discount for five years to businesses located in any of the 21 new Enterprise Zones.

The small business rate relief 'holiday' will be extended by one year from 1 October 2011.

Security for PAYE & NICs

Legislation in Finance Bill 2011 will introduce a power to allow HMRC to make regulations enabling them to require a security from employers for PAYE that is seriously at risk. The measure will also introduce a criminal offence for non-payment of a security.

Once the new power is in place, HMRC will use existing powers to make equivalent provision in respect of NICs.

Disguised remuneration

New measures will ensure that income tax and NICs on employment income are not avoided or deferred through the use of trusts or other intermediaries, including Employee Benefit Trusts (EBTs) and Employer Financed Retirement Benefit Schemes (EFRBS).

The legislation will have effect on or after 6 April 2011 and applies to rewards which are earmarked for an individual employee or otherwise made available on or after that date.

In addition, anti-forestalling provisions apply.

Charities and Gift Aid

The existing cap on the benefit received by individuals and companies as a result of making donations to charities and community amateur sports clubs in excess of £10,000 is to remain at 5% of the value of the gift, but the monetary cap on the value of such benefits is to increase from 1 April 2011 (companies) and 6 April 2011 (individuals) from £500 to £2,500.

The option to have self assessment repayments donated to charity under the SA Donate scheme is to be withdrawn in respect of:

- tax returns for the tax year 2011/12 onwards
- tax returns for years up to and including 2010/11 where the repayment is made on or after 6 April 2012.

The Government is to consult on a scheme to encourage donation of pre-eminent works of art or historical objects to the nation in return for a tax reduction.

From April 2013, a new scheme will allow charities to claim Gift Aid on up to £5,000 of small donations without the need for Gift Aid declarations.

'Tainted' charitable donations

The law will be changed to deny tax relief on charitable donations where one of the main purposes of the donation is to receive an advantage for the donor or a connected person directly or indirectly from the charity. These donations will be known as 'tainted donations' and there is no monetary limit on the amount of the donation which may be caught by these rules.

The rules will affect charity donations made on or after 1 April 2011 and replace the existing 'substantial donor' rules.

Value Added Tax (VAT)

Online registration and online filing

Following the Minister for the Cabinet Office's statement of 23 November 2010 on the "Digital Agenda", subject to consultation on the detail, the Government will mandate online VAT registration, de-registration and variations. The Government will also put forward regulations which, subject to consultation, will require all remaining VAT customers to file their VAT returns online and pay electronically for periods beginning on or after 1 April 2012.

Low value consignment relief (LVCR)

The Government will reduce the LVCR threshold from £18 to £15 from 1 November 2011.

This is the threshold below which goods imported from outside the European Union (including the Channel Islands) are VAT-free. The person (or business) to whom the item is addressed is classed as the importer.

Value Added Tax Rates and Thresholds

From	4 Jan 2011	1 Jan 2010
Standard Rate	20%	17.5%
VAT Fraction	1/6	7/47
Reduced Rate	5%	5%
Current Turnover Limits		
Registration – last 12 months or next 30 days over	£73,000 from 01/04/11	
Deregistration – next 12 months under	£71,000 from 01/04/11	
Annual Accounting Scheme	£1,350,000	
Cash Accounting Schemes	£1,350,000	
Flat rate scheme	£150,000	

National Insurance Contributions

2011/12		**Employer**	**Employee**
Class 1 – not contracted out			
Payable on weekly earnings of			
Below £102 (lower earnings limit)		Nil	Nil
£102 - £136 (employers' earnings threshold)		Nil	Nil
£136.01 - £139 (employees' earnings threshold)		13.8%	Nil
£139.01 - £770 (upper accrual point)		13.8%	12%
£770.01 - £817 (upper earnings limit)		13.8%	12%
over £817		13.8%	2%

Over state retirement age, the employee contribution is generally nil.

Class 1A	On relevant benefits	13.8%	Nil
Class 2	Self employed	£2.50 per week	
	Limit of net earnings for exception	£5,315 per annum	
Class 3	Voluntary	£12.60 per week	
Class 4*	Self employed on profits		
	£7,225 - £42,475	9%	
	Excess over £42,475	2%	

*Exemption applies if state retirement age was reached by 6 April 2011.

Income tax and personal savings

Income Tax Rates	2011/12	2010/11
Basic rate band – income up to	£35,000	£37,400
Starting rate for savings	*10%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£35,000	£37,400
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	50%	50%
Dividend additional rate	42.5%	42.5%

*Starting rate is for savings income up to the starting rate limit of £2,560 (£2,440) within the basic rate band. The rate applies to any balance of the limit remaining after allocating taxable non-savings income.

Personal Allowances	2011/12	2010/11
Personal Allowance (PA) – under 65	£7,475	£6,475
– 65 to 74	£9,940	£9,490
– 75 and over	£10,090	£9,640
Married Couple's Allowance (MCA)		
Either partner born before 6 April 1935	£7,295	£6,965
Relief restricted to 10%, min value	£280	£267
Age-related allowances reduced when adjusted net income exceeds	£24,000	£22,900

Where income exceeds £100,000, the PA, including the minimum age-related allowances, is reduced to nil by £1 for every £2 that net adjusted income exceeds £100,000.

Pension savings

The annual allowance for tax-privileged pension saving is being cut from 6 April 2011, from £255,000 to £50,000. Where premiums paid in the pension input periods ending in the preceding three years are less than £50,000, unused relief may be carried forward. Where pension savings exceed the limit, a tax charge will arise – if the charge exceeds £2,000 the individual will be able to elect to have it met from the pension benefit, with the scheme paying the tax when the charge arises.

Meanwhile, the lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8 million to £1.5 million from April 2012.

Domicile and residence

It is proposed that from April 2012 the existing £30,000 annual Remittance Basis Charge (RBC) will be increased to £50,000 for resident, non-domiciled individuals (non-doms) who have been UK resident for 12 or more years. However, the remittance basis tax charge will not apply where non-doms remit foreign income or gains to the UK for the purpose of commercial investment in UK businesses.

A proposed statutory residence test is expected to bring clarity.

Individual Savings Accounts (ISAs)

The Chancellor has confirmed that the annual ISA subscription limit for 2011/12 will rise from £10,200 to £10,680, up to £5,340 of which can be invested in a cash-only ISA.

Following the closure of the Child Trust Fund to new entrants earlier this year, the Government has announced that tax-free Junior ISAs will be launched from Autumn 2011. They will be available to UK resident children under the age of 18 who do not have a Child Trust Fund account, as a cash or stocks and shares product.

Capital gains tax (CGT)

The annual exempt amount for 2011/12 is £10,600. Gains that fall within an individual's otherwise unused basic rate income tax band are taxed at 18%; any remaining gains above the basic rate band limit are taxed at 28%. The rate of CGT for trustees or personal representatives is 28%.

Inheritance tax (IHT)

The IHT threshold is frozen at £325,000 until 5 April 2015. The rate of IHT remains 20% for lifetime transfers and 40% for death estates (including transfers within seven years before death brought back into the estate for the purpose of calculating the tax due at death).

A reduced rate of 36% will apply from April 2012 to death estates, where 10% or more of the net estate is left to charity.

Company cars

The table shows the VAT chargeable for quarters commencing on or after 1 May 2011 and the benefit in kind percentages.

CO_2 emissions	Appropriate percentage		Quarterly VAT	
(g/km)	Petrol %	Diesel %	Fuel scale charge	VAT on charge £ (20%)
Up to 75	5	8	157	26.17
76 to 120	10	13	157	26.17
121 – 124	15	18	157	26.17
125 – 129	15	18	236	39.33
130 – 134	16	19	252	42.00
135 – 139	17	20	268	44.67
140 – 144	18	21	283	47.17
145 – 149	19	22	299	49.83
150 – 154	20	23	315	52.50
155 – 159	21	24	331	55.17
160 – 164	22	25	346	57.67
165 – 169	23	26	362	60.33
170 – 174	24	27	378	63.00
175 – 179	25	28	394	65.67
180 – 184	26	29	409	68.17
185 – 189	27	30	425	70.83
190 – 194	28	31	441	73.50
195 – 199	29	32	457	76.17
200 – 204	30	33	472	78.67
205 – 209	31	34	488	81.33
210 – 214	32	35	504	84.00
215 – 219	33	35	520	86.67
220 – 224	34	35	536	89.33
225 and above	35	35	551	91.83