SPRING 2011 BUDGET

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MAIN TAXATION PROVISIONS

1. Introduction

1.1 These days the government, Coalition or Labour, tends to consult about tax changes far more than in the past. It is harder for the Chancellor to spring surprises on Budget Day, because many of his measures are no longer secret. Even so, every Chancellor seems to relish the theatrical occasion and wants to pull a rabbit out of the hat. This time it was cuts to fuel duty, which allowed George Osborne to finish with the claim that he had put fuel into the tank of the UK economy. As he had started the speech by downgrading growth forecasts for 2011 and 2012, we can only hope that the engine does not stall.

1.2 The wealth of consultation and advance exposure has created a different problem - keeping track of what's being implemented when, and what's been discussed but rejected. Many important details are hidden in over 200 pages of explanation issued by HMRC and HM Treasury after the Chancellor sat down. For the first time, these have been helpfully divided into things announced during the Budget to be implemented now; things announced in the past to be implemented now; and things announced now or earlier which are to be implemented later. There is also a sprinkling of things which are being abolished and things where the decision has been made not to make a change.

1.3 We summarise below the significant announcements from yesterday's Budget.

2. Significant Announcements

(a) Personal allowance increased by £1,000, but higher rate threshold lowered

(b) Increases in NIC rates from April 2011 confirmed

(c) Measures to tighten up rules on Employee Benefit Trusts

(d) Changes to relief for pension contributions and taking pension benefits from April 2011 confirmed

(e) Increase in Enterprise Investment Scheme relief from 20% to 30% from April 2011

(f) Entrepreneurs' Relief lifetime limit increased from £5m to £10m from April 2011

(g) Main corporation tax rate cut by 2% to 26% from 1 April 2011 (1% was expected); small profits rate cut by 1% to 20%

(h) New Enterprise Zones created with relief for business rates and easier planning regulations

(i) E-filing of corporation tax returns required from April 2011

3. Personal And Trust Taxation

3.1 Income Tax Rates And Allowances

3.1.1 The standard personal allowance has been increased by £1,000 to £7,475; the normal inflation-based increase would have been £310 (to £6,785). This is part of a strategy, set out in the Coalition Agreement between the Conservatives and Liberal Democrats, to raise the threshold for income tax to £10,000 and so remove low earners from the tax system altogether.

3.1.2 The benefit of the increased allowance is offset for anyone with income over £42,475 by a reduction in the higher rate income tax threshold from £37,400 to £35,000. Taxpayers will start to pay 40% tax once total income exceeds £42,475 (£7,475 + £35,000); in 2010/11 the threshold was £43,875 (£6,475 + £37,400). Different rates on different types of income make comparison complicated, but tax is lower up to income of £43,475; on £43,875 and above it is £80 more in 2011/12.

3.1.3 The following are unchanged:

(a) Withdrawal of personal allowances produces a marginal tax rate of 60% (in 2011/12, in the band between £100,000 and £114,950).

(a) Additional rate of 50% for income above £150,000.

(a) Dividends are grossed up by a notional tax credit of 10/90 and then taxed at 10%, 32.5% and 42.5% less the credit.

3.1.4 The personal allowance for 2012/13 has been announced in advance - a further above-inflation increase to £8,105. Other allowances will increase in proportion with the increase in the retail prices index. There will be a further cut in the higher rate threshold to £34,370 so that the benefit of the increased allowance will be offset for higher earners by more income being charged at 40%.

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3.2 Foreign Domiciled Taxpayers

3.2.1 Individuals who are "foreign domiciled" are usually not subject to income tax or capital gains tax on their foreign income and gains unless such income or gains are remitted. Since 2008, someone who has been UK resident for seven of the last nine years and claims the benefit of this "remittance basis of taxation" has had to pay a flat rate tax charge of £30,000 a year.

3.2.2 The Chancellor announced some reforms which are intended to take effect from April 2012, including increasing the £30,000 charge to £50,000 for someone who has been UK resident for 12 years, and removing the charge on remittances which are brought into the UK for investment in UK businesses.

3.3 Gift Aid

3.3.1 Where a person makes a gift to charity, the donor can claim higher rate tax relief and the charity can claim a rebate of basic rate tax using the Gift Aid scheme. This is only supposed to benefit genuine gifts, so there are restrictions where the donor receives something in return for the donation. There has been an absolute limit on value received of £500. This is to be raised to £2,500, subject to a continuing limit of no more than 5% of the value of the gift itself.

3.4 Tax Credits

3.4.1 Changes to tax credit rates were announced last Autumn. The family element of Child Tax Credit (£545) has been paid to couples with incomes up to £50,000, and it was reduced to nothing when combined income reached £58,000. In 2011/12 it will start to be tapered away when income is £40,000 and will be zero by £41,330. Other important changes include the reduction of the 'disregard' of increases in income from £25,000 to £10,000.

3.5 Pensioners

3.5.1 The basic retirement pension will rise for 2011/12 by 4.6% to £102.15 for a single person.

3.6 Company Car Taxation

3.6.1 Changes announced a year ago will take effect on 6 April 2011. The threshold of CO_2 emissions at which the basic 15% benefit charge starts to increase falls from 130g/km to 125g/km. This means that the chargeable benefit will increase by 1% of list price for many cars. For a 40% taxpayer with a £15,000 company car, the extra tax will be £60 for the year 2011/12. The employer will also pay an additional £20.70 in Class 1A NIC.

3.6.2 Further reductions in the thresholds have been announced to take effect in April 2012 and April 2013, so the taxable amount will increase year on year for cars with higher ratings.

3.6.3 The taxable benefit of free fuel provided for use in a company car is calculated by multiplying the same percentage by a fixed figure. This will increase for 2011/12 to £18,800 (2010/11: £18,000), so for many employees the taxable amount will increase for two separate reasons.

3.7 Tax-Free Mileage Allowances

3.7.1 The mileage allowance which an employer can pay to an employee for business use of the employee's own car has been unchanged at 40p (25p for miles over 10,000 a year) since 6 April 2002. The higher rate increases to 45p with effect from 6 April 2011 (there is no change to the lower rate). Where the employer pays less than the approved rate, the employee can claim tax relief for the difference as a deductible expense.

3.8 Disguised Remuneration

3.8.1 As many commentators predicted, the Chancellor announced a crackdown on what he believes are schemes which allow employees to receive income from a business without paying tax and NIC when they enjoy access to the money.

3.8.2 Targeted schemes include employee benefit trusts and unapproved pension schemes. Certain narrow exemptions are contained in the legislation, but HMRC have run a long campaign against what they believe is the abuse of these arrangements for tax avoidance and they are confident that they have finally closed the loopholes.

3.9 Pension Contributions

3.9.1 Significant changes to the rules on pension schemes were announced in advance of the Budget, but no further amendments were brought in on Budget day. The main changes coming in on 6 April 2011 are:

(a) Maximum tax-efficient pension contribution becomes £50,000 (or current earnings if less). Tax relief on personal contributions will normally be given by paying net of basic rate tax, with relief at the taxpayer's marginal rate through self-assessment or PAYE code.

(b) Employee contributions will normally be deducted from gross pay, and employer contributions are not included as taxable remuneration, subject to the same limits.

(c) If contributions have been below £50,000 in the previous 3 years, the unused limits can be used to increase the current contribution.

(d) The "anti-forestalling charge", which has applied to some extra contributions above £20,000 by people earning over £130,000 for the past 2 years, will no longer apply.

(e) It will no longer be necessary to purchase an annuity at age 75. More flexible "income drawdown" rules will allow greater control over an individual's pension fund during lifetime and on death.

3.10 Enterprise Investment And Venture Capital Schemes

3.10.1 Income tax relief for shares subscribed using the Enterprise Investment Scheme (EIS) will increase from 20% to 30% with effect from 6 April 2011, provided EU State Aid approval is given.

3.10.2 Further changes to the EIS and Venture Capital Trust schemes will be introduced with effect from 6 April 2012, increasing the amounts that can be invested and the size of companies that can be invested in.

3.10.3 In particular, an increase in the thresholds for the size of a 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 though 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.

3.11 Individual Savings Accounts (ISAs)

3.11.1 The annual limit on investment in tax-free ISAs increases by £480 to £10,680 for 2011/12. This limit will increase in future in line with the Consumer Prices Index each year.

3.12 Qualifying Time Deposits

3.12.1 Interest paid on sums held in qualifying time deposit (QTD) accounts is subject to tax, but is currently paid gross to account holders. The tax collection arrangements for QTD accounts are to be aligned with those that apply for comparable saving products.

3.12.2 From 6 April 2012, tax will be deducted at source from taxable interest paid on new QTD accounts. This will be achieved by including newly opened QTDs within the tax deduction scheme for interest operated by banks, building societies and other deposit takers.

3.12.3 The Government is to informally consult stakeholders on the implementation of the change during May 2011 and will legislate in the 2012 Finance Bill.

3.13 Furnished Holiday Lettings (FHL)

3.13.1 Changes to the FHL rules come into force on 6 April 2011 in line with earlier announcements.

3.13.2 In 2011/12 losses from a FHL business can only be set against FHL income rather than against the landlord's total income.

3.13.3 From 2012/13 there will be increases in the qualifying periods of availability and letting for determination of what qualifies as a FHL.

3.14 Income Tax Allowances, Reliefs and Credits

	2011/12	2010/11
Personal (basic)	**£7,475**	£6,475
Personal allowance reduced by 50% of income over	**£100,000**	£100,000
Personal (age 65-74)	**£9,940**	£9,490
Personal (age 75 & over)	**£10,090**	£9,640
Married/civil partners (minimum) at 10%*	**£2,800**	£2,670
Married/civil partners (age 75 & over) at 10%	**£7,295**	£6,965
Age-related relief reduced by 50% of income over	**£24,000**	£22,900
Child Tax Credit (CTC)		
- family element	**£545**	£545
- family element baby addition	**£545**	£545
CTC usually reduced by 6.67% of joint income	**£40,000**	£50,000
Childcare and childcare vouchers (weekly tax-free limit)	**£55**	£55
Blind persons	**£1,980**	£1,890
Rent-a-room tax-free income	**£4,250**	£4,250
Venture Capital Trust (VCT) at 30%	**£200,000**	£200,000
Enterprise Investment Scheme (EIS) at 20%	**£500,000**	£500,000
EIS eligible for capital gains tax re-investment relief	**No limit**	No limit
Registered Pension Scheme		
- annual allowance	**£255,000**	£255,000
- lifetime allowance	**£1,800,000**	£1,800,000
- special annual allowance applies where relevant income is £130,000 or more	**Minimum: £20,000** **Maximum: £30,000**	
Special annual allowance	**20%-30%**	20%-30%

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*Where at least one spouse/civil partner was born before 6 April 1935

3.15 Income Tax Rates

	2011/12	2010/11
Starting rate band of 10% on savings income up to	**£2,560**	£2,440
Basic rate of 20% on income up to	**£35,700**	£37,400
	£35,001-	£37,401-
Higher rate of 40% on income	**£150,000**	£150,000
-Additional rate of 50% on income over	**£150,000**	£150,000
Dividends for:		
- basic rate taxpayers	**10%**	10%
- higher rate taxpayers	**32.5%**	32.5%
- additional rate taxpayers	**42.5%**	42.5%
Pre-owned assets tax (charged as income) minimum taxable	**£5,000**	£5,000
Trusts:		
- standard rate band generally	**£1,000**	£1,000
- dividends (rate applicable to trusts)	**42.5%**	42.5%
- other income (rate applicable to trusts)	**50%**	50%

4. Capital Taxes

4.1 Capital Gains Tax

4.1.1 The rate of CGT for disposals from 23 June 2010 onwards is determined by adding a taxpayer's chargeable gains to taxable income. If the gains then fall within the basic rate income tax band they are charged at 18%. If the higher rate threshold for income tax is exceeded, they are charged at 28%. These rates were not changed in the Budget, so they will apply for 2011/12. Mr Osborne has indicated that they are likely to remain at this level for several years.

4.1.2 The annual exempt amount for CGT will increase to £10,600 (2010/11: £10,100). In future it is intended to be subject to automatic indexation in line with the Consumer Prices Index.

4.1.3 Trustees continue to be liable to CGT at 28% after deducting half the normal annual exemption (£5,300 in 2011/12). The annual exemption is shared between trusts set up by the same settlor since June 1978, subject to a minimum of £1,060.

4.1.4 Entrepreneurs' Relief allows certain disposals of businesses and business assets to be charged at a lower CGT rate of 10%. There is a lifetime limit of gains which can qualify. This was increased from £2m to £5m in Mr Osborne's first Budget for disposals from 23 June 2010 onwards, and will increase to £10m for disposals from 6 April 2011. A large gain would otherwise be taxed at 28%, so this represents a very substantial saving.

4.1.5 The increase in the limit will provide for an extra £900,000 in tax relief bringing the total value of the relief to £1.8m.

4.2 Inheritance Tax

4.2.1 Rates of tax remain unchanged at 40% (death transfers) and 20% (lifetime chargeable transfers). The nil rate band of £325,000 is frozen until 2015.

4.2.2 From 6 April 2012, where a person leaves 10% of their estate to charity in their will, the rate of IHT on what is left will be reduced from 40% to 36%.

4.2.3 For example, on an estate of £1m, IHT is at present 40% of £675,000 (£270,000), and the beneficiaries will receive £730,000. Under the proposal, if £100,000 is left to charity, the IHT on the £900,000 balance will be 36% of £575,000 (£207,000) and the beneficiaries will receive £693,000. The charity will receive £100,000 but the beneficiaries will only get £37,000 less.

5. Business Tax

5.1 Corporation Tax Rates

5.1.1 The main rate of corporation ax (for companies with profits over £1.5m) has been 28% since 1 April 2008. It will be cut for the Financial Year 2011 (commencing 1 April 2011) to 26%, then to 25% for FY 2012, 24% for FY 2013 and 23% for FY 2014. These cuts are 1% more than had previously been announced.

5.1.2 The small profits rate (for companies with profits up to £300,000) will fall to 20%, where it last stood for the year to 31 March 2008. The rate for future years has not been set in advance as it has for larger profits. The effective rate of tax in the band of profits between £300,000 and £1.5m is 27.5%.

5.2 Returns

5.2.1 In spite of appeals from businesses and advisers to delay the implementation of new online filing requirements, corporation tax returns must be made electronically from 1 April 2011. This includes the submission of statutory accounts in the electronic format iXBRL.

5.3 Research And Development Credits

5.3.1 R&D credits allow companies to deduct a multiple of qualifying expenditure for tax purposes. Qualifying R&D incurred by small and medium enterprises (SMEs) will enjoy a 200% deduction (up from 175%) from 1 April 2011, provided EU State Aid approval is obtained.

5.3.2 At the same time, SMEs incurring vaccines research expenditure will see a cut in the allowed deduction from 140% to 120%.

5.3.3 Further changes to improve and extend R&D relief are intended to be introduced in April 2012.

5.4 Capital Allowances

5.4.1 For plant and machinery which is not fully relieved in the year of purchase by a 100% Annual Investment Allowance (AIA), writing down allowances (WDA) are given on the "reducing balance" of expenditure. This continues even if the plant is sold or scrapped - the residue of cost does not enjoy tax relief until the trade ceases or the amount falls below £1,000. A "short life asset" (SLA) election allows a business to claim full relief for particular assets when they are disposed of. The benefit of a SLA election has up to now only been enjoyed if the asset has a life of up to 4 years. This will be extended to 8 years. This will only benefit businesses which spend more than the AIA limit on new plant each year.

5.4.2 In addition, important changes to capital allowances were announced last year to come into effect next year. The rates of WDA will be reduced for chargeable periods ending on or after 1 April 2012 (companies) or 6 April 2012 (unincorporated trades). After that, the "general pool" will be written down at 18% rather than 20%, and the "special rate pool" (typically longer-life assets and cars with carbon dioxide emissions rating above 160g/km) at 8% rather than 10%.

5.4.3 For the AIA, the amount of expenditure on plant and machinery that qualifies for a 100% immediate deduction will be reduced from £100,000 to £25,000 for expenditure from 1 April/6 April 2012 onwards. It had previously increased from £50,000 to £100,000 in April 2010.

5.4.4 There are complex rules for computing both the WDA and the AIA for chargeable periods which straddle a change in rate.

5.5 <u>IR35</u>

5.5.1 The government has carried out a review of the "IR35" legislation, which imposes employee tax and NIC liabilities on certain businesses, typically companies, which HMRC believe are used to disguise employment and avoid PAYE. The difficulties that the present rules cause are recognised, but the government considers that the abolition of IR35 poses too great a risk to the tax revenue. Instead, it is intended to improve the administration of the rules by increasing specialist help for businesses and consultation of interested parties.

5.6 <u>Enterprise Zones (EZs)</u>

5.6.1 The government has announced the creation of 21 new EZs.

5.6.2 Businesses in EZs enjoy several advantages, including:

(a) 100% discount on rates

(b) Enhanced capital allowances (these may be introduced where a case is made to support "high value manufacturing")

(c) Relaxed planning regulations

5.7 <u>Controlled Foreign Companies Reform</u>

5.7.1 As previously announced, legislation will be introduced in the 2011 Finance Bill to deliver a package of interim improvements to the controlled foreign companies (CFCs) rules as a first step to make them easier to operate ahead of full reform in 2012.

5.7.2 The interim changes will have effect for accounting periods beginning on or after 1 January 2011 other than the extension to the transitional rules for the holding company exemptions which is deemed always to have had effect.

5.7.3 Following consultation, a number of changes were made to ensure that the improvements delivered the desired outcome. This includes amending the three year temporary exemption to include overseas subsidiaries that are not currently CFCs but that have been in the past.

5.8 Taxation Of Foreign Branches

5.8.1 Also as previously announced, legislation will be introduced in the 2011 Finance Bill to provide an opt-in exemption from corporation tax on the profits of foreign branches of UK companies.

5.8.2 Following consultation, some significant changes have been made to the draft legislation published on 9 December 2010 to address certain areas which will allow life insurance companies to benefit from exemption, ensuring that the transitional rule is workable for business, and ensure that the anti-diversion rules are more targeted and proportionate.

5.9 Capital Gains Simplification And De-Grouping Charges

5.9.1 Legislation will be introduced in the 2011 Finance Bill to simplify the rules for the calculation of chargeable gains degrouping charges for companies. The legislation includes a number of changes to that published in draft in December 2010 in response to comments received in the consultation. These include some minor drafting changes to clarify the intent, and changes to address the following areas:

(a) companies leaving a group in consequence of a share for share exchange to which s.127 TCGA92 applies, and

(b) unintended consequences for a few Real Estate Investment Trust (REIT) groups where there are minority investors in a company that leaves the REIT group.

5.10 Modernisation Of Investment Trust Companies

5.10.1 The Government launched a consultation on the modernisation of the tax rules for investment trust companies in July 2010. The aim of the proposals was to provide greater certainty for ITCs and their investors and to ensure that the rules are capable of facilitating modern investment practice and a wider range of investment strategies. Following that consultation draft legislation providing for a new definition of an investment trust and for powers to make regulations setting out the rules of the regime was published for comment on 9 December 2010 together with a Tax Information and Impact Note. No further comments were received and only minor technical changes have been made to the consultation draft. The amended legislation will be introduced in the 2011 Finance Bill.

5.11 Investment Management Company Passport

5.11.1 Collective investment schemes authorised in an EEA member state under Article 5 of the UCITS IV directive (UCITS funds) which are established and regulated in another member state, often to not have a fund manager resident in that member state but in another state, i.e. the UK.

5.11.2 Under current case law some overseas funds may be held to be tax resident in the UK if they are considered to be centrally managed and controlled here.

5.11.3 The Government now plans to include legislation in the 2011 Finance Bill which will treat a UCITS fund that is established and regulated in another EEA state as not being resident in the UK, to be effective from the date that the Bill receives Royal Assent.

5.12 Investment Companies And Functional Currency

5.12.1 Legislation is to be included in the 2011 Finance Bill to counter avoidance involving changes in the functional currency of an investment company.

5.12.2 Following consultation the draft legislation published on 9 December 2010 has been amended to make it clear that the ability to elect for a functional currency for tax purposes is limited to companies whose main purpose is to make investments and to make provision for newly incorporated companies.

5.13 Group Mismatches

5.13.1 Legislation will be introduced in the 2011 Finance Bill to prevent tax losses through the asymmetrical tax treatment of loans and derivatives (group mismatch schemes).

5.13.2 Further to recent consultation, there have been a number of minor changes to the draft legislation published on 6 December 2010. These include clarification that only UK-to-UK transactions will be affected, the introduction of a threshold in condition A such that the condition cannot apply unless the expected tax saving from the scheme is at least £2m, and an amendment to condition B so that it contains an objective as well as a subjective element. The objective element is that the scheme must be one that is more likely to produce a tax advantage than a tax disadvantage.

5.13.3 The legislation will have effect in relation to group mismatch schemes to which a company is party on or after Royal Assent of the Finance Bill.

5.14 Anti-avoidance And Derecognition

5.14.1 Legislation is to be introduced in the 2011 Finance Bill to amend anti-avoidance rules on derecognition of loan relationships and derivative contracts.

5.14.2 Following consultation, a number of changes have been made to the draft legislation published on 6 December 2010. These changes will deny debits on creditor loan relationship and derivative contracts, make it clear that the legislation only applies where a company remains party to a loan relationship or derivative contract, and require a company to bring in any difference between the accounts carrying value and the fair value of a derivative as a credit for the period in which tax avoidance arrangements are entered into. This latter provision will have effect from 23 March 2011.

6. Value Added Tax (VAT)

6.1 Registration And Deregistration Thresholds And Rates

6.1.1 The registration threshold for VAT rises from £70,000 to £73,000 on 1 April 2011. The deregistration threshold rises from £68,000 to £71,000 on the same date.

6.1.2 Self-assessment returns for businesses can use "three-line accounts" if they are below the registration threshold.

6.1.3 The standard rate of VAT will remain unchanged at 20%, and there are no changes to the list of taxable, exempt and zero-rated supplies. The values to be used by a business which supplies road fuel for private use change for return periods starting on or after 1 May 2011. Although the scale rates are based on CO2 emissions, they are not based on a percentage calculation as the income tax benefit charges are: it is necessary to look up the exact figure in a table which is available on the HMRC website.

6.2 Low Value Consignment Relief

6.2.1 Imports from outside the EU which arrive by post are free of VAT (as well as customs duty) if they cost less than £18. This is exploited by businesses which supply a range of goods (e.g. DVDs, CDs) by post from the Channel Islands and other places. It is proposed to lower the limit to £15 with effect from 1 November 2011.

6.2.2 The government will discuss possible ways of tightening the rules with the European Commission, and may lower the limit further if a way cannot be found to close what is clearly regarded as an unacceptable loophole.

7. Stamp Duty Land Tax

7.1 Rates

7.1.1 No further changes to SDLT rates were announced. This confirms that the rate on transfers of residential property for more than £1m will increase from 4% to 5% on 6 April 2011.

7.1.2 Rates On Sale

Shares and marketable securities (nil if value up to £1,000)		0.5%
Land	0 - threshold	NIL
	Threshold - £250,000	1%
	£250,001 - £500,000	3%
	£500,001 and over (all properties)	4%
	Over £1M (residential from 6.4.2011)	5%

The threshold is:

£125,000 general residential property

£150,000 residential in "disadvantaged areas"

£150,000 commercial property

For the two years to 24.3.2012, first time buyers can claim relief from SDLT on purchases of up to £250,000 for property they intend to live in.

8. Other Measures

8.1 Business Rates Holiday

8.1.1 The small business rate relief holiday, which was due to end later this year, has been extended by a further year from 1 October 2011.

8.2 Penalties For Late Filing And Payment

8.2.1 New penalties for late filing of returns and late payment of tax come into force with effect from 6 April 2011 in respect of 2010/11 tax returns. The long-standing £100 penalty for late submission of a self-assessment tax return continues, but it will no longer be limited to the amount of tax outstanding for the year.

8.2.2 The tactic of paying a generous estimate of the liability, and obtaining a repayment later when the return is ready, will no longer save the £100. Further automatic penalties will apply if the return is three months late.

8.3 Time To Pay

8.3.1 The Business Payment Support Service was introduced in 2008 to allow viable businesses time to pay their tax liabilities and to reduce the likelihood that HMRC will bring the business down by insisting on payment. Although it has been modified since its introduction (applications relating to liabilities of over £1m must be supported by an accountancy report), the Budget confirmed that the BPSS will continue for the foreseeable future.

8.3.2 If a time to pay arrangement has been agreed by BPSS, penalties for late payment will not apply.

8.4 Anti-Avoidance

8.4.1 As usual, the Chancellor announced that a number of tax loopholes were being closed, and he put a figure of £1bn on the combined effect of closing them. It is never clear whether such results are really enjoyed by HMRC or whether the planners move their efforts elsewhere instead.

8.4.2 Schemes involving the avoidance of Stamp Duty Land Tax through sub-sales and alternative finance products are among those being targeted.

8.5 Bank Levy

8.5.1 The bank levy has been introduced this year to raise extra taxes from banks. It is supposed to be related to the riskiness of the bank's operations so that the behaviour that is thought to have created the credit crisis is discouraged. It will be increased over the next few years to claw back the reduction in tax that banks will enjoy because of the lowering of the corporation tax rate.

8.6 Abolition Of Reliefs

8.6.1 Mr Osborne established the Office of Tax Simplification to examine ways of reducing the mass of tax legislation. The first impact of their work is the announcement in this Budget that 43 tax reliefs are likely to be abolished over the next year.

8.6.2 The abolition of reliefs may seem an unfavourable place to start, but these are reliefs which are hardly used, obsolete or poorly targeted, so it is unlikely that they will be missed. For example, it has been possible since 1947 to receive luncheon vouchers worth 15p each day without incurring a tax liability or, in recent years, buying much food.

8.7 Review Of Non-Domicile Taxation

8.7.1 At the time of the June 2010 Budget 2010, the Government confirmed that it would review the taxation of non-domiciled individuals.

8.7.2 There is currently a beneficial tax regime for non-domiciles regardless of how long they have been resident in the UK. However, the rules mean that foreign income and gains are taxed if they are brought to the UK and this is a disincentive to inward investment. The Government proposes to introduce the following reforms:

(a) To 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;

(b) To simplify some aspects of the current tax rules for non-domiciles to remove undue administrative burdens; and

(c) 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.

8.7.3 The Government will be consulting on the detail of this measure and will issue a consultation document in June. The Government intends to implement these reforms from April 2012. There will be no other substantive changes to these rules for the remainder of this Parliament.

8.8 Statutory Residence Test

8.8.1 The current rules that determine tax residence for individuals are unclear and complicated. The Government has announced that it will be consulting on the introduction of a statutory definition of residence to provide greater certainty for taxpayers. It will issue a consultation document in June and intends to implement the measure from April 2012.

9. National Insurance Contributions (NICs)

9.1 Several important changes to NIC were announced in advance and will take effect on 6 April 2011.

9.2 The rates of NIC will all increase by 1%. From the individual's point of view, this is equivalent to an increase of 1% in the rate of tax: Salaries will be charged at 12% and 2% instead of 11% and 1%. Self-employed profits will be charged at 9% and 2% instead of 8% and 1%. Employers will have to pay 13.8% instead of 12.8% on salaries and benefits, in addition to the higher employees' NIC.

9.3 There is also a reduction in the upper earnings limit, the point at which the rate falls from 12% to 2%. This will now match the level at which 40% tax starts (although savings income, which is not charged to NIC, will normally prevent the thresholds matching exactly).

9.4 For lower earners, the increase in the rate is offset by an increase in the level at which contributions start. Employee contributions will not be charged on the first £139 per week (up from £110). Employer contributions will not be charged on the first £136 per week (the two thresholds were the same in 2010/11). The annual salary at which employee NIC will be higher in 2011/12 is about £23,820, but someone on £100,000 will pay substantially more (£5,380 instead of £4,760).

9.5 Class 1A NIC are charged on taxable benefits, and are due from the employer on 19 July following the tax year to which they relate. As the rate will have gone up by July 2011, the Class 1A NIC for 2010/11 will be levied at 13.8%, even though they relate to a year in which the rate was 12.8%.

9.6 The rebate of NIC enjoyed by employers and employees, where the employee is a member of a pension scheme which allows "contracting out" of the State second pension, is set to reduce from April 2012. The employer's rebate will reduce from 3.7% to 3.4% and the employee's rebate will reduce from 1.6% to 1.4%. These are deducted from the normal NIC rates which will be 13.8% (employer) and 12% (employee) in 2011/12.

9.7 In June 2010, the Chancellor announced a "holiday" from paying up to £5,000 of employer's NIC for new businesses in respect of their first ten employees for a year. In his response to the Budget speech, Mr Miliband claimed that this has only helped 1,500 businesses so far, rather than the much larger number that Mr Osborne hoped for. However, no measures were announced to extend or relax the scheme to encourage greater take-up.

9.8 The Chancellor announced a consultation to examine ways in which the "operation" of the parallel but different regimes for income tax and NIC could be "integrated". He said that there is no intention to extend the NIC charge to savings or pensions income, or to end the contributory principle whereby the NIC record determines entitlement to benefits. It will therefore be extremely difficult to design a system which is genuinely simpler than the current one, while retaining some of the key aspects which make it complicated. Mr Osborne acknowledged that it could take several years to achieve the change.

Note:

If you would like further details on the Budget provisions, please contact Keith Rushen on 0044 (0)207 486 2378.

ROBINSON RUSHEN
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