MARCH 2012 BUDGET

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MAIN TAX PROVISIONS

1. Introduction

1.1 Past Chancellors would probably have not approved of George Osborne appearing last Sunday morning television to discuss the Budget, even if he avoided giving specific details. The contents of the Red Box used to be kept completely secret until the speech itself, and the Chancellor would disappear from public view for weeks in case he let something slip.

1.2 Given how much tax changes are announced or consulted on in the months prior to Budget, maybe it is less important than it was. The Stock Market is unlikely to be sensitive to UK tax proposals when other factors have greater influence. Perhaps the Chancellor knows that it is as much about politics as policy. He has to sell his proposals to the press and the public, particularly when he is about to announce something as controversial as a cut in the rate of tax for top earners, albeit starting in a year’s time, while the low paid are seeing cuts in tax credits. He said loudly in his speech that the 50% rate raised very little money, encouraged tax avoidance and reduced incentives for entrepreneurs. All good points, but it was easy for Ed Miliband to charge him with favouring the wealthy.

1.3 On the other hand, the Chancellor cracked down on avoidance of SDLT on houses worth over £2m, and closed down a number of other loopholes which the wealthy might have used to avoid paying taxes. However, these will affect fewer people than the income tax measure.

1.4 Another problem with modern Budgets is keeping track of what is being implemented given each speech generally includes measures for this year, next year and even several years further on. Many important details are hidden in over 200 pages of explanation issued by HMRC and HMT after the Chancellor sits down. Some of the future measures are described in detail and some are only hinted at.

1.5 The more significant tax announcements from yesterday's Budget are listed below:

- Personal allowance increased by £630 in 2012/13, but higher rate threshold lowered
- Further £1,100 increase in personal allowance in April 2013 with a further lowering of the higher rate threshold
- 50% tax rate for those earning over £150,000 to be cut to 45% in April 2013
- Details of a clawback in Child Benefit from January 2013 announced
- Tax treatment of EMI share options to be improved
- Main corporation tax rate cut by 2% to 24% from 1 April 2012 (1% was expected); further cuts to 22% over the next two years
- Immediate increase in SDLT to 7% on transfers of residential property over £2m
- Measures to stop avoidance of SDLT by putting £2m residences into companies, including a 15% charge on setting up such arrangements.

2. Personal Tax

2.1 Income Tax Rates And Allowances

2.1.1 As announced a year ago, the standard personal allowance will increase in April 2012 by £630 to £8,105. For a basic rate taxpayer, this represents a tax saving of £126 for the year 2012/13.

2.1.2 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 £35,000 to £34,370. Taxpayers will start to pay 40% tax once total income exceeds £42,475 (i.e. £8,105 + £34,370), the same total as in 2011/12 (£7,475 + £35,000). This means that the saving remains £126 for all taxpayers with income up to £100,000. Above that level, the withdrawal of personal allowances means that the reduction in the higher rate threshold produces an overall tax increase of up to £252.

2.1.3 The following are unchanged for 2012/13:

- Withdrawal of personal allowances produces a marginal tax rate of 60% in the band between £100,000 and £116,210.
- Additional rate of 50% for income above £150,000.
- Dividends are grossed up by a notional tax credit of 10/90 and then taxed at 10%, 32.5% and 42.5% (depending on the taxpayer's level of total income) less a 10% credit.

2.2 Future Tax Rates And Allowances

2.2.1 The personal allowance for 2013/14 has been announced in advance with a further above-inflation increase to £9,205. This brings closer the Coalition Government's objective of raising the allowance to £10,000, removing many lower-paid people from tax altogether. This will again be balanced by a further reduction in the higher rate threshold to £32,245, bringing more people into the 40% rate and the increased likelihood that they will need to file self-assessment tax returns.

2.2.2 The Chancellor also made the controversial announcement that the 50% tax rate will be reduced to 45% from April 2013 (with the additional dividend rate falling from 42.5% to 37.5%). He argued that it has promoted tax avoidance and has raised far less revenue than Labour predicted when they introduced it; he claimed that cutting the rate will encourage enterprise. The Opposition predictably seized on the announcement as a 'tax cut for millionaires' and 'the end of "we're all in this together"'.

2.3 Age-Related Allowances

2.3.1 For many years, people reaching the age of 65 in a tax year have enjoyed an increased personal allowance, provided that their income is not higher than a set figure. The Chancellor said that this is complicated and poorly understood by those it affects, and requires many of them to complete self-assessment tax returns.

2.3.2 Accordingly, the higher allowances is to be frozen from 6 April 2013 at their 2012/13 levels; only those who are already 65 by that date will be entitled to age allowance, and only those who are already 75 will be entitled to the top rate. When the ordinary personal allowance has reached the same levels (currently £10,500 and £10,660), the age allowances will be abolished.

2.3.3 What this means is that existing pensioners will not see any actual reduction in their allowances, but will not see an increase either for the next few years.

2.4 Non Doms

2.4.1 Since 2008/09, a long-term UK-resident but non-UK domiciled individual who claims the benefit of the 'remittance basis of taxation' (only paying UK tax on foreign income and gains if the money is brought into the UK) has had to pay a flat rate charge of £30,000 (unless their foreign income and gains are no more than £2,000). This has applied to anyone who has been UK resident for seven of the previous nine years.

2.4.2 As announced last year, the flat rate tax charge will rise in 2012/13 to £50,000 for those who have been resident in the UK for 12 of the previous 14 years.

2.4.3 Following consultation last summer, legislation is to be introduced in Finance Bill 2012 to make changes to the taxation of non-domiciled individuals to allow such individuals to bring their overseas income and gains to the UK tax-free in order to make a commercial investment in a qualifying business, and reduce the complexity of some aspects of the existing remittance basis rules. These changes will be introduced with effect from 6 April 2012.

2.5 Tax Credits

2.5.1 Changes to tax credit rates were announced in the Autumn Statement and were not referred to again yesterday by the Chancellor. The family element of Child Tax Credit (£545) was until 2010/11 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 started to be tapered away when income was £40,000 and will be zero by £41,330.

2.5.2 For 2012/13, all Child Tax Credits will be tapered when income exceeds £15,860. This means that a couple with two children and combined income of £35,000 will lose the whole of the £545 credit they were entitled to last year – a benefit cut much higher than the tax saving arising from the increase in the personal allowance.

2.6 Child Benefit

2.6.1 George Osborne announced in his first Budget that the universal payment of Child Benefit would cease from January 2013. This previously announced intention has been modified, so that instead of withdrawing the whole amount where either partner in a couple is a higher-rate taxpayer (income over £42,475), the benefit will only be clawed back where one partner earns over £50,000. 1% of the payment will be recovered for every £100 of additional income until it is exhausted at an income level of £60,000.

2.6.2 The benefit will continue to be paid in nearly all circumstances to the mother, but the clawback will be collected as an income tax charge on the higher earning partner, apparently applying only for the last quarter of 2012/13.

2.7 Company Cars And Fuel

2.7.1 Changes previously announced will take effect on 6 April 2012. The taxable benefit of a car will still be based on a percentage of the original list price; this percentage is determined normally by the CO2 emissions rating of the car. The scale of percentages has been moved downwards, so that the 15% rate applies at a rating of 120g/km (instead of 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 arising from a 1% increase will be £60 for the year 2012/13. The employer will also pay an additional £20.70 in Class 1A NIC.

2.7.2 For 2011/12, cars with a rating up to 120g/km were charged at 10%, and up to 75g/km at 5%. For 2012/13, the 5% rate remains the same, but 10% only applies up to 99g/km. There are new 11%, 12%, 13% and 14% rates at 100, 105, 110 and 115g/km. Employees with cars in these categories may see a higher increase in their tax charge.

2.7.3 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 2012/13 to £20,200 (2011/12: £18,800), so for many employees the taxable amount for fuel will increase for two separate reasons. The figure has increased by 2% above inflation, and we are promised another similar increase next year.

2.8 Pension Contributions

2.8.1 There was some speculation before the Budget that further restrictions might be made to tax relief for pension contributions, however on the day no changes were announced. This means that the limit on contributions remains £50,000 or 100% of earnings, whichever is the smaller.

2.8.2 It was announced last year that the limit on the value of a tax-advantaged pension fund will fall from £1.8m to £1.5m from 6 April 2012. Anyone with a larger fund taking benefits after that date could suffer an income tax charge on the excess at 55% unless a claim for ‘protection’ has been made.

2.9 Individual Savings Accounts (ISAs)

2.9.1 The annual limit on investment in tax-free ISAs increases by £600 to £11,280 for 2012/13. This limit increases in line with the CPI each year, adjusted so that the result divides by 12 to allow for regular monthly contributions.

2.10 Enterprise Investment Schemes(EIS) and Venture Capital Trusts (VCT)

2.10.1 Certain trading companies with assets of up to £30m are permitted to grant share options worth up to £120,000 to selected employees within the 'EMI' scheme. Provided the conditions are satisfied, the profit made by the employee is charged to CGT rather than potentially to income tax and NIC. It is now proposed to increase the limit to £250,000 subject to EU 'State Aid' approval.

2.10.2 Subscriptions for new shares qualifying for EIS or VCT relief enjoy a 30% income tax rebate. As announced last year, the limit for EIS investment will rise from £500,000 to £1m for 2012/13.

2.10.3 A number of other changes are being made to make the reliefs simpler and easier to claim, including the removal of the £500 minimum for EIS and relaxation of some of the rules about being 'connected' with the company through owning its loan capital.

2.11 Seed Enterprise Investment Schemes (SEIS)

2.11.1 No further details of the SEIS were given on Budget day, in spite of it appearing to be a very generous new relief that will apply for 2012/13.

2.11.2 It had been announced in advance that a subscriber for shares in a new small trading company (less than 2 years old) will enjoy a 50% income tax rebate on up to £100,000 invested. If capital gains of up to the same amount are realised in 2012/13 and invested in a SEIS company in 2012/13, the gains will be exempt.

2.11.3 These reliefs will become permanent provided a number of conditions are satisfied, but may be lost if the shares are sold or the company is liquidated in a short time. The combination of these reliefs mean that an investor can put £100,000 into a company at a cost of only £22,000.

2.12 Income Tax Allowances and Rates

Allowed at top rate of tax	**2012/13**	**2011/12**
Personal Allowance	£8,105	£7,475
Personal Allowance (65-74)*	10,500	9,940
Personal Allowance (75 and over)*	10,660	10,090
Blind Person's Allowance	2,100	1,980
Allowed only at 10%		
Married Couple's Allowance (75 and over)*+	7,705	7,295
Income limit for age-related allowances	25,400	24,000

+ only available if born before 6th April 1935.

*Age-related allowances (AA) are reduced £1 for every £2 by which income exceeds the income limit, until the AA is reduced to the normal allowance. Personal allowance (PA) is reduced before married couple's allowance. MCA is reduced to a minimum of £2,960 (2011/12: £2,800).

PA is withdrawn at £1 for every £2 by which total income exceeds £100,000. PA is reduced to nil if income is £116,210 or more (2011/12: £114,950).

Bands	**2012/13**	**2011/12**
Basic	34,370	35,000
Higher	34,371-150,000	35,001-150,000
Additional	over 150,000	over 150,000

Rates differ for General, Savings and Dividend income within each band:

Rates	**2012/13 and 2011/12**		
	G	S	D
Basic	20%	20%	10%
Higher	40%	40%	32.5%
Additional	50%	50%	42.5%

General income (salary, pensions, profit, rent) uses basic and higher rate bands before savings income (interest). Dividends are taxed as the 'top slice' of income.

If taxable general income is less than £2,710 (2011/12: £2,560), savings income is taxed at a 'starting rate' of 10% until total taxable income exceeds that limit. This 'starting rate band' is part of the BRB.

3. Capital Taxes

3.1 Capital Gains Tax

3.1.1 The rate of CGT remains 18% for those whose total taxable income and gains for the year are below £34,370, and 28% for gains which are above that figure.

3.1.2 The annual exempt amount for CGT is held at £10,600. The normal increase has been cancelled in order to balance the exemption offered for investment in SEIS shares.

3.1.3 Trustees continue to be liable to CGT at 28% after deducting half the normal annual exemption (£5,300).

3.1.4 The annual exemption is shared between trusts set up by the same settlor since June 1978, subject to a minimum of £1,060.

3.2 Entrepreneurs' Relief (ER)

3.2.1 ER allows certain disposals of businesses and business assets to be charged at a lower CGT rate of 10%. The lifetime limit of gains which can qualify remains £10m, the limit for disposals from 6 April 2011.

3.2.2 It is proposed that ER will be available for gains on shares issued under an EMI scheme, subject to EU approval, so the details of its introduction are yet to be confirmed.

3.3 Inheritance Tax

3.3.1 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.

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

3.3.3 For example, on a £1m estate all left to children, IHT is 40% of £675,000 i.e. £270,000, and the beneficiaries receive £730,000. If £100,000 is left to charity after 6 April 2012, 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.

4. Corporation Tax

4.1 Corporation Tax Rates

4.1.1 The main rate of corporation tax was to be cut from 26% to 25% for the Financial Year 2012 (commencing 1 April 2012). Mr Osborne announced that the cut would be doubled, making the rate for the coming year 24%.

4.1.2 Further cuts to 23% for FY 2013 and 22% for FY 2014 were also announced.

4.1.3 The small profits rate for companies with profits up to £300,000 remains 20%. The effective rate of tax in the band of profits between £300,000 and £1.5m is 25% in FY 2012.

4.2 Research And Development Credits (R&D)

4.2.1 R&D credits allow companies to deduct a multiple of the expenditure incurred for tax purposes. Qualifying R&D incurred by small and medium enterprises (SMEs) will enjoy a 225% deduction (up from 200%) from 1 April 2012.

4.2.2 Other rules and conditions for the relief are being relaxed with the intention of making it easier to claim.

4.3 Capital Allowances

4.3.1 Important changes to capital allowances, announced last year, come into effect from April 2012. The rates of writing down allowances will be reduced for chargeable periods ending on or after 1 April 2012 (companies) or 6 April 2012 (unincorporated trades). The ‘general pool’ will be written down at 18% rather than 20%, and the ‘special rate pool’ (typically plant integral to buildings and cars with CO_2 emissions ratings above 160g/km) at 8% rather than 10%.

4.3.2 The Annual Investment Allowance – 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.

4.3.3 There are transitional rules for computing both the WDA and the AIA for chargeable periods which straddle the change in rate.

4.3.4 The Chancellor announced that there would be ‘extension and tightening’ of the enhanced capital allowances for low-emission cars. Those with ratings up to 110g/km currently qualify for 100% FYA. This was planned to end in April 2013 but will now be extended to 31 March 2015 but restricted to cars with ratings up to 95g/km.

4.3.5 At the same time, businesses buying cars with ratings above 130g/km will only qualify for the reduced WDA of 8%. At present, cars with ratings up to 160g/km are put into the ‘general pool’ with the higher rate of WDA (20% in 2011/12, 18% in 2012/13).

4.3.6 Certain types of environmentally-friendly plant and equipment qualify for 100% first year allowances. The Budget has announced the addition of heat pump driven air curtains to the qualifying categories, and some of the other categories will be removed or revised

4.4 <u>Personal Service Companies</u>

4.4.1 The Government has announced yet another review of the so-called ‘IR35’ rules that impose tax and NIC charges on ‘disguised employment’. Some recent high profile cases of avoidance using such companies have drawn the attention of ministers to the issue.

4.4.2 The measure has not raised nearly as much money as was expected when it was introduced, but has led to many arguments between taxpayers and HMRC. A consultation exercise will consider how to strengthen the rules and also simplify their operation

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

4.5.1 The government has announced the creation of more enterprise zones. Businesses in EZs enjoy several advantages, including:

- 100% discount on rates
- Enhanced capital allowances (these may be introduced where a case is made to support ‘high value manufacturing’, and have been confirmed for at least three Enterprise Areas in Scotland)
- Relaxed planning regulations

4.6 <u>Controlled Foreign Companies (CFC) Reform</u>

4.6.1 Following consultation, legislation will be introduced in Finance Bill 2012 to replace the existing CFC regime. The new CFC rules are to better reflect the way that businesses operate in a global economy and strike the right balance between contributing to a more competitive corporate tax system and protecting the UK corporate tax base.

4.6.2 A key change arising from consultation is the introduction of separate gateway conditions to make the rules easier to use. The new rules will be effective for CFCs with accounting periods beginning on or after 1 January 2013.

4.7 <u>Patent Box</u>

4.7.1 Legislation will be introduced in Finance Bill 2012 to allow companies to elect to apply a 10% corporation tax rate to a proportion of profits attributable to patent and certain other qualifying intellectual property from 1 April 2013. In the first year this proportion will be 60% and increase annually to 100% from April 2017.

4.7.2 Following consultation, the legislation has been clarified to achieve the policy aim set out in the June 2011 consultation document that worldwide income from inventions covered by a qualifying UK or European Patent Office patent is included. The heads of expenditure included in the amounts which have to be marked up have been clarified, and the small claims safe harbour that previously applied to all companies has been limited to companies making profits with residual profits of no more than £3 million.

4.8 Bank Levy Rate

4.8.1 As announced in the Autumn Statement 2011, Finance Bill 2012 will set the full rate of the Bank Levy at 0.088% with effect from 1 January 2012.

4.8.2 Legislation will also be included in Finance Bill 2012 to increase the full rate of the Bank Levy from 1 January 2013 at 0.105%.

4.9 Tax Treatment Of Regulatory Capital

4.9.1 As announced in last year's Budget and, following consultation, legislation will be introduced in Finance Bill 2012 to introduce a power to determine the tax treatment of regulatory capital instruments issued in accordance with the Basel III and EU Capital Requirements Directive IV (CRD IV) proposals. Regulations will be made under this power and will take effect from the commencement of the CRD IV provisions.

4.10 Grouping Rules: Changes To Equity After Conversions

4.10.1 Legislation is to be introduced in Finance Bill 2012 to ensure that the group status of a company will be unaffected where it issues loan notes carrying a right to conversion into shares or securities of quoted unconnected companies.

4.11 Debt Buybacks

4.11.1 Amendments to the rules on loan relationships between connected companies will be introduced in Finance Bill 2012. This was announced on 27 February 2012 and has effect from that date. The calculation of deemed releases of debts becoming held by connected companies will be amended and a targeted anti-avoidance rule (TAAR) to counter arrangements that aim to circumvent the deemed release rules will be inserted.

4.11.2 The legislation will include limited retrospective provision for certain arrangements entered into between 1 December 2011 and 27 February 2012.

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5. Value Added Tax (VAT)

5.1 Registration And Deregistration Thresholds And Rates

5.1.1 The registration threshold for VAT rises from £73,000 to £77,000 on 1 April 2012. The deregistration threshold rises from £71,000 to £75,000 on the same date.

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

5.1.3 The standard rate of VAT will remain unchanged at 20% and the lower rate at 5%.

5.2 Further Changes

5.2.1 The Chancellor announced a number of detailed changes in the scope of the tax to deal with matters that have led to many disputes in the courts. The changes will remove an arguable borderline and give the victory to the taxman. All the following become chargeable to VAT at the standard rate from 1 October 2012:

(a) Food which is hot at the point of sale, regardless of the reason for heating it

(b) Sports drinks which are intended for nutrition rather than slaking the thirst

(c) Rental of self-storage facilities

(d) Rental of a 'chair' by a hairdresser's salon to a hairdresser

(e) Some types of holiday caravan which have been treated as zero-rated

(f) Some supplies of reconstructed protected buildings which have been treated as zero-rated.

5.2.2 The values to be used by a business which supplies road fuel to a proprietor, director or employee for private use change with effect for return periods starting on or after 1 May 2012.

5.2.3 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. Stamp Duty Land Tax (SDLT)

6.1 Rates

6.1.1 As widely expected, the Chancellor announced increases in SDLT on high-value properties. This was presented as a measure which would balance the proposed cut in the 50% rate, although there are far more 50% taxpayers than purchasers of £2m properties.

6.1.2 A new 7% rate will apply to transfers of residential property for more than £2m where the date of completion is after 21 March 2012. A transitional measure should preserve the benefit of the former rate (5%) where an unconditional contract had been made by Budget day.

6.2 Anti-Avoidance

6.2.1 Also as widely expected, the Chancellor announced measures to close down the widespread avoidance of SDLT on high value residences involving the transfer of the property to a company, usually registered offshore. It is then possible to sell the shares in the company rather than the property, attracting a 0.5% charge to Stamp Duty (or no tax at all) instead of the 5% applicable to transfers of land.

6.2.2 A new charge at 15% will apply with immediate effect to transfers of a residential property worth over £2m into a company. Whilst avoidance will still be possible after the initial purchase of the property by the company, but such a huge upfront charge is likely to make it unattractive.

6.2.3 Mr Osborne also announced a consultation exercise on possible ways of levying annual charges on those who have already set up such structures. He said he found aggressive tax avoidance of this type ‘morally repugnant’ and stated that those who engaged in it had been warned that the tax law would be used to make sure they paid an appropriate amount.

7. Other Measures

7.1 Cash Accounting

7.1.1 The Chancellor announced that the Government will consult on the possible introduction of simplified rules for small businesses having turnovers up to £77,000 to calculate their profits for income tax. It is proposed to introduce 'cash accounting' from April 2013 thereby ignoring income and expenses until they are received or paid.

7.1.2 A more radical suggestion is the possible introduction of 'fixed expenses' – allowing small businesses a flat rate deduction, rather than requiring them to calculate their actual expenditure. This will also be the subject of a consultation.

7.2 Anti-Avoidance Measures

7.2.1 As usual, the Budget included a number of 'loophole-closing' measures. Most of these related to specific schemes which are designed for very high earners.

7.2.2 There will also be further consultation on the possible introduction of a 'General Anti-Avoidance Rule' which could be used to defeat schemes which were within the letter but contrary to the spirit of the law.

7.3 Gains Of Foreign Residents

7.3.1 Owners who are not UK resident have generally not been chargeable to CGT in the UK, even on the disposal of assets in the UK. The Chancellor proposes to change this from April 2013.

7.3.2 Foreign residents other than individuals (for example, companies and trusts) will become liable to tax on gains on disposal of UK residential property and on shares and interests in such property. Consultation will presumably focus on how such a measure could be enforced, given that the chargeable people will be located abroad.

7.4 Machine Games Duty

7.4.1 Following a number of legal disputes about the VAT treatment of gaming machines, which have resulted in large tax repayments to many operators, the Government is changing the rules. From 1 February 2013, gaming machines will be subject to a new Machine Games Duty and will be exempt from VAT.

7.4.2 The Chancellor also announced that measures would be implemented to charge online gaming where the customer belongs rather than where the business is situated, so that UK gaming should give rise to UK tax revenue.

7.5 Uncapped Tax Reliefs

7.5.1 The Chancellor recognised that tax reliefs are offered to taxpayers in order to encourage certain types of behaviour, for example relief for trading losses encourages entrepreneurial risk-taking, and Gift Aid rewards philanthropy. However, the unlimited use of such reliefs can result in high earning individuals extinguishing the whole of their tax liability.

7.5.2 It is proposed to introduce a limit for people claiming more than £50,000 of a relief where there is no other statutory restriction with the maximum set at 25% of their total income. This is intended to apply from 2013/14. It will not include reliefs where there is already a statutory limit such as pension contributions, or investment in EIS companies and VCTs.

7.6 Merging NIC And Income Tax

7.6.1 The Chancellor repeated his intention to look for a way to combine NIC with income tax so that employers do not have to operate two different sets of rules on the same payroll.

7.6.2 Further consultations will be carried out, but the differences between the two regimes continue to make this a difficult goal to achieve.

8. National Insurance Contributions (NICs)

8.1 Rate And Thresholds

8.1.1 The rates and thresholds for NICs were announced in the Autumn Statement. There are significant changes affecting employees within pension schemes, who may have been eligible for the lower 'contracted-out' rates of NIC. From 6 April 2012, these will only be available to members of the increasingly rare salary-related pension schemes, and the reductions in rate for both employee and employer will be less generous than before. Those within money-purchase employer pension schemes, and their employers, will be liable to the full rates of NIC. This will represent an increase in contributions of £462 for the employer and £525 for the employee where salary exceeds £42,475.

8.2 Rates And Limits For 2012/13

Class 1	**Weekly**	**Monthly**	**Yearly**
Lower Earnings Limit (LEL)	£107	£464	£5,564
Primary Threshold – employees (PT)	146	634	7,605
Secondary Threshold – employers (ST)	144	624	7,488
Upper Accrual Point (UAP)	770	3,337	40,040
Upper Earnings Limit – employees (UEL)	817	3,540	42,475

Employer's Contribution	**Contracted In**	**Contracted Out**
From 6th April 2012, only employment with a salary-related pension scheme can use the lower contracted-out NIC rates.		
On earnings up to ST	Nil	Nil
On earnings between ST and UAP	13.8%	10.4%
On earnings above UAP	13.8%	13.8%

Employee's Contribution		
Contracted in: 12% on earnings between PT and UEL, 2% above UEL.		
Contracted out: 10.6% on earnings between PT and UAP; 12% from UAP to UEL; 2% above UEL.		
Earnings over LEL qualify for benefit, and must be reported under PAYE, but no NICs are payable until earnings reach PT.		
The reduced Class 1 rate payable by certain married women and widows is 5.85% for earnings between PT and UEL, 2% above UEL.		
Class 2 (Self-employed)	Earnings over £5,595 per year	£2.65 per week
Class 3 (Voluntary)	No limit applicable	£13.25 per week
Class 4 (Self-employed)	Profits between £7,605 and £42,475	9%
	Profits above £42,475	2%

Note

This summary has been prepared from the Chancellor's speech and documents made available by HM Treasury. The proposals are subject to amendment before the Finance Act is passed. You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication.

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

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