

**24th MARCH 2010 BUDGET PROPOSALS
AND CHANGES FOR 2010/2011 previously announced
(Subject to details in the Finance Bill)**

1. INCOME TAX RATES AND RELIEFS FOR 2010/2011

- 1.1 The basic rate remains at 20%.
- 1.2 The higher rate remains at 40%, with the threshold unchanged at £37,400.
- 1.3 From 2010/2011 there will be an additional higher rate of 50% for taxable income above £150,000.
- 1.4 A Bank Payroll Tax rate of 50% on bonuses paid by banks of more than £25,000 came into force on 9th December 2009. This is charged on the bank rather than the individual.
- 1.5 The tax rate for investment income (other than dividends) remains at 20%, but the 10% lower rate band is available for savings income only, up to a limit of £2,440, if not already utilised by earned income and pensions. The higher rate and additional rate for savings are at 40% and 50% of the grossed up income.
- 1.6 The tax credit on dividends remains at 10% and this is not repayable.

As before, no additional tax is payable where taxable income is below the higher rate threshold. The higher rate on dividends remains at 32.5% of the grossed up income (equivalent to 25% of the net dividend). From 2010/2011 the additional rate on dividends will be at 42.5% of the grossed up income (equivalent to 36.11% of the net dividend) for taxable income above £150,000.

1.7 Personal allowances

	<u>2009/10</u>	<u>Increase</u>	<u>2010/11</u>
	£	£	£
Allowances receiving relief at top rate of tax up:			
Single person	6,475	-	6,475
Age 65 – 74: Single	9,490	-	9,490
Age 75+: Single	9,640	-	9,640
Blind person	1,890	-	1,890
Allowances receiving relief at 10%:			
Married couple's allowance (including civil partnerships), where one partner is born before 6th April 1935:	6,965	-	6,965
Minimum allowance	2,670	-	2,670

The age allowances abate by £1 for every £2 of income over £22,900 until they are reduced to the basic allowances. This level is reached at incomes from £28,930 for single people aged 65 to 74 to £37,820 for married people aged 75 and over.

From 2010/2011 the basic personal allowance for individuals will be reduced by £1 for every £2 above an adjusted net income above £100,000. The personal allowance will be reduced to nil for incomes of £112,950 and above.

1.8 Child Tax Credit

The Child Tax Credit (CTC) is based on joint incomes. The full child element payment is increased from £2,235 to £2,300 and is received directly from HMRC. The income threshold for those entitled to CTC only but not Working Tax Credits (WTC), rises to £16,190. The income threshold for CTC family element remains at £50,000, reducing for joint incomes up to about £58,000. The family element remains frozen at £545 per year. Further payment of up to £545 is given in the year of a child's birth, reducing for incomes up to £66,000. Claims must be made separately from Tax Returns. If income increases by more than £25,000 or personal circumstances change, then HMRC must be informed within 1 month in accordance with the notes sent with Award notices.

1.9 Car and fuel benefits

The system of car and fuel benefits based on the level of carbon dioxide emissions continues. From 2010/2011 the 35% maximum percentage of the list price of a car (capped at £80,000), is reached at 230 g/km. This will be reduced to 225 g/km from 2011/2012.

Qualifying low emissions cars (cars with CO₂ emissions of 120g/km or less) are assessed at 10% of the list price for petrol cars and 13% for diesel. Qualifying cars producing ultra low emissions (75g/km or less) are assessed at 5%.

Cars manufactured to run on E85 bio fuel continue to receive a 2% discount.

Cars propelled solely by electricity will have the rate reduced from 9% to 0%. This measure will run for 5 years.

From 2011/2012 the £80,000 price cap that currently applies for calculating the cash equivalent of the car benefit will be abolished.

The figure used as the basis for calculating the benefit of private fuel received for a company car is increased from £16,900 to £18,000 from 2010/2011.

1.10 Van benefits.

As before, there is no benefit charge for employer provided vans that have insignificant or no private use.

The benefit charge for unrestricted private use of employer provided vans remains at £3,000, with an additional £550 if the employer also provides fuel for private use (increased from £500).

1.11 Authorised Mileage Rates

The single authorised rate for all vehicles for business use of employees' own vehicles remain at 40p for the first 10,000 miles and 25p thereafter for cars, 24p for all miles for motorcycles and 20p for bicycles.

1.12 From 2007/2008 tax returns for individuals, trusts and partnerships have two separate filing deadline dates. Paper returns are to be filed by 31st October and for returns filed online the date will remain at 31st January. From 2010/2011 a £100 fixed penalty will be imposed for the late submission of returns, regardless of the level of tax liability.

1.13 From 2007/2008 the "enquiry window" for income tax returns ends 12 months after the filing of the return, rather than the anniversary of the filing deadline. This also applies to Corporation Tax returns for accounting periods ending after 31st March 2008.

2. NATIONAL INSURANCE CONTRIBUTIONS

Revised contributions take effect from 6th April 2010. All rates and thresholds for 2010/2011 remain unchanged from 2009/2010, other than a £2 increase for primary Class 1 lower earnings limit to £97 per week.

2.1 Class 1 Contributions (per week)

Employees earning over £110 per week will pay 11% on the excess up to £884 per week, plus an additional 1% on the excess over £884 with no upper limit.

Employers will pay 12.8% on all earnings over £110 per week.

2.2 The Class 2 rate for the self-employed is £2.40 per week. The small earnings exception is £5,075 per year.

2.3 The Class 4 rate of 8% will be charged on profits between £5,715 and £43,875 plus an additional 1% on all profits above £43,875.

2.4 Most taxable benefits provided by employers will continue to be liable to Class 1A at 12.8%.

2.5 From 2011/2012 the Class 1 employee's rate will increase from 11% to 12%, Class 1 employer's rate will increase from 12.8% to 13.8% and the Class 4 rate will increase from 8% to 9%.

3. CAPITAL GAINS TAX

3.1 A new regime for Capital Gains Tax was introduced from 6th April 2008 for individuals and trustees. Gains are taxed at a flat rate of 18%, with taper relief and indexation of costs being abolished retrospectively.

3.2 The annual exemption remains at £10,100 (£5,050 for most trusts) for 2010/2011. Other reliefs unaffected by the new regime include roll-over, hold-over, principal private residence and lettings relief.

3.3 Entrepreneurs' Relief was introduced from 2008/09. The relief is available to certain individuals involved in running a business, in respect of gains made on the disposal of all or part of the business, or on gains made on disposals of assets following the cessation of the business. From 2010/2011 the first £2 million of lifetime gains that qualify for the relief are charged to CGT at an effective rate of 10% (increased from £1 million). Gains in excess of £2 million are charged at the normal 18% rate. An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £2 million of gains qualifying for relief.

4. VAT

4.1 The standard rate was reduced from 17.5% to 15% on 1st December 2008 and reverted back to 17.5% on 1st January 2010.

4.2 The annual registration limit is increased to £70,000 from 1st April 2010.

The deregistration limit is increased to £68,000 from 1st April 2010.

4.3 The annual turnover limit below which businesses can start to use both the VAT cash accounting scheme and the VAT annual accounting scheme remains at £1,350,000.

4.4 VAT fuel scale charges for private use of cars previously based on engine size are now to be based on CO₂ emissions where the car is first registered after 1st March 2001. The scale charges have been revised to reflect changes in fuel prices and maintain alignment with CO₂ bands used for income tax purposes.

For example, the scale charge for a car with CO₂ emissions of 200 g/km is £411 per quarter, inclusive of VAT (increased from £352).

The new scale charges will apply from the start of a business's next prescribed accounting period (normally referred to as a VAT quarter) beginning on or after 1st May 2010.

5. CORPORATION TAX

5.1 The rates of Corporation Tax are as follows:

Year commencing	Small companies' rate	Mainstream rate
1st April 2007	20%	30%
1st April 2008	21%	28%
1st April 2009	21%	28%
1st April 2010	21%	28%
1st April 2011	22%	28%

The planned small companies' rate increase to 22% from 1st April 2010 is deferred until 1st April 2011.

The small companies' rate applies to profits up to £300,000 with marginal relief up to £1,500,000. The mainstream rate applies to profits over £1,500,000.

5.2 Companies are required to notify HMRC of commencement of trading within 3 months of starting to trade.

5.3 For accounting periods ending after 31st March 2008 the "enquiry window" for corporation tax returns will end 12 months after the filing of the return rather than the anniversary of the filing deadline.

5.4 From 24th March 2010 close companies will no longer receive a deduction for releasing or writing-off loans to a relevant person who is a participator in that company, or an associate of such a participator.

6. BUSINESSES - CAPITAL ALLOWANCES

6.1 The Annual Investment Allowance (AIA) was introduced from 2008/2009 for individuals, partnerships and companies.

6.2 The AIA provides an annual 100% allowance for the first £100,000 of investment in plant and machinery (other than cars) to all businesses, regardless of size (increased from £50,000 in 2009/2010).

6.3 Expenditure in excess of the annual £100,000 limit will fall into either a 20% main rate pool or a 10% special rate pool where it will attract writing down allowances at the appropriate rate.

6.4 The AIA is in addition to the existing 100% enhanced capital allowances schemes for environmentally beneficial plant and machinery. This includes cars with CO₂ emissions below 100g/km or electric cars or vans from 2010/2011.

6.5 Industrial Buildings Allowances and Agricultural Buildings Allowances are being withdrawn over a four year period from 2008/2009.

6.6 From 2009/2010 the rate of capital allowances on qualifying cars will depend on the cars CO₂ emissions. Expenditure on cars with CO₂ emissions of 160g/km or less will be allocated to the 20% main rate pool. Those with emissions exceeding 160g/km will be allocated to the 10% special rate pool.

7. BUSINESSES – LOSS RELIEF

7.1 Furnished Holiday Lettings

From 2010/2011 losses from furnished holiday lettings will no longer be able to be set against other personal income.

8. INHERITANCE TAX

- 8.1 The starting point for Inheritance Tax (the “nil rate band”) was set to increase from £325,000 to £350,000 from 6th April 2010 for individuals. However, the planned increase has been withdrawn, the nil rate band is set at £325,000 and is frozen for the next four years.
- 8.2 The single rate on death of 40% is unchanged.
- 8.3 For married couples and civil partners, where the second death occurs on or after 9th October 2007, up to two nil rate bands, both at the amount applying on the date of the second death (£325,000 from 6th April 2010), are available to the estate.

9. TRUSTS

- 9.1 From 2010/2011 the trust tax rate is increased from 40% to 50% and the dividend trust rate increased from 32.5% to 42.5%.
- 9.2 The Capital Gains Tax rate for all trusts decreased to 18% from 6th April 2008, in line with the new CGT regime introduced at that time.
- 9.3 Income distributions are received with the benefit of a tax deduction of 50%. Any difference between each beneficiary’s top rate and 50% is recoverable.
- 9.4 The standard rate band applying to the first £1,000 of income for all trusts liable to the trust tax rate remains the same.

10. OTHER TAXATION PROPOSALS

10.1 Personal Pensions

From 6th April 2010, the maximum level of earnings for which pension provision may be made with tax relief increases from £245,000 to £255,000. This will be frozen at £255,000 for six years.

The lifetime allowance for total tax-approved pension savings increases from £1,750,000 in 2009/2010 to £1,800,000 in 2010/2011. This limit will also be frozen for six years.

From 2011/2012 people with income of £150,000 or more will have tax relief restricted down to the 20% basic rate on pension savings above their normal regular pattern of savings.

10.2 Stamp Duty Land Tax

For residential property transactions the 1% rate threshold was temporarily increased from £125,000 to £175,000 on 3rd September 2008. This reverted back to £125,000 on 1st January 2010. The 3% and 4% rates and thresholds are unchanged at £250,000 and £500,000 respectively.

A new 5% rate is introduced for residential properties worth more than £1 million from 6th April 2011.

First time home buyers will pay no stamp duty on properties worth up to £250,000 for the next two years.

10.3 Enterprise Investment Scheme (EIS)

The annual investment limit remains at £500,000.

10.4 Venture Capital Trusts (VCTs)

The annual investment limit remains at £200,000 and the income tax relief remains at 30%. VCT investors must hold their shares for a minimum period of 5 years.

10.5 ISAs

From 2010/2011 the maximum limit of investment is increased from £7,200 to £10,200, of which £5,100 can be invested in cash.

From 2011/2012 the ISA limits will be increased in line with the Retail Price Index.

10.6 Employer Supported Childcare

Employees can continue to receive up to £55 a week with an approved childcarer, free of tax and National Insurance. The requirement for employer supported childcare to be made available to all employees in order to qualify, is withdrawn.

10.7 Pensioners

The basic state pension is increased by 2.5% to £97.65 per week.

The winter fuel allowance remains at £250 per household for those aged over 60 (rising to 65 incrementally between 2010 and 2020 in line with the increase in women's state pension age) and £400 for those aged over 80.

From October 2009 the first £10,000 of savings held by pensioners will be disregarded when assessing their entitlement to Pension Credit, Housing and Council Tax Benefit (previously £6,000).

11. EXCISE DUTIES

11.1 Increases:

Air Passenger Duty was replaced in November 2009 by a new method of taxation structured around four distance bands A - D, set at 2,000 mile intervals from London. The duty rates range from £12 for short range economy class flights up to £170 for non-economy long haul flights.

Vehicle Excise Duty - £15 for cars and vans with engine sizes over 1549cc registered pre-March 2001.

Vehicles registered after March 2001 are banded A – M and suffer duty ranging from £nil to £435 in 2010/2011 (£405 in 2009/2010) dependent upon CO₂ emissions and fuel type.

From 2010/2011 brand new cars will be charged higher first year rates ranging from £nil to £950, depending on the CO₂ emissions.

Beer	- 2p per pint
Cider	- 5p per litre
Sparkling cider	- 9p per bottle
Wine	- 10p per bottle
Sparkling wine	- 12p per bottle
Spirits	- 36p per bottle
Cigarettes	- 15p per packet
Fuel duty	- 1p per litre from April 2010, a further 1p per litre from October 2010 and 0.76p from January 2011.