

23rd MARCH 2011 BUDGET PROPOSALS
and changes for 2011/12 previously announced
(Subject to details in the Finance Bill)

1. INCOME TAX RATES AND RELIEFS FOR 2011/12

- 1.1 The basic rate remains at 20%.
- 1.2 The higher rate remains at 40%, with the threshold reduced to £35,000. This reduction sets off the tax savings due to the increase to the personal allowance for higher rate taxpayers.
- 1.3 The additional rate of 50% for taxable income above £150,000 remains unchanged, but has been highlighted as being a temporary measure.
- 1.4 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 £2,560, 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.
- 1.5 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). The additional rate on dividends remains at 42.5% of the grossed up income (equivalent to 36.11% of the net dividend) for taxable income above £150,000.

1.6 Personal allowances

	<u>2010/11</u>	<u>Increase</u>	<u>2011/12</u>
	£	£	£
Allowances receiving relief at top rate of tax up:			
Single person	6,475	1,000	7,475
Age 65 – 74: Single	9,490	450	9,940
Age 75+: Single	9,640	450	10,090
Blind person	1,890	90	1,980

Allowances receiving relief at 10%:

Married couple's allowance (including civil partnerships), where one partner is born before 6th April 1935:	6,965	330	7,295
Minimum allowance	2,670	130	2,800

The single person personal allowance will be increased to £8,105 from 2012/13. The higher rate threshold will be reduced by £630 to £34,370 to accommodate the increased personal allowance.

The age allowances abate by £1 for every £2 of income over £24,000 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 £38,220 for married people aged 75 and over.

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 £114,950 and above.

1.7 Car and fuel benefits

The system of car and fuel benefits based on the level of carbon dioxide emissions continues. From 2011/12 the 35% maximum percentage of the list price of a car when new (no longer capped at £80,000), is reached at 225 g/km.

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.

The 2% discount for cars manufactured to run on E85 bio fuel is abolished from April 2011.

Cars propelled solely by electricity will have the rate reduced from 9% to 0%. This measure will run for 4 years.

The figure used as the basis for calculating the benefit of private fuel received for a company car is increased from £18,000 to £18,800 from 2011/12.

1.8 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).

1.9 Authorised Mileage Rates

The single authorised rate for all vehicles for business use of employees' own vehicles is increased to 45p for the first 10,000 miles and 25p thereafter for cars, 24p for all miles for motorcycles and 20p for bicycles.

1.10 From 2007/08 tax returns for individuals, trusts and partnerships had two separate filing deadline dates. Paper returns must be filed by 31st October and returns filed online by 31st January. For tax returns for the year ended 5th April 2011 a £100 fixed penalty will be imposed for the late submission of returns, regardless of the level of tax liability.

2. NATIONAL INSURANCE CONTRIBUTIONS

Revised contributions take effect from 6th April 2011.

2.1 Class 1 Contributions (per week)

Employees earning over £139 (was £110) per week will pay 12% (was 11%) on the excess up to £817 (was £884) per week, plus an additional 2% (was 1%) on the excess over £817 with no upper limit.

Employers will pay 13.8% (was 12.8%) on all earnings over £136 (was £110) per week.

2.2 The Class 2 rate for the self-employed is increased to £2.50 per week. The small earnings exception is increased to £5,315 per year.

2.3 The Class 4 rate of 9% (was 8%) will be charged on profits between £7,225 and £42,475 plus an additional 2% on all profits above £42,475.

2.4 Most taxable benefits provided by employers will be liable to Class 1A at 13.8%.

3. CAPITAL GAINS TAX

- 3.1 From 23rd June 2010 three rates of Capital Gains Tax have applied, 10%, 18% and 28%.
- 3.2 Capital gains for non-business assets are assessed as the top slice of an individual's income. Capital gains that fall below the higher rate threshold for Income Tax, are charged at 18% and capital gains falling above the higher rate threshold taxed at 28%.
- 3.3 Trusts are charged 28% on all capital gains, above the trusts' annual exemption.
- 3.4 The annual exemption is increased to £10,600 for individuals (£5,300 for most trusts) for 2011/12.
- 3.5 From 2011/12 the first £10 million of lifetime gains that qualify for Entrepreneurs' Relief are charged to CGT at 10% (increased from £5 million). Gains in excess of £10 million are charged at the normal 18% or 28% rate. An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £10 million of gains qualifying for relief.

4. VAT

- 4.1 The standard rate was increased from 17.5% to 20% on 4th January 2011 and remains unchanged.
- 4.2 The annual registration limit is increased to £73,000 from 1st April 2011.

The deregistration limit is increased to £71,000 from 1st April 2011.
- 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 £472 per quarter, inclusive of VAT (increased from £411).

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 2011.

5. CORPORATION TAX

- 5.1 The rates of Corporation Tax are as follows:

Year commencing	Small companies' rate	Mainstream rate
1st April 2008	21%	30%
1st April 2009	21%	28%
1st April 2010	21%	28%
1st April 2011	20%	26%
1st April 2012	20%	25%

The planned small companies' rate increase to 22% from 1st April 2011 is removed, with the rate reduced to 20% instead.

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 Northern Ireland may be able to set its own corporation tax rate in the future. This is subject to a consultation between the Government and the Northern Ireland Executive.

6. BUSINESSES - CAPITAL ALLOWANCES

- 6.1 The Annual Investment Allowance (AIA) was introduced from 2008/09 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. This will be reduced to £25,000 from April 2012.
- 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. From April 2012 expenditure in excess of the annual £25,000 limit will fall into either an 18% main rate pool or an 8% special rate pool.
- 6.4 The AIA is in addition to the existing 100% enhanced capital allowances schemes for environmentally beneficial plant and machinery.
- 6.5 Industrial Buildings Allowances and Agricultural Buildings Allowances are being withdrawn over a four year period from 2008/09.
- 6.6 From 2011/12 the term of a short life asset will be increased to eight years from four years.

7. BUSINESSES – LOSS RELIEF

7.1 Furnished Holiday Lettings

From 2011/12 losses from furnished holiday lettings will no longer be able to be set against other personal income, only income from the same furnished holiday letting business. Furthermore UK losses can only be offset against UK profits and European Economic Area losses against other EEA profits.

From 2012/13 to qualify as a furnished holiday let the property must be available to let for 210 days and actually let for 105 days during the year.

8. BUSINESSES – RESEARCH AND DEVELOPMENT

8.1 Small and medium sized enterprises

From 2011/12 Research and Development Tax Credits for small and medium sized enterprises will be increased from 75% to 100% of qualifying expenditure. From 2012/13 it will be further increased to 125%.

9. INHERITANCE TAX

- 9.1 The starting point for Inheritance Tax (the “nil rate band”) is set at £325,000 and is frozen until April 2015.
- 9.2 The single rate on death of 40% is unchanged.
- 9.3 A reduced rate of 36% will apply where 10% or more of a deceased’s net estate (after IHT exemptions, reliefs and nil rate band) is left to charity. This is for deaths occurring after 6th April 2012.

- 9.4 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.

10. TRUSTS

- 10.1 From 2010/11 the trust tax rate was increased from 40% to 50% and the dividend trust rate increased from 32.5% to 42.5%.
- 10.2 The Capital Gains Tax rate for all trusts increased to 28% from 23rd June 2010 and remains unchanged.
- 10.3 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.
- 10.4 The standard rate band applying to the first £1,000 of income for all trusts liable to the trust tax rate remains the same.

11. OTHER TAXATION PROPOSALS

11.1 Personal Pensions

From 6th April 2011, the maximum level of gross contributions for which a pension provision may be made with tax relief is now £50,000 per annum.

The lifetime allowance for total tax-approved pension savings reduces from £1,800,000 in 2010/11 to £1,500,000 in 2012/13.

From April 2011 the requirement for pensioners to annuitise their pension by the age of 75 will be removed.

11.2 Stamp Duty Land Tax

Anti avoidance legislation will be introduced from 2011/12 to mitigate against certain Stamp Duty Land Tax schemes.

For residential property transactions the 1% rate threshold remains at £125,000. 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 until 24th March 2012.

11.3 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT)

The annual investment limit for EIS is increased to £1 million for individuals from 2011/12, with the income tax relief increased to 30% from 20%.

The conditions for a company to qualify are changed to increase the minimum number of employees from 50 to 250 and the gross assets of the company from £7 million to £15 million.

The maximum amount that can be invested into one company during a year is also increased from £2 million to £10 million.

11.4 **ISAs**

From 2011/12 the maximum limit of investment is increased from £10,200 to £10,680, of which £5,340 can be invested in cash.

Junior ISAs should be available from autumn 2011 for UK resident children who do not have a child trust fund.

11.5 **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.

From 6th April 2011 those joining a scheme will have the level of income tax relief restricted to the basic rate of tax. This will be achieved by introducing new income tax exempt limits of £28 per week for higher rate taxpayers and £22 per week for additional rate taxpayers.

11.6 **Pensioners**

The basic state pension is increased by 4.6% to £102.15 per week.

The state pension age will rise to 66 by 2020.

The tax free 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.

The first £10,000 of savings held by pensioners is disregarded when assessing their entitlement to Pension Credit, Housing and Council Tax Benefit.

11.7 **Residence Status**

There will be the introduction of a statutory test for residence from April 2012.

11.8 **Non Domicile Status**

There will be a consultation this year to consider an increase to the £30,000 annual charge to £50,000 for non domiciled individuals who have been UK resident for 12 or more years. The £30,000 charge shall be retained for those resident between 7 and 12 years.

The tax charge will be removed when income or gains are remitted to the UK for UK commercial investments.

11.9 **Charities**

From April 2011 the maximum value of benefits that individuals and companies may receive for making a donation to charity of more than £10,000 will be increased from £500 to £2,500. This is still subject to a limit of 5% of the gift made.

Charities will only receive Gift Aid of 20/80ths [25%] of donations made after 5th April 2011 (reduced from 22/78ths [28.2%]).

From April 2013 charities and clubs that receive small donations of £10 or less will be able to claim a gift aid style repayment without obtaining gift aid declarations. This will be capped at £5,000 per annum.

Online filing will be introduced from 2012/13 for gift aid claims.

11.10 Child Tax Credit

The Child Tax Credit (CTC) is based on joint incomes. The full child element payment is increased from £2,300 to £2,555 and is received directly from HMRC. The income threshold for those entitled to CTC only but not Working Tax Credits (WTC), is reduced to £15,860. The income threshold for CTC family element is decreased from £50,000 to £40,000, reducing for joint incomes up to about £41,300. The family element remains frozen at £545 per year. The further payment given in the year of a child's birth has been removed. Claims must be made separately from Tax Returns. If income increases by more than £10,000 or personal circumstances change, then HMRC must be informed within 1 month in accordance with the notes sent with Award notices.

12. EXCISE DUTIES

12.1 Increases:

Vehicles registered after March 2001 are banded A – M and suffer Vehicle Excise Duty ranging from £nil to £460 in 2011/12 (£435 in 2010/11) dependent upon CO₂ emissions and fuel type.

From 2011/12 brand new cars will be charged higher first year rates ranging from £nil to £1,000, depending on the CO₂ emissions.

Other increases are as follows:

Beer	4p per pint
High strength beer	25p per can
Cider	3p per pint
Strong cider	14p per pint
Wine	15p per bottle
Spirits	54p per bottle
Cigarettes	33p per packet
Hand rolling tobacco	67p per packet

12.2 Decreases:

Low strength beer	18p per pint
Fuel duty	1p per litre from 23 rd March 2011. However, the planned April 2011 rise is only deferred until January 2012 when we will see a 3p increase.

12.3 No Change:

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.

The planned increase for April 2011 is now deferred until April 2012.

24th March 2011

ELLIS ATKINS

Please note that these proposals are subject to the detailed provisions in the Finance Bill. Specific professional advice should be sought before taking any action based upon these proposals.