Emergency Budget REPORT 2010

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Budget Report 22 June 2010

This Report is based on the Emergency Budget of 22 June 2010, which was the first Budget presented by George Osborne as Chancellor of the Exchequer for the Conservative-Liberal Democrat Coalition Government. It has been compiled from information given in the Chancellor's Budget Statement and the subsequent documentation issued by HM Treasury.

This Budget was heralded as establishing the new Government's plans for reducing the national debt, the size of which has grown alarmingly in recent years. It is evident that this is greater than had been reported and projected in recent Budgets. The new Office of Budget Responsibility removes the responsibility for forecasting from the Treasury and it is hoped that this will result in greater reliability in the future.

It is evident that with the next General Election less than five years away, this Government has the responsibility of steering the economy and the public finances through both reductions in public expenditure and an overall increase in taxes. Knowing they will have to face the voters again in 2015, the coalition will seek to ensure that in the first two years of this Parliament they will take decisions that will result in their being returned to power at that time. The key will be balancing policies with results.

For the purposes of seeing a complete picture for 2010/11, we include some information on tax rates and vehicle taxation which are unchanged since the formation of the new Government.

This Report includes a summary of the March Budget and an outline of the announcements that were enacted prior to the dissolution of Parliament.

How we can help

The tax changes announced in this Budget will certainly present challenges, but they will create opportunities, and we are committed to working with you to help you make the most of the new regime.

We recommend that after reviewing this Report you contact us regarding any aspects of these changes that impact on you and that you would like us to give advice on.

As for the changes to capital gains tax (CGT), although these were much discussed before the Budget we could not be sure until now precisely what these would entail. Do contact us if you would like advice on how you can reduce your exposure to CGT.

Finally, do remember that at this stage these are only proposals and still have to be formalised as a Finance Bill, debated in the House and receive Royal Assent before they become law.

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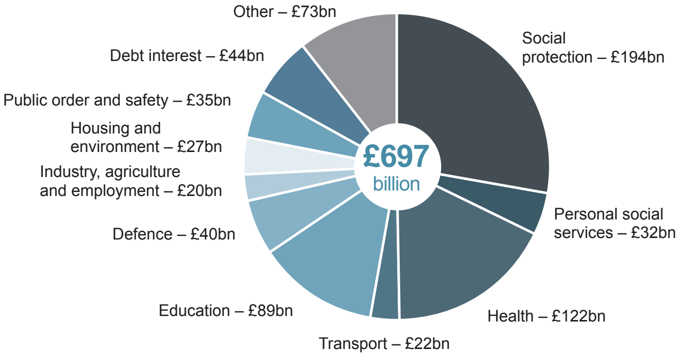
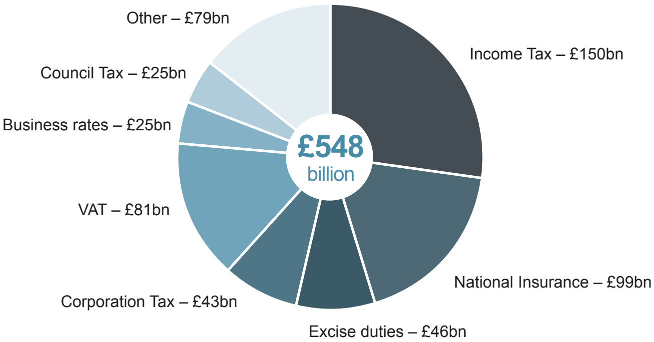
Projected Government expenditure 2010-11



Projected Government receipts 2010-11



Emergency Budget heralds spending cuts and (some) tax rises

The Chancellor, George Osborne may never deliver a more significant Budget speech than his first. The Government is faced with the twin imperatives of curbing public borrowing while encouraging growth in the private sector.

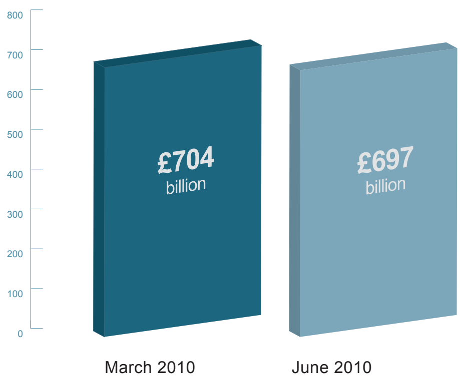
Describing the Budget as "tough but fair", Mr Osborne set out a strategy of fixing public finances through a balance of 77 per cent in spending cuts and of 23 per cent in tax rises. The aim is not only to eliminate the bulk of the structural deficit – that part of Government borrowing that does not decline as the tax take climbs – by 2015-16, but actually to balance the books.

Using the forecasts of the recently established Office for Budget Responsibility, the Chancellor told Parliament that borrowing is to be £149 billion this year, £116 billion next year and £89 billion in 2012-13, before falling to £20 billion in 2015-16.

The swathe that is to be cut through the borrowing figures will be funded in part by a 25 per cent reduction in non-ringfenced Government departmental spending over four years. Public sector pay, for many, is to be frozen for two years.

To go with the cuts, there were, inevitably, hikes in personal taxation. The most eye-catching was the 2.5 per cent rise in VAT planned for January next year. Widely predicted, it will generate £13 billion annually for the Government. The worry is that it may also dampen consumer spending.

Public expenditure



The increase in capital gains tax made its much-heralded bow, too, up to 28 per cent. Low and middle income tax payers were rewarded with a status quo rate of 18 per cent. The personal income tax threshold has begun its slow creep up to the £10,000 mark, edging up by £1,000 for next year.

Businesses, though, were given the tax incentives they have been seeking. Corporation tax falls for both large companies (4 per cent over 4 years) and small companies (a 1 per cent drop next year). While the threshold at which employers start paying national insurance contributions is to rise by £21 a week.

It is the Chancellor's hope that the path his Budget treads over the coming months and years, between trimming the public sector and encouraging the private sector to take up the reins of growth, will lead to a sustained economic recovery and not a double-dip recession.

Business and Investment Incentives

Corporation tax rates

FINANCIAL YEAR TO	31 MARCH 2011		31 MARCH 2010	
Taxable profits				
First	£300,000	21%	£300,000	21%
Next	£1,200,000	29.75%	£1,200,000	29.75%
On profit over	£1,500,000	28%	£1,500,000	28%
Tax credit on dividends	10%		10%	
Marginal relief fraction	7/400		7/400	

From 1 April 2011 the main rate of corporation tax reduces from 28% to 27%. The rate reduces by one percentage point each year thereafter to 24% by 2014.

The rates for the current and future years are:

CORPORATION TAX RATES	FROM	RATE
	1 April 2010	28%
	1 April 2011	27%
	1 April 2012	26%
	1 April 2013	25%
	1 April 2014	24%

These rates are payable on all taxable profits above £1.5 million, other than ring fence profits in the oil industry where the rate remains at 30%.

The small profits rate (SPR) for corporation tax is reduced from 21% to 20% from 1 April 2011, other than ring fence profits where the rate remains at 19%. No announcement has been made about the SBR for future years. The SPR is payable on all taxable profits up to £300,000.

This move is in the opposite direction to the previous Government that had planned to increase the rate to 22% in 2011-12, although it had deferred the increase for two years.

For taxable profits between £300,000 and £1.5 million, total profits are taxed at a rate between SPR and the main rate. This means that the slice of profits above £300,000 are taxed at a marginal rate above both SPR and the main rate. The current marginal rate is 29.75 per cent. From 1 April 2011 the marginal rate reduces to 28.75 per cent.

Capital allowances

The Chancellor announced some significant changes to the capital allowance regime in order to bring allowances closer to depreciation rates adopted by companies. The writing down allowance for new and unrelieved expenditure on plant and machinery in the main pool currently 20 per cent per annum will be reduced to 18 per cent per annum. For expenditure within the special rate pool the reduction will be from 10 per cent to 8 per cent per annum. These changes will be effective for businesses within the charge to corporation tax for chargeable periods ending on or after 1 April 2012 and for businesses chargeable to income tax for chargeable periods ending on or after 6 April 2012. A hybrid rate will apply for accounting periods spanning the change.

The annual investment allowance only recently increased from £50,000 to £100,000 will now be reduced to £25,000 per annum. This will be effective from April 2012 and details of transitional arrangements will be published with the draft legislation.

The 100 per cent first year allowance for zero-emission goods vehicles announced in the March 2010 Budget has been affirmed. This has effect for a period of 5 years for expenditure incurred on new and unused vehicles on or after 1 April 2010 for businesses within the corporation tax regime and 6 April 2010 for businesses subject to income tax.

Employer national insurance contributions

The secondary threshold, which is the point at which employers start to pay class 1 National Insurance Contributions, is to be increased by an extra £21 per week above indexation in April 2011.

A National Insurance Contributions (NIC) scheme is announced for new businesses which start up in certain areas of the UK over the next three years. This scheme will exempt new businesses in targeted regions from up to £5,000 of class 1 employer NICs payments. This will apply for each of the first 10 employees hired in their first year of business. The Government aim to have the scheme up and running by September 2010.

Enterprise finance

The Enterprise Finance Guarantee (EFG) is intended to provide lending to viable small businesses that lack sufficient collateral or the financial record to access a normal commercial loan. The EFG facility is being increased by £200 million to support additional lending of up to £700 million for small businesses until 31 March 2011. In addition, a processing target of 20 business days will be introduced for all major lenders participating in the EFG.

Growth capital fund

Following the Rowlands review fast growing small businesses with a lack of capital will be able to access a new Enterprise Capital Fund (ECF). This fund is part of the existing £237 million ECF. This will provide an extra £37.5 million in equity finance and will be part funded by Government, £25 million and £12.5 million in private co-investment.

Capital distributions

There has been uncertainty over the treatment of certain distributions received by UK companies as to whether they were capital or income. The Finance Act 2009 exempted most foreign distributions received by UK companies from corporation tax unless they were capital in nature. However doubts remained about difficult borderline cases. The new legislation will simplify this area by treating all distributions as income unless they have been specifically excluded from income. The legislation will have retrospective effect to the date when the Finance Act 2009 rules took effect but individual companies can elect to opt out of the retrospective effect. This measure was previously announced in the March 2010 Budget.

Relief for interest “worldwide cap”

The worldwide interest cap rules were introduced last year to limit the total UK deduction for interest expense to the total interest paid worldwide. The Treasury announced that changes would be made to the rules following a consultation with business. This has resulted in a number of proposed changes in particular the treatment of securitisation companies, various other changes affecting the “gateway test” and distributions made by industrial and provident societies. This measure was announced in the March 2010 Budget but a number of further refinements have now been introduced. The legislation applied from 1 January 2010 and, with one exception, the revisions announced today will apply from that date.

Consortium relief

The rules allowing companies to claim consortium relief have been extended so that losses can be surrendered from companies within the European Economic Area. At present the relief is limited to losses surrendered by UK companies only. However at the same time a further test is being added to the existing three tests to establish the percentage of the losses which can be claimed. The fourth test is based on the percentage of voting rights and the extent of control the member holds in the consortium. The allowable loss is based on the lowest result from this and the other three existing tests. The changes will be effective for accounting periods commencing on or after the date the legislation is published in acted.

Loan relationships

Anti-avoidance measures have been announced to prevent companies ‘derecognising’ a loan or derivative and thus creating a profit which escapes taxation under the loan relationship rules. The legislation has effect for credits and debits arising on or after Budget day.

Interest harmonisation rules

Companies that make late payments of corporation tax or receive refunds of tax will now be subject to the harmonised interest regime first introduced in the Finance Act 2009. This measure brings corporation tax (and petroleum revenue tax) into line with other taxes. The measure will be introduced in the forthcoming Finance Bill.

Research and development tax relief

The conditions for this tax relief are relaxed for small and medium-sized enterprises for accounting periods that end on or after 9 December 2009. The relaxation is that the company claiming the relief need not own the intellectual property.

The relief is broadly 130% for large companies and 175% for small and medium-sized enterprises. This means that the tax relief exceeds the expenditure, so the company in effect receives a subsidy from the state. Under the previous rules, this enhanced relief required the company claiming to own the intellectual rights. This condition is now withdrawn.

Enterprise management incentive

A change is made in the rules regarding the location of a company offering its employees shares under the Enterprise Management Incentive (EMI). The previous rules required the company to operate wholly or mainly in the UK. The new requirement is that the company has a permanent establishment in the UK.

For a group of companies, it is sufficient that at least one company in the group conducts a qualifying trade from a permanent establishment in the UK. This change will take effect for options granted from the day that the Finance (No 2) Act 2010 receives Royal Assent. This is likely to be in early autumn after the Parliamentary summer recess.

Venture capital schemes

Changes announced in the March 2010 Budget regarding venture capital schemes are re-introduced in the emergency Budget without change.

This was a provision of the March Budget that was not enacted in Finance Act 2010 when Parliament was dissolved for the general election. Only those provisions agreed by the then Government and opposition were included in the subsequent Act. This is one of the omitted provisions that has been re-introduced.

There are four changes that are made. Two apply only to Venture Capital Trusts (VCTs):

- The shares must be listed on an EU regulated market rather than on the UK official list.
- The eligible share holding requirement is increased from 30% to 70% but the scope of eligible share is widened to include shares that carry preferential rights to dividends.

Two changes apply to both VCTs and Enterprise Investment Schemes:

- A company is not eligible for this relief if it is an “enterprise in difficulty”. This is a new requirement.
- A company is eligible if it has a permanent establishment in the UK. Previously the company had to conduct a qualifying trade wholly or mainly in the UK.

These changes are necessary to comply with requirements of the European Commission.

IR35

The Government remains committed to a review of IR35 and small business tax. Expect news to be announced – maybe before the next Budget.

Film tax relief

An anomaly is to be removed in film tax relief where expenditure spans two or more accounting periods and there is some overseas expenditure.

It has been realised that the current drafting could restrict tax relief where expenditure is greater in a second or subsequent accounting period than in the first. This anomaly will be removed in Finance (No 2) Act 2010. The change is retrospective in that it will be regarded as having always been in effect.

Authorised investment funds

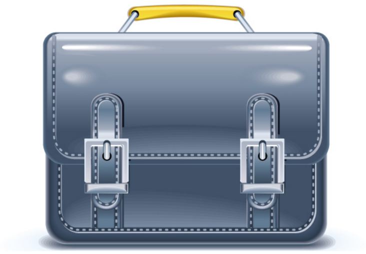
An avoidance scheme is closed from 22 June 2010. The change prevents a corporate investor from using an Authorised Investment Fund (AIF) to create a credit for UK tax when no UK tax has been paid.

The AIF regulations usually ensure that a corporate investor pays the correct amount of corporation tax. The changes prevent these rules being exploited by artificial manipulation of the regulations.

Seafarers’ earnings deduction

From 6 April 2011, seafarers’ earnings deduction (SED) may be claimed by seafarers from the European Union or the European Economic Area. The previous provision applied only to seafarers who were ordinarily resident in the UK.

SED allows earnings at sea to qualify for a 100% deduction from income tax.



Personal Taxation and Savings

INCOME TAX BANDS AND RATES		2010/11	2009/10
Saving rate band		£2,440	£2,440
Savings rate		10%	10%
Basic rate band		£37,400	£37,400
Basic tax rate		20%	20%
Dividend ordinary rate		10%	10%
Higher rate band		£37,401 - £150,000	Over £37,400
Higher tax rate		40%	40%
Dividend higher tax rate		32.5%	32.5%
Additional rate band		Over £150,000	N/A
Additional tax rate		50%	N/A
Dividend additional tax rate		42.5%	N/A
ALLOWANCES THAT REDUCE TAXABLE INCOME			
Personal allowances	under 65	£6,475	£6,475
	65 to 74	£9,490	£9,490
	75 and over	£9,640	£9,640
Blind person’s allowance		£1,890	£1,890

Age related allowances are reduced by £1 for each £2 of income above £22,900 (2009/10 £22,900), until the minimum of £6,475 (2009/10 £6,475) is reached.

The minimum personal allowance is reduced, by £1 for each £2 of income from £100,00 to £112,950.

ALLOWANCES THAT REDUCE TAX			
Married couple's allowance (MCA)	75 and over	£6,965	£6,965
Tax reduction at 10%		£696.50	£696.50

The age for MCA is of the elder spouse or civil partner.

The loss of tax reduction is 10p for each £2 of income above £22,900 (2009/10 £22,900) until the minimum of £267 (2009/10 £267) is reached.

All ages as at 5 April 2011.

The personal allowance and the basic rate limit for 2011-12

The following changes will have effect on or after 6 April 2011:

- The personal allowance for those aged under 65 will be increased by £1,000 to £7,475.
- The basic rate limit will be reduced so that higher rate and additional rate taxpayers do not benefit from the increase in the personal allowance. The exact figure will be confirmed when September's retail price index is published.
- The alignment of the upper earnings/profits limit (UEL/UPL) with the higher rate threshold for income tax will be maintained by reducing the UEL/UPL.

Furnished holiday lettings

The proposal inherited from the previous Government to repeal the special tax rules for furnished holiday lettings will not be implemented. The current rules continue to apply for the 2010-11 tax year.

State pension

The Government will uprate the basic State Pension by a triple guarantee of the highest of earnings, prices (CPI) or 2.5 per cent from April 2011.

Child benefits and tax credits

From 2011-12, the child benefit will be frozen for three years.

There will be a reduction in tax credit eligibility for families with household income over £40,000 as opposed to the current threshold of £50,000. However, low income families will get more child tax credit with the amount per child to rise by £150 above the rate of inflation next year.

The health in pregnancy grant is to be abolished from April 2011 and the Sure Start maternity grant will also be restricted to the first child.

Changes to the rules on the deduction of income tax at source

At present the rules on the deduction of income tax at source are set out in primary legislation. The Government will legislate for an amendment to the rules relating to the time and manner in which persons need to report and remit the income tax deducted from payments of interest, patent royalties and other annual payments. Companies making such payments will be unaffected by the change. The measure will have effect on or after the date that the Finance Bill receives Royal Assent. This will be after the 2010 summer recess.

UK Real Estate Investment Trusts (REIT's) and stock dividends

At the moment it is not possible for a UK-REIT to issue stock dividends as property income distributions to meet the requirement of distributing 90% of the profits from the property rental business of the REIT. A change to the legislation will be made to enable stock dividends to qualify as property income distributions. The measure will have effect for property income distributions made on or after the date that the enabling legislation receives Royal Assent.

Transitional measure deferring the effective requirement to buy an annuity until the age of 77

The Government has announced that it will end the effective requirement to use a pension fund to buy an annuity by age 75 with effect from 2011-12. Prior to the introduction of these changes, legislation will be enacted to increase the requisite age from 75 to 77 with effect from 22 June 2010. This change will also apply for the purposes of the inheritance tax charges that specifically apply to pension scheme members aged 75 and over.

For scheme members with money purchase arrangements who have not yet bought an annuity and reach age 75 on or after 22 June 2010:

- The strict minimum and maximum limits on income withdrawals will apply from their 77th instead of their 75th birthday;
- In the interim period before the main changes take effect in 2011-12, there will be tax charges of 35% on lump sum death benefits paid by the scheme if they die on or after 22 June 2010 and aged 75 or over.

Income tax adjustments between settlors and trustees

Individuals who set up trusts (settlors) currently may receive repayments of income tax on trust income if they are liable to income tax at a lower rate than the trustees. Such repayments that relate to trust income that arises on or after 6 April 2010 will need to be paid over by the settlors to the trustees.

Income tax: special guardianship orders and residence orders

Income from providing care is currently taxed under the trading income rules, or the rules for miscellaneous income – the carer may claim a fixed rate of expenses for each child placed with them. From 6 April 2010, the carer will be exempt from income tax on any qualifying payments they receive. The enabling legislation will be enacted after the 2010 parliamentary summer recess.

Personal savings – indexing ISA limits from 2011

From 6 April 2011 the ISA limits will be increased in line with the Retail Prices Index (RPI) on an annual basis. The cash ISA limit will continue to be half the value of the overall ISA limit. In the event that the RPI is negative, the ISA limit will remain unchanged.

Capital Taxes

CAPITAL GAINS TAX		2010/11	2009/10
Capital gains tax rate:	Standard rate	18%	18%
	Higher rate*	28%	N/A
Entrepreneurs' relief			
	Effective rate	10%	10%
Lifetime limit:			
	6 April – 22 June 2010	£2,000,000	£1,000,000
	23 June 2010 onwards	£5,000,000	£1,000,000
Annual exemption			
Individual		£10,100	£10,100
Settlement		£5,050	£5,050

* For higher and additional rate tax payers from 23 June 2010.

INHERITANCE TAX		
Nil rate band	£325,000	£325,000
Chargeable rate on lifetime transfers	20%	20%
Rate on transfers on or within 7 years of death	40%	40%

Capital gains tax: rates and entrepreneurs' relief

The following matters have been announced in respect of capital gains tax. They will apply to individuals, trustees and personal representatives of deceased persons:

- The annual exempt limit for 2010-11 remains at £10,100. The Chancellor stated in his Budget Day speech that the limit will be subject to indexation in future years.
- A new rate of capital gains tax of 28% will be introduced with effect from 23 June 2010. For individuals the capital gains tax rate will remain at 18% where total taxable gains and income are less than the upper limit of the income tax basic rate band. The 28% rate will apply to any excess.
- Capital gains arising between 6 April 2010 and 22 June 2010 will continue to be taxed at 18%.
- For trustees and the personal representatives of deceased persons, the rate of capital gains tax increases from 18% to 28% with effect from 23 June 2010.
- The rate of capital gains tax for gains qualifying for entrepreneurs' relief remains at 10%. The lifetime limit on gains qualifying for entrepreneurs' relief is increased from £2 million to £5 million with effect from 23 June 2010.
- If an entrepreneur sold a qualifying business for a gain of between £2 million and £5 million between 6 April 2010 and 22 June 2010, he cannot take advantage of the increase in the lifetime limit post the date of sale to mitigate his capital gains tax liability on the initial gain.
- It is possible for an entrepreneur to make a qualifying gain of £2 million before 23 June 2010 and a further qualifying gain of £3 million after 22 June 2010 in order to take advantage of the increase in the lifetime limit.
- Investors may have deferred a capital gain in previous years by reinvesting in shares under the enterprise investment scheme. This gain could be deferred until the replacement shares were themselves sold. If the replacement shares are sold after 22 June 2010, the deferred capital gain will be liable to capital gains tax at either 18% or 28%, dependent upon the quantum of the gain.

Capital gains tax – private residence relief and adult placement carers

Where individuals set aside part of their house exclusively for use under a local authority adult placement scheme private residence relief (PPR) is available provided the area used is used exclusively for the purposes of their business as a carer. The measure will have effect for disposals on or after 9 December 2009.

Duties

Stamp duty land tax

Changes to take effect on and after 1 April 2011 will provide a means of reclaiming Stamp Duty Land Tax (SDLT) repayments where there is no other statutory route. These measures will ensure that there is a comprehensive statutory scheme of remedies in such case. During the period up to 1 April 2011 transitional rules will apply in which claims can be made under the old rules.

Examples of the changes include:

- The time limit for claiming repayments under both provisions is currently six years. From 1 April 2011 they must be claimed within four years.
- No repayment is given where the return followed the general practice at the times it was made, or where the mistake is governed by another statutory claim.
- The measure will remove the requirement that the overpayment must be the result of a mistake in a return and that it must be made under an assessment.
- The measure will also provide that HM Revenue & Customs are not liable to repay an amount except as provided by the measure or by another provision of the Taxes Acts.
- The current restrictions on the right of appeal will be removed, allowing an appeal to the courts on the same grounds against other matters.

Alcohol, tobacco and fuel duties

There will be no rise in alcohol, tobacco or fuel duties.

From 30 June 2010, the cider duty rates will be reduced. This will reverse Labour's increase in the duty by 10% above inflation.

Cigarettes longer than 8cm (excluding any filter) will be classed as 'long.' Each additional 3cm (or part thereof) is treated as an additional cigarette for the purposes of duty calculation. So, someone smoking a cigarette of 12 cm will pay duty on three cigarettes! This now ensures the UK is aligned with the relevant European Directive. The measure announced today affects manufacturers and importers of cigarettes and takes effect on and after 1 January 2011.

Aggregates levy – Northern Ireland credit scheme

A measure to take effect on and after the date of Royal Assent will allow for the extension of the Northern Ireland aggregates levy scheme for a further ten years. The scheme grants an 80 per cent tax credit to aggregate producers in Northern Ireland who meet certain conditions. The scheme was due to expire on 31 March 2011 and is now extended to 31 March 2021.

Landline duty

It was announced that the proposed landline duty will not be implemented.

General Announcements

Review of HM Revenue & Customs powers

A range of changes are to be introduced to HM Revenue & Customs powers. These have been extended considerably in recent years although the changes announced are not expected to become fully operative before 1 April 2012. The changes relate to the modernising of information and inspection powers; and aligning the record-keeping rules and the time limits for assessments and claims with changes made to other taxes and duties. The existing information and inspection powers will be changed as shown in the table below.

EXISTING POWER	ELEMENTS OF PROPOSAL THAT ARE NEW, ALIGNED OR UNCHANGED
To enter premises of revenue traders	A new element that would permit inspection of documents.
To enter premises of those thought to be acting as revenue traders	A new power to inspect documents is included.
To enter premises used by a revenue trader	Clarification that the existing powers include the power to enter premises used by a revenue trader, even if those premises are owned by another.
To make unannounced visits	No change.
Prohibition of inspection of wholly private premises	This is current practice but is now made explicit.
Application for a warrant to search (section 161A)	The power exists but would be extended to search for documents required to accompany the goods.
Information from those who may hold relevant information	This is new and would allow HM Revenue & Customs to seek information from other parties such as banks. Safeguards would be a formal notice requirement, pre-authorised by a tribunal.

This plan supersedes that which was announced in the March 2010 Budget.

We recognise that our clients are concerned regarding HM Revenue & Customs powers – if you would like to discuss the overall extent to which HM Revenue & Customs can extend their rights, do please contact us.

Penalties for late filing of returns and payments of tax

The last ten years has seen a gradual increase in the requirement to file returns on time with a penalty arising for late filing. Measures announced today are designed to "complete the reform of the penalty regime." The measures announced today were heralded in the March 2010 Budget and are now amended as follows:

Penalties for late filing returns (quarterly)

- a £100 penalty immediately after the due date for filing (whether or not the tax has been paid);
- the failure also starts a penalty period, which is set for a year;
- if there are further failures within the penalty period, then the fixed penalty escalates by £100 for each of those subsequent failures, up to a maximum of £400 per failure. The penalty period is also extended to the first anniversary of the latest failure;
- if any of the failures are prolonged, then additional penalties of 5 per cent of the tax on the relevant return are charged at six and 12 months from the date of the failure; and

- if, by failing to make the return, the taxpayer is deliberately withholding information to prevent HM Revenue & Customs from correctly assessing the liability to tax, then penalties of up to 100 per cent of the tax on the return may be chargeable.

Penalties for late filing returns (monthly)

- this is a very similar structure to the quarterly model above, except that the fixed penalties are £100 for the first six failures in any penalty period, and then £200 for any subsequent failures.

Penalties for late payments (quarterly)

- where a taxpayer first pays late, although there is no penalty, it does start a penalty period, which is set for a period of a year;
- any further failures within that period will attract a penalty of 2 per cent of the unpaid tax, as well as extending the penalty period to the first anniversary of the latest failure;
- a third failure within the period will attract a penalty of 3 per cent, with further failures attracting a maximum of 4 per cent; and
- if any of the failures are prolonged, then additional penalties of 5 per cent of the unpaid tax are charged at six and 12 months from the date of the failure.

Penalties for late payment (monthly)

- this is a very similar structure to the quarterly model above, except that, after the first failure, the tax-geared penalties are 1 per cent for the next three failures in any penalty period, 2 per cent of the next three failures, etc. up to a maximum of 4 per cent per failure.

Bank levy

Effective from 1 January 2011, a much anticipated bank levy based on the banks' balance sheet will be introduced which is expected to raise £2 billion in extra revenue. The levy will be set at a rate of 0.07 per cent, with a lower initial rate of 0.04 per cent in 2011.

Income tax and shared lives carers

With effect from 6 April 2010 qualifying shared lives carers may claim a new relief to be known as the qualifying care relief. Those shared lives carers whose earnings are less than the tax free allowance will not be taxed on their income from providing shared lives care. Those whose shared lives earnings are more than the tax free allowance have the option to choose a simplified method for calculating their profits.

Landfill tax

This is a change involving the departments of HM Revenue & Customs and HM Treasury. Currently HM Treasury must have regard as to whether material being landfilled is commonly described as inactive or inert when deciding whether or not to include it in an Order that lists the materials that qualify for the lower rate of tax. The change which comes into force from Royal Assent will specify that the Commissioners for HM Revenue & Customs must publish the criteria that HM Treasury will have regard to when determining what material is lower rated, and will publish revised criteria when necessary. HM Treasury will take account of these criteria when listing in an Order the materials that qualify for the lower rate of tax, for any disposals made, or treated as made, on or after 1 April 2011.

Trusts and compensating asbestos victims

An announcement has been made that supersedes the March Budget press release. With effect on and after 6 April 2006 trustees of certain trusts are exempt from capital gains tax (CGT), inheritance tax (IHT) and income tax (IT). The trusts that will benefit are those established on or before 23 March 2010 as part of an arrangement made by a company with its creditors and specifically to pay compensation to, or in respect of, individuals with asbestos related conditions.

Trustees are subject to IHT changes every 10 years on the value of property held in trust above the IHT nil rate band (£325,000) and also on certain payments made out of the trust. Trustees are also liable to income tax on income arising to the trust, and CGT on disposals of certain trust assets. Provided the trust is specifically established for the purpose of paying asbestos-related compensation for individuals, the trust is exempt from CGT, IHT and IT.

Insurance premium tax increase (IPT)

With effect on or after 4 January 2011 the rates of IPT are as follows:

	FROM 4 JANUARY 2011	TO 3 JANUARY 2011
Standard rate	6%	5%
Higher rate	20%	17.5%

Note: For insurers using the cash receipt method to account for IPT, the new rates will have effect for premiums received under taxable insurance contracts on or after 4 January 2011.

Value Added Tax

FROM	4 JANUARY 2011	1 APRIL 2010
Standard rate	20%	17.5%
VAT fraction	1/6	7/47
Reduced rate	5%	5%
Taxable turnover limits		
Registration – last 12 months or next 30 days over	£70,000	£70,000
De-registration – next 12 months under	£68,000	£68,000
Flat rate scheme exiting above	£230,000	£225,000

Summary of VAT proposals

The significant VAT announcement in the Budget was the increase in the standard rate from 17.5% to 20% with effect from 4 January 2011, although other, minor changes were also announced. Other VAT provisions are also automatically affected as a result of the rate change. Specific announcements about anti-forestalling provisions and necessary changes to the flat rate scheme have been made now, and further announcements are expected soon affecting, for example, larger businesses required to pay VAT on account, although there will be no changes to the cash and annual accounting schemes.

On their website, HM Revenue & Customs have published more detailed guidance on the standard rate increase, and associated anti-forestalling measures and anti-avoidance issues.

Change of standard rate

As with any rate change, the increase to 20% will not only affect supplies of goods and services in the UK, but also acquisitions from other EU Member States and imports. Goods and services currently subject to the zero rate, the reduced rate of 5% or which are exempt from VAT, will be unaffected by the change.

The VAT fraction, used in order to calculate the amount of VAT from a VAT-inclusive total, will be 1/6.

Anti-forestalling legislation

Where there is a VAT rate increase, HM Revenue & Customs see forestalling as taking place when a supplier makes arrangements to issue a tax invoice or receive payment (i.e. the supplier creates an actual tax point) in advance of the basic tax point for a supply of goods or services so that the lower rate applies. The basic tax point is the date on which goods are delivered or made available for the customer to dispose of as owner in the case of goods, and when all work is completed in the case of services.

The scope of anti-forestalling legislation for the increase to 20% was announced in a separate, written Ministerial statement on 22 June 2010. In effect, it allows for a supplementary charge of 2.5% to apply where HM Revenue & Customs consider forestalling has taken place. Businesses that conduct their activities in the same way they would when no rate increase is expected, will not be affected by this legislation.

The new legislation will take effect on or after 22 June 2010 and apply where supplies of goods and services, including rights and options, are made at the standard rate and the customer cannot recover all of the input tax on the supply, and one or more of the following conditions are met:

- the supplier and customer are connected
- the value of the supply, including any associated supplies under the same arrangement, exceeds £100,000, unless issuing advance invoices in such arrangements is normal commercial practice

- the supplier or another person connected to the supplier funds a prepayment, or
- an advance tax invoice is issued, where payment in full is not due within 6 months (NB this would not apply to hire purchase invoices issued in the usual way).

The supplementary 2.5% charge will become due on 4 January 2011 and must be accounted for on the VAT return covering that date. For rights and options, the charge is triggered on the date they are exercised on or after 4 January 2011.

The charge will not apply to advance rental charges in respect of land, buildings or other assets if they are for a period of one year or less and such charges are normal commercial practice.

Changes to the flat rate scheme

The standard rate increase to 20% on 4 January 2011 will be accompanied by appropriate increases to the rates applicable to business types under the flat rate scheme.

The turnover threshold of £150,000 below which businesses may choose to join the flat rate scheme has not changed as a result of the standard rate increase, but the exit threshold will increase from £225,000 to £230,000 from 4 January 2011. So from that date, businesses using the scheme must leave it once their tax-inclusive flat rate turnover exceeds £230,000 or they expect that turnover to exceed £230,000 in the next 30 days.

Currently, if a business exceeds the exit threshold because of a one-off transaction, but does not expect its annual tax-inclusive flat rate turnover to exceed £187,500, it may continue to use the scheme. The standard rate increase will see an uplift in this threshold to £191,500.

HM Revenue & Customs will apply a sympathetic approach as regards their power to allow a retrospective leaving date from the scheme if businesses consider it no longer helps them as a result of these changes.

Implementation of EU cost-sharing exemption

HM Revenue & Customs will consult with affected parties concerning options for implementing the EU cost-sharing exemption. This will mainly affect charities and similar sectors.

The right to deduct and ‘Lennartz’ accounting

A new measure will ensure that from 1 January 2011, input tax recovery will only be allowed on the purchase of immoveable property, boats and aircraft to the extent the assets are used or to be used for business purposes. It will also ensure that revenue is protected as regards application of ‘Lennartz’ accounting, which allows full recovery on the purchase at the outset and a payment of output tax in any period in which the asset is used for private purposes. Recent case law has shown that, in the past, HM Revenue & Customs have allowed too broad an application of the principle.

Postal services and passenger transport

A new measure will ensure the exemption for postal services will only apply to the ‘universal service provider’ (‘USP’) as required under EU law, or to private providers of relevant postal services, when authorised to do so by the USP pursuant to a licence duty. In the UK, the USP is the Royal Mail (including Parcelforce) but only when it is acting in the capacity of the USP. In other words, some of its services will cease to be exempt.

Furthermore, the zero rate provisions for passenger transport will be updated to reflect the status of the transport provider in conjunction with its postal services. That means, the Royal Mail, as the sole USP in the UK, will be able to provide zero-rated passenger transport services when it is acting as the USP. These changes will have effect from 31 January 2011.

Aircraft

From 1 January 2011, certain criteria for an aircraft to qualify for zero-rating will change.

Place of supply of gas, heat, electricity and cooling

This measure will implement the EU changes to the place of supply of natural gas and electricity from 1 January 2011. The existing rules in the UK will be amended to:

- cover supplies relating to all types of natural gas pipeline so long as they are located within the EU, unless they are outside the EU but linked to pipelines within the EU
- extend relief from VAT on the import of all natural gas imported via a network (including liquefied natural gas in a tanker)
- extend the scope of the relief to include heat and cooling supplied through networks

Vehicle Taxation

No changes have been announced to the regime for taxing vehicles. We include details of car taxation for 2010-11.

Company cars

Tax and National Insurance Contributions (NICs) are calculated on the benefit-in-kind (BIK) on a car, which is determined, principally, by the price of the car and its official carbon dioxide (CO_2) emissions rating. The list price of the car when new (including accessories) is multiplied by the indicated percentage from the table below, using the official emissions rating for the appropriate fuel of the car to derive the BIK.

2010/11 Taxable benefits table

CO_2 EMISSIONS (g/km)*	PETROL	DIESEL
1 to 75	5%	8%
76 to 120	10%	13%
121 to 134	15%	18%
135 to 139	16%	19%
140 to 144	17%	20%
145 to 149	18%	21%
150 to 154	19%	22%
155 to 159	20%	23%
160 to 164	21%	24%
165 to 169	22%	25%
170 to 174	23%	26%
175 to 179	24%	27%
180 to 184	25%	28%
185 to 189	26%	29%
190 to 194	27%	30%
195 to 199	28%	31%
200 to 204	29%	32%
205 to 209	30%	33%
210 to 214	31%	34%
215 to 219	32%	35%
220 to 224	33%	35%
225 to 229	34%	35%
Over 230	35%	35%

* The exact CO_2 figure is rounded down to the nearest 5g/km.

Discounts from the above percentages can apply for ‘greener’ cars running on alternative fuels, including Euro IV diesel cars first registered up to 31 December 2005.

Fuel for private mileage

If an employer provides fuel for any private travel, the taxable benefit is calculated by multiplying £18,000 by the percentage used to calculate the benefit on the car, the employer pays NICs on the same amount at 12.8%.

Baseline fuel mileage rates (in a company car) from 1 June 2010

	RATES PER MILE	RATES PER MILE	RATES PER MILE
ENGINE CAPACITY	PETROL	DIESEL	LPG
Up to 1400cc	12p	11p	8p
1401 – 2000cc	15p	11p	10p
Over 2000cc	21p	16p	14p

These rates are reviewed biannually depending on changes in the price of fuel, and changes (if any) take effect on 1 January and 1 June or June each year, so the next change in rates would be due on January 2011.

If the employee uses a privately owned car for business journeys, the employer may reimburse the costs at the following standard rates without the employee incurring a tax or NIC charge:

VEHICLE	FIRST 10,000 MILES	THEREAFTER
Car / van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

If the employer reimburses at a lower rate per mile, the employee is permitted to claim tax relief on the shortfall. Although unchanged for some time, as a policy issue it has been decided to retain these rates for the future.

Vehicle excise duty rates for cars as from 1 April 2010

For cars registered on or after:		1 APRIL 2010	1 MARCH 2001
BAND		FIRST YEAR RATE	STANDARD RATE
	g/km	**£**	**£**
A	Less than 101	0	0
B	101 to 110	0	20
C	111 to 120	0	30
D	121 to 130	0	90
E	131 to140	110	110
F	141 to 150	125	125
G	151 to 165	155	155
H	166 to 175	250	180
I	176 to 185	300	200
J	186 to 200	425	235
K*	201 to 225	550	245
L	226 to 255	750	425
M	Over 255	950	435

* Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006.

What Happened to the 24 March Budget?

On 24 March 2010, Alistair Darling MP presented his last Budget as Chancellor of the Exchequer before the general election. The tax provisions he announced were summarised in 71 Budget Notes issued on the same day.

Some of those Budget provisions became law in Finance Act 2010 which received Royal Assent on 8 April 2010. As is normal in a general election year, the Act contains only those provisions which also have the support of the opposition party. The remaining Budget provisions will be enacted in a Finance (No 2) Act 2010 to the extent that the new Government agrees with the provisions. These will be supplemented by the new Government's own proposals announced today.

These Budget changes are included in Finance Act 2010:

- new rates for income tax, personal allowances, and corporation tax
- increase in VAT thresholds
- introduction of bank payroll tax
- doubling of entrepreneurs' relief from £1 million to £2 million
- doubling of annual investment allowance from £50,000 to £100,000
- changes to excise duty (except for cider), climate change levy, landfill tax and other duties
- relief from stamp duty land tax for first-time buyers for properties up to £250,000
- restriction on pension tax relief on earnings above £130,000
- restrictions on sideways loss relief, property loss relief, and capital allowance buying
- extending charity tax relief for donations to European bodies
- provisions relating to release of loans to participators in close companies
- reduction in taxable benefit for employees with very low emission cars.

The following Budget proposals are not included in Finance Act 2010:

- tax provisions for National Employment Savings Trusts (NESTs), though these are still due to be introduced in 2012
- relaxation of the "generally available" condition for tax-free employer-supported childcare
- new provisions regarding capital distributions and worldwide debt cap
- changes to capital schemes needed to comply with European law
- allowing real estate investment trusts (REITs) to issue stock dividends
- changes to HM Revenue & Customs powers in relation to late payment of income tax
- 100% capital allowance for zero-emission vehicles
- VAT changes relating to aircraft, postal services and place of gas supply
- introduction of landline duty.

Of the 71 Budget Notes, all have been implemented by the Act or Treasury Order except numbers 5, 6, 8, 12, 13, 19, 20, 22, 29, 30, 35, 36, 37, 42, 46, 47, 48, 50, 51, 54, 57, 65, 66, 67 and 69.

2010/11 Tax Rates and Allowances

INCOME TAX BANDS AND RATES		2010/11	2009/10
Savings rate band		£2,440	£2,440
Savings rate		10%	10%
Basic rate band		£37,400	£37,400
Basic tax rate		20%	20%
Dividend ordinary rate		10%	10%
Higher rate band		£37,401–£150,000	Over £37,400
Higher tax rate		40%	40%
Dividend higher tax rate		32.5%	32.5%
Additional rate band		Over £150,000	N/A
Additional tax rate		50%	N/A
Dividend additional tax rate		42.5%	N/A
Allowances that reduce taxable income			
Personal allowances	under 65	£6,475	£6,475
	65 to 74	£9,490	£9,490
	75 and over	£9,640	£9,640
Blind persons allowance		£1,890	£1,890

Age related allowances are reduced by £1 for each £2 of income above £22,900 (2009/10 £22,900), until the minimum of £6,475 (2009/10 £6,475) is reached. The minimum personal allowance is reduced, by £1 for each £2 of income from £100,00 to £112,950.

Allowances that reduce tax
Married couple's allowance (MCA)

Tax reduction	75 and over	£696.50	£696.50

The age for MCA is of the elder spouse or civil partner. The loss of tax reduction is 10p for each £2 of income above £22,900 (2009/10 £22,900) until the minimum of £267 (2009/10 £267) is reached.
All ages as at 5 April 2011.

INHERITANCE TAX	2010/11	2009/10
Standard threshold	£325,000	£325,000
Combined threshold maximum for married couples and civil partners	£650,000	£650,000
Rates of tax on balance Chargeable lifetime transfers	20%	20%
Rates of tax on balance Transfers on or within seven years of death	40%	40%

All lifetime transfers not covered by exemptions and made within 7 years of death will be added back into the estate for the purposes of calculating the tax payable. This may then be reduced:

Years before death	0–3	3–4	4–5	5–6	6–7
Tax reduced by	0%	20%	40%	60%	80%

Main exemptions

1. Most transfers between spouses and between civil partners.
2. First £3,000 of lifetime transfers in any tax year plus any unused from the previous year.
3. Gifts up to £250 p.a. to any number of persons.
4. Gifts made out of income that form part of normal expenditure and do not reduce the standard of living.
5. Gifts in consideration of marriage/civil partnership up to £5,000 by a parent, £2,500 by grandparents, or £1,000 by any other.
6. Gifts to charities, whether made during lifetime or on death.

NATIONAL INSURANCE	EMPLOYER	EMPLOYEE
Class 1 (not contracted out) Lower earnings limit		£97
Payable on weekly earnings of £110.01 to £844	12.8%	11%
Over £844	12.8%	1%
Over state retirement age	12.8%	nil
Class 1A On relevant benefits	12.8%	nil
Class 2 Self employed		£2.40 per week
Limit of net earnings for exception		£5,075 per annum
Class 3 Voluntary		£12.05 per week
Class 4* Self employed on profits £5,715 – £43,875		8%
Excess over £43,875		1%

*Exemption applies if state retirement age was reached by 6 April 2010

CAPITAL GAINS TAX		2010/11	2009/10
Standard tax rate		18%	18%
Higher tax rate from 23 June 2010		28%	N/A
Annual exemption	Individual	£10,100	£10,100
	Settlement(s)	£5,050	£5,050
Entrepreneurs' relief:	Effective Rate	10%	10%
Lifetime limit: 6 April 2010 – 22 June 2010		£2,000,000	£1,000,000
Lifetime limit: From 23 June 2010 onwards		£5,000,000	£1,000,000

PENSION CONTRIBUTIONS

The maximum amount on which an individual can claim tax relief in any tax year is the greater of the individual's UK relevant earnings or £3,600.

A special annual allowance charge may restrict the amount of tax relief on pension contributions. These rules apply to individuals whose income is £130,000 and over, who change their normal ongoing regular pension savings and whose total pension savings in a tax year exceed £20,000 (or the lower of £30,000 and average contributions over the past 3 years if contributions are less regular than quarterly.)

If total pension input exceeds the annual allowance of £255,000 there is a tax charge at 40% on the excess. This limit does not apply in the year that full pension benefits are taken. Total pension input is the increase in value of the aggregate of all the individual's pension savings. The pension input period is usually the year to the anniversary date which falls within the relevant tax year.

Maximum age for tax relief		74
Minimum age for taking benefits		55
Lifetime allowance charge	– lump sum paid	55%
	– monies retained	25%
on cumulative benefits exceeding		£1,800,000*
Maximum tax-free lump sum		25%*

*Subject to transitional protection for excess amount

CORPORATION TAX

Financial Year to		31.3.2011	31.3.2010
Taxable profits	First £300,000	21%	21%
	Next £1,200,000	29.75%	29.75%
	Over £1,500,000	28%	28%

MAIN CAPITAL ALLOWANCES

Plant and machinery

Energy saving and environmentally beneficial equipment, electric and low CO_2 emission (up to 110 g/km) goods vehicles, natural gas/hydrogen refuelling equipment: first year allowance	100%
Annual investment allowance (AIA) – on first £100,000 of investment (excludes cars and expenditure already qualifying for 100% first year allowance)	100%
Writing down allowance – cars	
111g/km – 160g/km	10%
Over 160g/km	20%
Writing down allowance (WDA) on expenditure not qualifying for AIA: Long-life assets, integral features of buildings	10%
Other plant and machinery	20%

Buildings

Industrial and agricultural buildings and hotels WDA (on building cost)	1%
Enterprise Zone Allowance, conversion of parts of business premises into flats, business premises renovation: max. initial allowance	100%

DUE DATES FOR TAX PAYMENTS AND FILING DEADLINES

Income Tax and Class 4 NIC		**2010/11**	**2009/10**
1st payment on account	31 January	2011	2010
2nd payment on account	31 July	2011	2010
Balancing payment	31 January	2012	2011
Capital Gains Tax	31 January	2012	2011

Inheritance Tax

Normally six months after the end of the month in which death occurs.

Corporation Tax

Small and medium companies	Nine months and one day after the end of accounting period
Large companies	Four quarterly instalments commencing 6.5 months into the accounting period

2009/10 Returns filing and issuing deadlines

P14, P35, P38 and P38A		19 May 2010
Issue P60s to employees		31 May 2010
P9D, P11D and P11D(b) – and copies to employees as appropriate		6 July 2010
Self assessment tax return:	paper	31 October 2010
	online	31 January 2011
2009/10 Class 1A NICs on relevant benefits –		
Payment due		19 July 2010
If paid electronically		22 July 2010

TAX FREE MILEAGE ALLOWANCES

	Higher rate	Lower rate
All cars	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p
Business passengers	5p	5p

The higher rate is applicable for up to 10,000 business miles.

Fuel only allowance for company cars

From 1 June 2010	Petrol	Diesel	LPG
Up to 1400cc	12p	11p	8p
1401 – 2000cc	15p	11p	10p
Over 2000cc	21p	16p	14p

These rates may change within the tax year.

CAR BENEFITS

The taxable benefit is calculated as a percentage of the car's UK list price. The percentage depends on the car's CO_2 emissions in grams per kilometre.

Rating	Petrol	Diesel
1 – 75g/km	5%	8%
76 – 120g/km	10%	13%
121 – 134 g/km	15%	18%
Over 134g/km	add 1% for every 5g/km	
Maximum 230g/km and over	35%	35%

Lower rates may apply to alternative fuel cars.

Chargeable on employees earning £8,500 or over (including benefits) and directors.

The list price is on the day before first registration, including accessories and is reduced by any employee's capital contribution (max £5,000) when the car is first made available. The price is subject to an upper limit of £80,000.

Special rules apply to cars at least 15 years old worth £15,000 or more.

Vans where private use is more than home to work travel; £3,000 and £550 for private fuel.

Payments by employees for private use may reduce these benefits.

VALUE ADDED TAX	4.1.2011	1.4.2010
Standard Rate	20%	17.5%
VAT Fraction	1/6	7/47

Taxable turnover limits

Registration – last 12 months		
or next 30 days over	£70,000	£70,000
De-registration – next year under	£68,000	£68,000
Annual Accounting Scheme	£1,350,000	£1,350,000
Cash Accounting Scheme	£1,350,000	£1,350,000
Flat Rate Scheme joining below	£150,000	£150,000
exiting above	£230,000	£225,000

STAMP TAXES

Stamp duty is payable at a rate of 0.5% on transfers of shares and securities of £1,000 and over.

On the transfer of residential property

£0 – £125,000*	nil
£125,001 – £250,000**	1%
£250,001 – £500,000	3%

*£150,000 in disadvantaged areas.

** First time buyers can claim relief on residential transactions up to £250,000 between 25 March 2010 and 24 March 2012.