Tuchbands
Chartered Accountants

BUDGET REPORT 2011

Tuchbands

925 Finchley Road
London NW11 7PE

Tel. 020 8458 8727 Fax. 020 8209 1557
info@tuchbands.com

www.tuchbands.com

2011 BUDGET REPORT

This Report, written immediately after the Chancellor of the Exchequer delivered his Budget Speech, provides an overview of the announcements most likely to affect you and your business.

This Budget follows on from the Coalition Government's emergency Budget in June 2010 and the Comprehensive Spending Review in October. Given the ongoing challenging economic climate and the primary emphasis on reducing the deficit it is not surprising that this Budget gave little away either for individuals or for businesses.

The Budget announces the Government's budgetary plans and this serves as a reminder to us all that we should ensure that our own personal and business budgets and plans reflect the reality of our income and expenditure. Further, no plan is complete without looking at how debt will be repaid and savings aligned to our perceived future requirements.

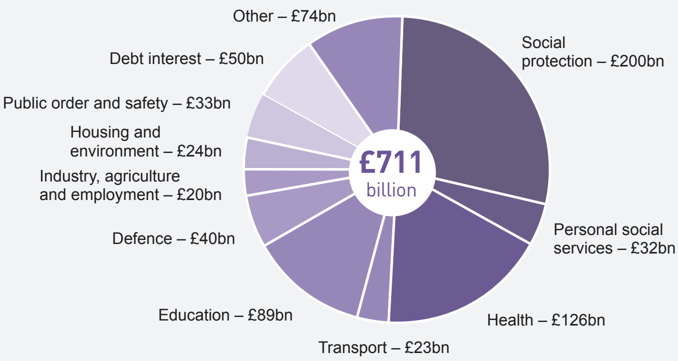
We can help you re-evaluate your plans; adapting them as necessary to take into account the challenging economic environment and your personal and business circumstances. With our help, you can plan ahead embracing the very difficult economic background with public expenditure being reduced, jobs being lost and people's spending capacity restricted by increasing costs and repayment of debt.

HOW TO MAKE THE MOST OF OUR SERVICES

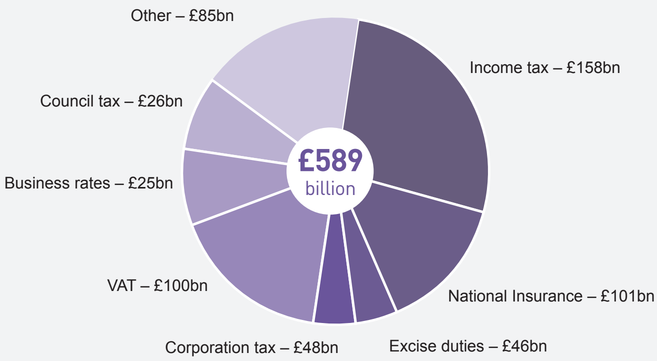
- Please read the Report as soon as possible
- Contact us to discuss any action you may be considering, and to review your longer term plans. We always welcome the opportunity to help

INTRODUCTION

GOVERNMENT SPENDING



GOVERNMENT RECEIPTS



Pie charts taken from red book, figures different due to rounding

A BUDGET TO GENERATE GROWTH, SAYS CHANCELLOR

Last year the spending cuts and the tax rises; this year renewal and recovery. That had long been the message offered by the Government in the approach to its second Budget, and the Chancellor, George Osborne was quick to assert the positive outlook of his statement. This, he announced, was the point at which he planned for the economy to move from "rescue" to "reform" and "from reform to recovery". The Budget, he argued, "would put fuel into the tank of the British economy", even though it would be "fiscally neutral across the period, neither raising tax nor offering giveaways".

First, however, the less happy news. The Chancellor reported that the Office for Budget Responsibility had revised its growth forecast down to 1.7 per cent for 2011, with growth predicted to be 2.5 per cent in 2012, 2.9 per cent in 2013, 2.9 per cent in 2014 and 2.8 per cent in 2015. Inflation is expected to hold at between 4 per cent and 5 per cent this year before dropping to 2.5 per cent next year and to 2 per cent in two years' time. Reduced borrowing, though, is on track for a balanced structural budget, with debt falling as a proportion of GDP by 2015/16.

In order to stimulate the recovery, and to reclaim the ground that Britain has lost on its competitors, Mr Osborne set out his ambitions: to make the UK's tax regime the most competitive among the G20 nations; to coax and encourage innovation and enterprise; to create a balanced economy; and to produce a more skilled workforce.

Perhaps the most eye-catching of his taxation policies was a further reduction, by 1 per cent, in the main rate of corporation tax, which will now fall to 23 per cent in three years time. Fuel duty was also reduced immediately by 1 penny, and the above inflation annual fuel escalator scrapped until 2015. The income tax personal threshold, already up by £1,000 from the last Budget, is to climb by another £630 by 2012. To promote just the sort of enterprises the country needs to trade its way out of trouble, the Chancellor upped the research and development (R&D) tax credit and gave more incentives to entrepreneurs. The Chancellor doubled the entrepreneurs' relief limit to £10 million. To simplify the tax regime, 43 reliefs will be abolished.

The number of enterprise zones to be set up around the country, and which will be offering businesses certain tax breaks, is to increase from 10 to 21. A swathe of new business regulations is to go (worth an estimated £350 million in saved compliance costs), and very small firms will benefit from a three-year moratorium exempting them from new domestic regulations. Millions more are to be invested in training and technical skills, including an extra 50,000 apprenticeships.

This said, Mr Osborne, was a strategy for growth. "We want the words 'made in Britain', 'created in Britain', 'designed in Britain', 'invented in Britain' to drive our nation forward," he concluded. How strong that growth will be, only time will tell.

BUSINESS AND INVESTMENT INCENTIVES

Corporation tax rates and bands are as follows:

FINANCIAL YEAR TO	31 MARCH 2012		31 MARCH 2011	
Taxable profits				
First	£300,000	20%	£300,000	21%
Next	£1,200,000	27.5%	£1,200,000	29.75%
On profit over	£1,500,000	26%	£1,500,000	28%
Tax credit on dividends	10%		10%	
Marginal relief fraction	3/200		7/400	

CORPORATION TAX RATES

The Chancellor had previously announced in the June 2010 Budget a gradual reduction in the main rate of corporation tax from 28 per cent to 24 per cent over a four year period.

In George Osborne's first spring Budget he has gone further and reduced the rate for the financial year beginning 1 April 2011 by a further 1 per cent to 26 per cent instead of the expected 27 per cent. Consequently, the main rate of corporation tax will reduce to 25 per cent for the financial year commencing 1 April 2012. The rate will therefore now reduce to 23 per cent for the financial year beginning 1 April 2014.

The Chancellor's aim is to restore the UK's attractiveness as a low tax regime to attract foreign investment and thus accelerate economic recovery. However the small profits rate of corporation tax will reduce by just 1 per cent as planned to 20 per cent for the financial year commencing on 1 April 2011.

CAPITAL ALLOWANCES AND SHORT-LIFE ASSETS

Nearly all recent Budgets have seen some changes to the capital allowance regime and this Budget is no exception. Businesses can elect for assets to be treated as short-life assets (SLA) with the advantage that any disposal before the cut-off period (currently four years) will enable the business to claim the full net cost of the asset over the period of ownership.

The Chancellor has announced that the cut-off period will be extended to eight years thus making the election more attractive for a wider category of assets. The measure takes effect for expenditure incurred by companies on or after 1 April 2011 and 6 April for unincorporated businesses.

CAPITAL ALLOWANCES AND ENERGY SAVING TECHNOLOGIES

The list of technologies and products which qualify for enhanced capital allowances has been extended to include certain energy efficient hand driers. This will have effect on a date to be announced prior to the summer Parliamentary recess.

BUSINESS PREMISES

The Chancellor made two important announcements:

- The small business rate relief holiday will be extended by one year from 1 October 2011
- The business premises renovation allowance will be extended for a further five years from 2012.

RESEARCH AND DEVELOPMENT (R&D) TAX CREDITS FOR SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)

The Budget statement included a very significant increase in the credit which will be available to SMEs for qualifying R&D expenditure. The Chancellor expressed a strong desire to restore the UK's manufacturing base by encouraging innovation.

Legislation will be introduced in the Finance Bill 2011 to increase the additional deduction for SMEs from 75 per cent to 100 per cent of the qualifying R&D expenditure thus resulting in an effective 200 per cent deduction for such expenditure (currently 175 per cent).

This will be increased further by the legislation to be introduced in the Finance Bill 2012 which will extend the total effective deduction to 225 per cent. This is a very significant increase and should provide SMEs with a strong incentive to fund R&D in the future. In addition, legislation will be introduced in Finance Bill 2012 as follows:

- the rule limiting a company's payable R&D tax credit to the amount of PAYE and National Insurance Contributions (NICs) it pays will be abolished;
- the £10,000 minimum expenditure condition will be abolished for all companies; and
- changes will be made to the rules governing the provision of relief for work done by subcontractors under the large company scheme

These changes are subject to State aid approval.

ENTERPRISE INVESTMENT SCHEME (EIS) AND VENTURE CAPITAL TRUSTS (VCT)

The Chancellor has announced a number of very significant changes to both schemes. The aim is to help smaller companies to obtain finance by increasing the incentives for potential investors.

Legislation will be introduced in the Finance Bill 2011 to increase the rate of income tax relief from 20 per cent to 30 per cent of the amount subscribed for shares qualifying under EIS. Further changes will be introduced in the Finance Bill 2012 to increase:

- the thresholds for the maximum size of qualifying company for EIS and VCTs to 250 employees and gross assets of £15 million
- the maximum annual amount that can be invested in an individual company to £10 million
- the annual amount that an individual can invest under EIS to £1 million.

The above three changes will apply from 6 April 2012.

ABOLITION OF TAX RELIEFS

After a period of consultation, the Government intends to abolish a number of tax reliefs next year as part of a simplification process including late night taxis, luncheon vouchers and the cycle to work days (provision of meals).

BANK LEVY

On 8 February 2011 the Chancellor announced an increase in the levy for the remaining 10 months of the 2011 calendar year which increased these tax revenues by nearly 50 per cent. In the Budget statement it was announced the levy rates to be applied from 1 January 2012 would be increased to offset some of the reduction of the corporation tax rate.

TAXATION OF FOREIGN BRANCHES

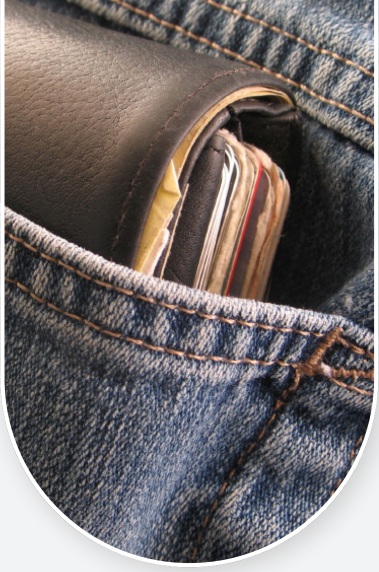
UK companies with foreign branches are subject to layers of taxation. The foreign branch will be subject to local taxes in a foreign jurisdiction and then the branch profits are also subject to UK corporation tax with credit for the foreign tax already suffered. This reduces the UK's attractiveness as a location for the parent body of the business. It also creates an anomaly between foreign branches and foreign subsidiaries.

One of the Chancellor's stated aims in this Budget is to create a more competitive tax system and therefore legislation is being introduced in Finance Bill 2011 to allow companies to elect for the exemption of branch profits from UK corporation tax. This may look attractive but the election is irrevocable and in the circumstances where branches turned out to be loss making then a tax deduction against UK corporation tax might well be lost.

CONTROLLED FOREIGN COMPANIES (CFCs)

Any UK companies with foreign subsidiaries can be affected by the CFC rules. Legislation will be introduced in the Finance Bill 2011 to:

- exempt commercially justified activities that do not erode the UK tax base
- introduce improvements in the rules that will make it easier for UK businesses to make overseas acquisitions and carry out reorganisations
- help non-UK businesses that want to invest or locate in the UK.



PERSONAL TAXATION AND SAVINGS

INCOME TAX BANDS AND RATES		2011/12	2010/11
Savings rate band		£2,560	£2,440
Savings tax rate		10%	10%
Basic rate band		£35,000	£37,400
Basic tax rate		20%	20%
Dividend ordinary tax rate		10%	10%
Higher rate band		£35,001 – £150,000	£37,401 – £150,000
Higher tax rate		40%	40%
Dividend higher tax rate		32.5%	32.5%
Additional rate band		Over £150,000	Over £150,000
Additional tax rate		50%	50%
Dividend additional tax rate		42.5%	42.5%
ALLOWANCES THAT REDUCE TAXABLE INCOME			
Personal allowances	under 65	£7,475	£6,475
	65 to 74	£9,940	£9,490
	75 and over	£10,090	£9,640
Blind person's allowance		£1,980	£1,890

Age related allowances are reduced by £1 for each £2 of income above £24,000 (2010/11 £22,900), until the minimum of £7,475 (2010/11 £6,475) is reached.
The minimum personal allowance is reduced, by £1 for each £2 of income from £100,000 to £114,950.

ALLOWANCES THAT REDUCE TAX			
Married couple's allowance (MCA)	77 and over	£7,295	£6,965
Tax reduction at 10%		£729.50	£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 £24,000 (2010/11 £22,900) until the minimum of £280 (2010/11 £267) is reached.

All ages as at 5 April 2012.

INCOME TAX PERSONAL ALLOWANCES

The Coalition Government announced in 2010 a long term commitment to increase the personal allowance for individuals aged under 65 to £10,000. For 2011/12 this is being increased from £6,475 to £7,475, and being further increased to £8,105 with effect from 6 April 2012.

The enabling legislation will be contained in Finance Bill 2012 and the basic rate limit will be reduced to £34,370. For 2012/13 all other income tax personal allowances and limits that are subject to indexation will be increased in line with the Retail Prices Index (RPI).

CHANGES TO NON-DOMICILE TAXATION INCLUDING THE REMITTANCE BASIS USER CHARGE

The Government will be consulting on a number of potential changes to the taxation of non UK domiciled individuals, with a view to implementation in April 2012, including the following:

- removing the tax charge when non-UK domiciled individuals remit foreign income or capital gains to the UK for the purposes of commercial investment in UK businesses
- increasing the prevailing £30,000 annual charge to £50,000 for non-UK domiciled individuals who have been UK resident for 12 or more years and who wish to retain access to the remittance basis of assessment. The £30,000 charge will be retained for those non UK domiciled individuals who have been UK resident for at least seven of the past nine tax years
- the simplification of some of the administrative burden.

The Government will also be consulting on the introduction of a statutory definition of UK tax residence to provide greater certainty for taxpayers.

REDUCED CHILD CARE RELIEF FOR HIGHER EARNERS

The playing field for tax relief on child care payments will be levelled with effect from 6 April 2011. At present basic rate taxpayers can receive income tax relief of up to £900 per annum, whilst higher rate and additional rate taxpayers can receive up to £1,200 and £1,500 of support through employer-supported childcare schemes. The relief will be restricted to £900 per annum for all taxpayers.

NATIONAL INSURANCE CONTRIBUTION RATES

The Government has announced that it is working toward the integration of the income tax and National Insurance systems in order to make the system more user friendly. A consultation document will be published later this year. The Government has stated that:

- the contributory principle will be maintained
- National Insurance Contributions will not be extended to pensioners or to pensions income, savings income or dividends.

From 2012/13 the basis for indexing the National Insurance Contribution rates will be the Consumer Prices Index (CPI) rather than the RPI for the following rates, limits and thresholds:

- class 1 lower earnings limit and primary threshold
- class 2 small earnings exception
- class 4 lower profits limit, and
- rates of class 2 and 3.

The secondary threshold for class 1 employers' National Insurance Contributions will continue to rise by the increase in the RPI from April 2012 to 2015/16. The increase from 12.8 per cent to 13.8 per cent will go ahead as planned on 6 April 2011. The annual levels of the class 1 upper earnings limit and the class 4 upper profits limit will continue to be aligned with the income tax higher rate threshold [the sum of the personal allowance and the basic rate limit].

FURNISHED HOLIDAY LETS

This measure was previously announced in the Finance Bill 2011. From April 2011, loss relief available from a Furnished Holiday Let (FHL) business may only be offset against income from the same FHL business. UK losses can relieve UK FHL income only and similarly with the European Economic Area losses. From April 2012 to qualify in a year, a property must be available to let for at least 210 days and actually let for 105 days. Businesses meeting the actually let threshold in one year may elect to be treated as having met it in the two following years ("period of grace"), providing certain criteria are met.

RESTRICTING PENSION TAX RELIEF

The Government announced on 14 October 2010 that the annual allowance for tax relief on pension savings for individuals will be reduced from £255,000 to £50,000 from 2011/12, and the lifetime allowance will be reduced from £1.8m to £1.5m from 2012/13. Draft legislation was published for comment on 9 December 2010.

ISA ANNUAL EXEMPTIONS ANNUAL INDEXATION

The ISA annual exemption will also be increased on an annual basis by reference to the CPI rather than the RPI from the 2012/13 tax year. The limit for 2011/12 has already been announced in October 2010 as £10,680 and £5,340 for the cash ISA.

INTRODUCTION OF JUNIOR ISAs

The Government will be introducing a junior ISA scheme for UK resident children who do not have a child trust fund account. It is expected that these will be available from Autumn 2011.

SUBSISTENCE ALLOWANCES PAID TO EXPERTS SECONDED TO EU BODIES LOCATED IN THE UK

Legislation will be introduced in Finance Bill 2011 to provide a new income tax exemption for subsistence allowances paid by a body of the EU located in the UK to experts who are seconded by their employers to work for the UK body. The measure will be effective in respect of periods beginning on or after 1 January 2011.

CHARITIES AND CHARITABLE GIVING

In order to encourage individuals and companies to make larger donations to charities, the annual limits on the benefits that may be received by the donors from those charities are being increased from £500 to £2,500.

The qualifying donation to the charity will need to be a minimum of £10,000 under Gift Aid to benefit from the change. The existing rule is that the benefit must not exceed 5 per cent of the gift and this will remain.

The change will have effect for benefits received by donors from charities as a consequence of donations made by companies in accounting periods ending on or after 1 April 2011 and donations made by individuals on or after 6 April 2011.

HMRC will publish revised guidance on Gift Aid benefits in April 2011 to clarify a number of problematic areas.

GIFT AID – ONLINE FILING AND RECORD KEEPING

HMRC is intending to introduce a new online system for charities to register their details for Gift Aid and to make Gift Aid claims in 2012/13. Four new forms will be introduced to facilitate the collection of information and provide automatic checks on the data.

From April 2013 charities that receive small donations of £10 or less will be able to apply for a Gift Aid repayment without the requirement to obtain formal Gift Aid notifications to support the repayments. The maximum amount of small donations that can utilise this less formal method will be £5,000 per charity per annum. Only charities that have been dealing with Gift Aid for at least three years and also have a good compliance record will qualify for the new regime.

WITHDRAWAL OF THE SELF ASSESSMENT (SA) DONATE SCHEME

Under the SA donate scheme, taxpayers may currently elect that a repayment of tax due to them from HMRC be paid to a charity of their choice. Gift Aid may be applied to the donation if the taxpayer has paid enough tax to cover the charity's repayment claim.

Due to the low usage of the scheme and the possibility of fraudulent claims the scheme is being withdrawn in relation to repayments of tax in respect of:

- tax returns for the tax year 2011/12 onwards; and
- tax returns up to and including 2010/11 where the repayment is made on or after 6 April 2012.

CAPITAL TAXES

CAPITAL GAINS TAX		2011/12	2010/11
Capital gains tax rate	Standard rate	18%	18%
	Higher rate*	28%	28%
Entrepreneurs' relief			
	Qualifying rate	10%	10%
	Lifetime limit	£10,000,000	£2,000,000 – £5,000,000**
Annual exemption			
	Individual	£10,600	£10,100
	Settlement	£5,300	£5,050

* The higher rate commenced from 23 June 2010
** Increased to £5 million 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 seven years of death	40%	40%

CAPITAL GAINS TAX (CGT) ANNUAL EXEMPTION

The CGT annual exemption will increase in line with statutory indexation to £10,600 with effect from 6 April 2011.

For future years the annual exemption will be increased in line with rises in the CPI rather than in the RPI. Parliament will still be entitled to override automatic indexation and set a different figure.

ENTREPRENEURS' RELIEF

With effect from 6 April 2011, the lifetime limit on gains qualifying for capital gains tax entrepreneurs' relief is increased from £5 million to £10 million. Qualifying gains are taxed at a rate of 10 per cent rather than at 18 or 28 per cent. There are no other changes to the rules or conditions relating to entrepreneurs' relief and the change is not retrospective.

INHERITANCE TAX – NIL RATE BAND

No changes were made to the nil rate band which remains at £325,000.

INHERITANCE TAX – REDUCED RATE

The Government has announced that a reduced rate of inheritance tax will apply where 10 per cent or more of a deceased person's net estate (after deducting IHT exemptions, other reliefs and the nil rate band) is left to charity.

The tax rate of 40 per cent will be reduced to 36 per cent where death occurs on or after 6 April 2012 and a qualifying gift to charity is made. A consultation document will be issued in the summer.

DUTIES

FUEL DUTY AND THE FAIR FUEL STABILISER

With effect from 6pm on 23 March 2011 the current fuel duty escalator is replaced by a fair fuel stabiliser. This is intended to lessen and even out the impact of fuel increases arising as a consequence of the fluctuating price of oil. Instead of the pump price of fuel increasing by between 4 pence and 5 pence in April there is a reduction in the main fuel duty rate of 1 penny per litre. The next increase in the cost of fuel as a result of increasing fuel duty has been deferred to 1 January 2012 when New Year celebrations are dampened by the increase in fuel of about 3 pence per litre. That is then to be followed by a further increase on 1 August 2012. Similar changes are also made to heavy oil, biodiesel, bioethanol, light oil and Avgas.

With motorists hit by ever increasing costs it is suggested by the Government that this will save a motorist driving a Ford Focus £56 in 2011/12 while a haulier should see a reduction of £100 compared to an increase of almost £1,950 under the changes previously announced. However, the Government's supporting documentation did not go as far as to indicate what the cost of fuel increases would be in 2012 as a result of increasing fuel duties.

STAMP DUTY LAND TAX (SDLT)

As previously announced a new 5 per cent rate of SDLT applies to the purchase of property in excess of £1 million acquired on or after 6 April 2011.

Purchasers who acquire more than one dwelling will have their SDLT based on the mean value of the transaction. This will be calculated by dividing the number of dwellings by the aggregate consideration, but subject to a minimum rate of 1 per cent. This change takes effect on or after the date on which the Finance Bill receives the Royal Assent.

CARBON PRICE FLOOR

From 1 April 2013 a carbon price floor is to be introduced. Supplies of fossil fuels used in most forms of electricity generation will become liable either to the climate change levy (CCL) or fuel duty from that date. Such supplies will be charged at the relevant carbon price support rate, depending on the type of the fossil fuel used, which will be determined by the average carbon content of each fossil fuel. The carbon support rates will reflect the differential between the future market price of carbon and the floor price determined by the Government.

The carbon price support rates for CCL and, in the case of oils, fuel duty will be equivalent to £4.94 per tonne of carbon dioxide. However, suggested rates for the following two years are £7.28 per tonne of carbon rising to £9.86 in 2015/16.

The purpose of this change is to encourage additional investment in low-carbon power generation by providing greater support and certainty to the carbon price.

TOBACCO PRODUCTS

With effect from 6pm on 23 March 2011 the rates of duty on all tobacco products increase. For cigarettes, the quantity-based duty is increased by 25 per cent above retail inflation, whilst the price-based duty is reduced from 24 per cent to 16.5 per cent of the retail price. Duty on hand-rolling tobacco increases by 12 per cent while for other tobacco products the rate of duty increases by 2 per cent above retail price inflation. This announcement follows on from the March 2010 Budget when it was announced that tobacco duty rates would increase by 2 per cent above retail price inflation.

Typically this will add 33 pence to a packet of premium cigarettes, 50 pence to a packet of economy cigarettes, 67 pence to a packet of hand rolling tobacco and 10 pence to a packet of 5 small cigars.

HIGH AND LOW STRENGTH BEER

A new duty commences on and after 1 October 2011 regarding beer exceeding 7.5 per cent alcohol by volume (abv). This new duty will be known as High Strength Beer Duty (HSBD) and is a levy over and above existing beer duty. The rate will be 25 per cent of the general beer duty at the time of introduction. This will have the effect of increasing the cost of these beers by about 25 pence on a 500 ml can of beer at 9 per cent abv.

However, a lower rate of general beer duty is to be introduced that will see the cost of duty reduced for beer exceeding 1.2 per cent abv but not exceeding 2.8 per cent abv. These measures are aimed at tackling problems such as drink driving. Further, it is envisaged that HSBD will reduce the availability and affordability of "super strength" lagers associated with problem drinking.

AGGREGATES LEVY RATE

The levy increase planned for 1 April 2011 is repealed but from 1 April 2012 the aggregate levy increases by 10 pence per tonne to £2.10.

CLIMATE CHANGE LEVY (CCL)

A number of changes are introduced that affect:

- those who are electrified freight train operators and a limited number of operators of public passenger rail services
- suppliers of taxable commodities liable to account for CCL and recyclers of aluminium and steel that currently claim exemption from the levy, and
- gas and electricity utilities, suppliers of solid fuels and liquefied petroleum gas and energy-intensive businesses with climate change agreements.

If you are in any of these industries or think you are affected please contact us for further details of the announcements.

VALUE ADDED TAX

FROM	1/4/2011	4/1/2011
Standard rate	20%	20%
VAT fraction	1/6	1/6
Reduced rate	5%	5%
Taxable turnover limits		
Registration – last 12 months or next 30 days over	£73,000	£70,000
Deregistration – next 12 months under	£71,000	£68,000

CHANGES TO VAT REGISTRATION AND VAT DEREGISTRATION THRESHOLDS

From 1 April 2011, the taxable turnover threshold, which requires a person to register for VAT, will be increased from £70,000 to £73,000 per annum. The threshold below which a VAT registered person may apply to deregister will be increased from £68,000 to £71,000 per annum, and the relevant registration and deregistration threshold for Intra-Community acquisitions will also be increased from £70,000 to £73,000 per annum.

ONLINE VAT REGISTRATION AND SIMILAR MEASURES

From 1 August 2012, online registration for and deregistration from VAT, and the notification of changes, will become compulsory for all. Furthermore, VAT-registered businesses with a VAT exclusive turnover under £100,000 per annum will be required to file returns online from 1 April 2012. Since April 2010, this requirement has only applied to those with an annual, VAT exclusive turnover, exceeding £100,000 and newly registered businesses. Other changes will include the removal of the VAT registration threshold for businesses not established in the UK. Further consultation documents on these issues are expected in June 2011.

FUEL SCALE CHARGES

As usual, changes have been made to fuel scale charges and the new rates are applicable to VAT return periods starting on or after 1 May 2011. The new rates can be found in Annex B of the document 'Overview of Tax Legislation and Rates' in the March 2011 Budget Documents on HMRC's website.

CHANGES TO LOW VALUE CONSIGNMENT RELIEF

The Finance Bill will propose the introduction of legislation affecting low value consignment relief ('LVCR'). The proposal is to reduce the value below which goods imported into the UK from outside the EU are free of VAT from £18 to £15. It will apply from 1 November 2011. Furthermore, the UK Government, along with the European Commission, will consider ways of limiting the relief, which will include the possibility of seeking derogation from the relevant EU rules. If this collaboration does not produce a workable solution, there may be a further reduction of the threshold in the 2012 Budget.

DIPLOMATIC PRIVILEGE

It has been announced already that legislation will be introduced in Finance Bill 2012 regarding diplomatic privileges. The proposal will give the power to enable secondary legislation to be used to provide indirect tax and duty reliefs for diplomatic missions, international bodies, visiting NATO forces and European research infrastructure consortiums (ERICs). Until now, Extra Statutory Concessions ('ESC') have been used for the first three of these, but that practice cannot continue as clarified in the Wilkinson case, decided in the House of Lords. The inclusion of ERICs in this legislation will create the UK tax relief required by the EU ERIC Regulation.

STATUTORY EFFECT FOR ESC AFFECTING VAT GROUP REGISTRATIONS

It has been announced that legislation will be introduced in Finance Bill 2012 to give statutory effect to an arrangement currently covered by ESC 3.2.2. This allows the value of an anti-avoidance tax charge triggered in UK VAT groups to be capped at the value of services purchased by an overseas VAT group member and recharged to the UK. If the concession did not exist, the group would have to pay output VAT on the total value of the supply from the overseas group member to the UK member, including any services sourced in-house. The ESC serves to ensure that the VAT treatment is the same for VAT groups and businesses with overseas branches so far as it relates to overseas services bought in from third parties. The Government also plans to set up a consultation with stakeholders in May 2011.

VAT STATUS OF PUBLIC BODIES

Changes to UK law are planned to ensure it is properly aligned with EU agreements affecting public bodies, in particular where they carry out their duties in competition with the private sector. Draft legislation is expected in the autumn of 2011 with a view to introducing the legislative changes in Finance Bill 2012.

JOINT INITIATIVE TO TACKLE VAT FRAUD ON IMPORTED ROAD VEHICLES

The Government has launched a joint venture between HMRC and the DVLA to combat VAT fraud on road vehicles brought into the UK. From 2013, vehicles brought into the country for permanent use on UK roads will first have to be notified to HMRC online, then registered with the DVLA. This means that individuals and businesses that are not VAT-registered will have to pay VAT at the time of notification, whereas VAT registered businesses make the payment through their VAT returns. Where HMRC consider the payment is not secure, they will notify the DVLA, who will consequently refuse licensing and registration of the vehicle. A formal consultation document will be issued in May 2011 with a view to introducing the legislation in Finance Bill 2012.

VAT COST-SHARING EXEMPTION

The Government has announced that consultation will continue on the possibility of implementing the VAT cost sharing exemption into UK legislation. This provision currently exists in EU law but has not yet been implemented in the UK, even though it can serve to remove a VAT cost barrier for organisations such as charities, universities and housing associations. Its introduction should enable them to work together to achieve economies of scale and, where applicable, reduce the VAT cost.

VEHICLE TAXATION

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 most 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.

2011/12 TAXABLE BENEFITS TABLE

CO_2 EMISSIONS (g/km)*	PETROL	DIESEL
1 to 75	5%	8%
76 to 120	10%	13%
121 to 129	15%	18%
130 to 134	16%	19%
135 to 139	17%	20%
140 to 144	18%	21%
145 to 149	19%	22%
150 to 154	20%	23%
155 to 159	21%	24%
160 to 164	22%	25%
165 to 169	23%	26%
170 to 174	24%	27%
175 to 179	25%	28%
180 to 184	26%	29%
185 to 189	27%	30%
190 to 194	28%	31%
195 to 199	29%	32%
200 to 204	30%	33%
205 to 209	31%	34%
210 to 214	32%	35%
215 to 219	33%	35%
220 to 224	34%	35%
225 and over	35%	35%

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

Cars that cannot emit $C0_2$ by being driven have a benefit of 0%.

COMPANY CARS

If an employer provides fuel for any private travel, the taxable benefit is calculated by multiplying £18,800 by the percentage used to calculate the benefit on the car, the employer pays NICs on the same amount at 13.8%.

CURRENT ADVISORY FUEL MILEAGE RATES (FOR A COMPANY CAR)

	RATES PER MILE	RATES PER MILE	RATES PER MILE
ENGINE CAPACITY	PETROL	DIESEL	LPG
Up to 1400cc	14p	13p	10p
1401 – 2000cc	16p	13p	12p
2001cc and over	23p	16p	17p

These rates are normally reviewed biannually depending on changes in the price of fuel, and changes (if any) take effect on 1 January and 1 July each year, so the next change in rates would be due on 1 July 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	45p	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.

VEHICLE EXCISE DUTY RATES FOR CARS FROM 1 APRIL 2011

For cars registered on or after:		1 APRIL 2011	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	95
E	131 to 140	115	115
F	141 to 150	130	130
G	151 to 165	165	165
H	166 to 175	265	190
I	176 to 185	315	210
J	186 to 200	445	245
K*	201 to 225	580	260
L	226 to 255	790	445
M	Over 255	1000	460

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

There is a discount of £10 for cars using alternative fuel.

For cars registered before 1 March 2001 the VED is £130 for engines less than 1549cc £215 for 1549cc and above.

APPROVED MILEAGE ALLOWANCE PAYMENTS

If an individual uses his or her own car for business it is currently possible to claim reimbursement from the employer at a mileage rate of 40 pence per mile for the first 10,000 business miles in a tax year and 25 pence per mile thereafter. These rates have been in place since April 2002. Finally, the higher rate is being increased to 45 pence per mile with effect from 6 April 2011.

Volunteer drivers may also use the revised rates. An exemption for passenger payments currently in place for employees at 5 pence per mile will be extended to volunteers.

COMPANY CAR BENEFIT

For employees and directors who are provided with a company car, the table of percentages used to calculate the benefit charge is being changed from 6 April 2013. This will broadly add one percentage point to all rates for emission levels between 95 g/km and 220 g/km and result in an increase in the value of the benefit in kind for income tax and class 1A National Insurance.

COMPANY CAR FUEL BENEFIT

The company car fuel benefit is calculated by multiplying a factor by the same percentage as is used to calculate the car benefit. Employees and directors who are provided with a company car and who also receive free fuel from their employers will see the multiplier on which the fuel benefit charge is calculated increase from £18,000 to £18,800 from 6 April 2011.

GENERAL ANNOUNCEMENTS

ANTI-AVOIDANCE

As expected, the Budget contains several provisions to clamp down on what is seen as unfair tax avoidance. These provisions are outlined in more detail below.

» **Disguised remuneration**
Disguised remuneration is where an employee or director is paid by a third party (often a trust) in an attempt to avoid PAYE and National Insurance. Measures have been announced to ensure that disguised remuneration is taxed on the same basis as normal pay.

These arrangements have also been used in an attempt to provide a tax-advantaged pension above the statutory limits. The new provision will apply to assets or sums that are earmarked to provide income to an employee or director. The employer will be required to operate PAYE and class 1 National Insurance on those sums or on the value of those assets.

A loan provided to an employee by a third party will also be taxed as pay. This change applies from 6 April 2011.

» **Sale of lessor companies**
There is a further change to the law when a leasing company is sold. The objective is to ensure that all profits from leasing are taxed over the lifetime of the lease.

If a leasing business is sold to a new owner who has sufficient reliefs or losses, these could be offset against the leasing profits with the result that the leasing profits are not taxed. As a lease earns commercial profits before being taxed, this is seen as tax avoidance. There is a complementary provision to avoid double taxation of leasing profits. To prevent this, the law was amended to tax deferred profits when the company is sold. As a result of the recent economic crisis, this law was amended in December 2009 to allow the new owner to opt out of the charge. A consequence of doing this is that the profits are ring-fenced for the period remaining on the lease.

There is evidence that the amended law may fail to identify a company carrying on a leasing business, or may not tax the full amount of deferred profits. The law is being further amended for changes in ownership from 23 March 2011. Where the opt-out election has been exercised, the full value of the asset is taken into consideration in calculating the disposal value. The right to opt out is withdrawn from 23 March 2011.

» **De-grouping charge**
The rules on de-grouping charges are tightened up. Companies in a group may generally transfer assets on a no gain/no loss basis. If the company then leaves the group, it was possible for the capital gain of the asset to escape tax. This is known as "enveloping".

To counter this, a de-grouping charge may be made which taxes the value of any such gain on an asset transferred up to six years before the transferee company leaves the group.

There is an exception if the transferor and transferee companies leave the group together. This is known as the "associated companies exception", and is set out in Taxation of Capital Gains Tax Act 1992.

Arrangements have been developed to exploit this exception. These include the transferee company leaving its new group to become a member of yet another group under the control of the original group. The relevant section of the 1992 Act is being rewritten so that the law operates as originally intended.

» **Stamp duty land tax**
Three changes are introduced to prevent stamp duty land tax (SDLT) being avoided on the purchase of an interest in land.

» **Disclosure of tax avoidance**
The scope of the regulations for Disclosure of Tax Avoidance Schemes (DOTAS) is to be extended to include:

- income tax and National Insurance avoidance schemes for employees
- schemes that incorporate offshore schemes to avoid corporation tax
- artificial loss schemes.

There is a separate initiative to look at areas of the tax code which have been repeatedly exploited in tax avoidance schemes. The first two areas are income tax losses and unauthorised unit trusts. Consideration will be given to rewriting the law so that it can better withstand such exploitation.

HMRC will publish a list of schemes that have already been disclosed and which it believes are ineffective but which are still being marketed.

TAX ADMINISTRATION

» **Dishonest tax agents**
Proposals are being developed to deal with dishonest tax agents. These include seizing their papers and publishing details on the HMRC website.

» **Time to Pay**
Time to Pay is a scheme that allows tax to be deferred where a solvent business is experiencing short-term financial problems. The scheme was launched in 2008 and has been extensively used. The Chancellor has confirmed that this scheme will continue.

» **Data gathering**
HMRC will be given a new power to collect data for risk assessment purposes. There will be a penalty for deliberately giving false data.

» **IR35**
The Government has concluded that it cannot repeal the IR35 provisions but will simplify their administration. IR35 refers to when an individual sets up a company to provide his or her services in conditions which would otherwise comprise employment.

» **Northern Ireland**
Consideration is being given to devolving tax powers to the Northern Ireland Executive. This will include allowing it to charge a lower rate of corporation tax to compete with the low rates offered in the Republic.

» **Redundant reliefs**
As part of the process of simplifying tax law, legislation is being removed for various reliefs that have not been claimable for five years or more.

2011/12 TAX RATES AND ALLOWANCES

INCOME TAX BANDS AND RATES		2011/12	2010/11
Savings rate band		£2,560	£2,440
Savings rate		10%	10%
Basic rate band		£35,000	£37,400
Tax rate		20%	20%
Dividend ordinary rate		10%	10%
Higher rate band		£35,001 – £150,000	£37,401 – £150,000
Higher tax rate		40%	40%
Dividend higher tax rate		32.5%	32.5%
Additional rate band		Over £150,000	Over £150,000
Additional tax rate		50%	50%
Dividend additional tax rate		42.5%	42.5%
Allowances that reduce taxable income			
Personal allowances	under 65	£7,475	£6,475
	65 to 74	£9,940	£9,490
	75 and over	£10,090	£9,640
Blind persons allowance		£1,980	£1,890

Age related allowances are reduced by £1 for each £2 of income above £24,000 (2010/11 £22,900), until the minimum of £7,475 (2010/11 £6,475) is reached. The minimum personal allowance is reduced, by £1 for each £2 of income from £100,000 to £114,950.

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

Tax reduction	77 and over	£729.50	£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 £24,000 (2010/11 £22,900) until the minimum of £280 (2010/11 £267) is reached. All ages as at 5 April 2012.

INHERITANCE TAX	2011/12	2010/11
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 seven 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		£102
Payable on weekly earnings of £136.01 to £139	13.8%	nil
Payable on weekly earnings of £139.01 to £817	13.8%	12%
Over £817	13.8%	2%
Over state retirement age	13.8%	nil
Class 1A		
On relevant benefits	13.8%	nil
Class 2 Self employed		£2.50 per week
Limit of net earnings for exception		£5,315 per annum
Class 3 Voluntary		£12.60 per week
Class 4* Self employed on profits £7,225 – £42,475		9%
Excess over £42,475		2%

*Exemption applies if state retirement age was reached by 6 April 2011

CAPITAL GAINS TAX		2011/12	2010/11
Standard tax rate		18%	18%
Higher tax rate*		28%	28%
Annual exemption	Individual	£10,600	£10,100
	Settlement(s)	£5,300	£5,050

* The higher rate commenced from 23 June 2010

Entrepreneurs' relief
The first £10 million of lifetime gains from certain assets (mainly unincorporated trading businesses, personally owned assets used in the business, and shares in trading limited companies where at least 5% of capital and voting rights is held) is taxed at a reduced rate of 10%.

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.

If total pension input exceeds the annual allowance of £50,000 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		31/3/2012	31/3/2011
Taxable profits	First £300,000	20%	21%
	Next £1,200,000	27.5%	29.75%
	Over £1,500,000	26%	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	20%
Over 160g/km	10%
Writing down allowance (WDA) Long life assets, integral features of buildings, thermal insulation.	10%
WDA: Other plant and machinery	20%

DUE DATES FOR TAX PAYMENTS AND FILING DEADLINES

Income Tax and Class 4 NIC		2011/12	2010/11
1st payment on account	31 January	2012	2011
2nd payment on account	31 July	2012	2011
Balancing payment	31 January	2013	2012
Capital Gains Tax	31 January	2013	2012

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

2010/11 Returns filing and issuing deadlines

P14, P35, P38 and P38A		19 May 2011
Issue P60s to employees		31 May 2011
P9D, P11D and P11D(b) – and copies to employees as appropriate		6 July 2011
Self assessment tax return:	paper	31 October 2011
	online	31 January 2012
2010/11 Class 1A NICs on relevant benefits –		
Payment due		19 July 2011
If paid electronically		22 July 2011

2011 March Budget edition.
For information only.
Always seek professional advice before acting.

TAX FREE MILEAGE ALLOWANCES

	Higher rate	Lower rate
All cars	45p	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 March 2011	Petrol	Diesel	LPG
Up to 1400cc	14p	13p	10p
1401 – 2000cc	16p	13p	12p
Over 2000cc	23p	16p	17p

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 – 129 g/km	15%	18%
Over 129g/km	add 1% for every 5g/km	
Maximum	35%	35%

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

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

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	1/4/2011	4/1/2011
Standard Rate	20%	20%
VAT Fraction	1/6	1/6

Taxable turnover limits

Registration – last 12 months		
or next 30 days over	£73,000	£70,000
Deregistration – next year under	£71,000	£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

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%
	£500,001 – £1,000,000	4%
	Over £1 million	5%