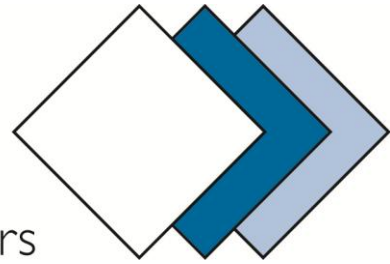


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# BUDGET 2011

Top 60 ranked UK Accountancy Firm\*  
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\*Accountancy Magazine January 2011

## **I PERSONAL TAX**

### **I.1. Personal Allowances**

From 6 April 2011 personal allowances will be increased to £7,475 for those under 65, and increase to £9,940 for those aged between 65-74, and increase to £10,090 for those aged over 75.

From 6 April 2012 personal allowance will be increased to £8,105 for those under 65.

### **I.2. Tax Rates from 2011/12**

The thresholds for the new rates of income tax remain unchanged and are as follows:

Income band	Income tax rate	Dividend rate
£0 - £35,000	20%	10%
£35,001 - £150,000	40%	32.5%
£150,000 +	50%	42.5%

### **I.3. Income Tax Bands from 2012/13**

From 6 April 2012 the limit at which a taxpayer begins to pay higher rate tax will fall by £630, taking it from £35,000 in 2011-12 to £34,370 in 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.

### **I.4. Income Tax & NICS reform**

The government has announced that it will consult on the options, stages and timing of reforms to integrate the operation of income tax and national insurance contributions. A document is expected to be produced later this year setting out the differences in these systems and options to address these.

### **I.5. Residence and Domicile**

From April 2012 the government will introduce the following reforms in respect of non-domiciled individuals.

- Remove the tax charge when non-domiciles remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses.
- Increase the existing £30,000 annual charge to £50,000 for non domiciles who have been UK resident for 12 or more years and who wish to retain access to being taxed on the remittance basis. The £30,000 charge will be retained for those who have been resident for at least 7 of the past 9 years and fewer than 12 years.

In respect of an individual's residence status the Government has deemed that the current rules are unclear and complicated. A consultation document will be issued in June and intends to implement the measure from April 2012.

### **I.6. Inheritance Tax**

The inheritance tax nil rate band of £325,000 is frozen until April 2015. The Government has announced that from 2015-16 the consumer prices index will be used as the default indexation assumption.

### **1.7. Pensions Tax Relief**

From 6 April 2011 the annual allowance for tax relief on pension savings for individuals will be reduced from £255,000 to £50,000.

From 6 April 2012 the lifetime allowance will be reduced from £1.8m to £1.5m.

### **1.8. Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT)**

From 6 April 2011, and subject to state aid approval, the rate of income tax relief given under the Enterprise Investment Scheme (EIS) will be increased from 20% to 30% of the amount subscribed for shares.

Subject to state aid approval legislation will be introduced in the Finance Bill 2012 to increase:

- The thresholds for the maximum size of qualifying company for both EIS and VCTs;
- The maximum annual amount that can be invested in an individual company (proposed increase from £2,000,000 to £10,000,000);
- The annual amount that an individual can invest under the EIS (proposed increase from £500,000 to £1,000,000)

### **1.9. Approved Mileage Allowance Payments (AMAPs)**

The AMAPs rates can be used to claim the cost of business mileage in an employee's own vehicle. From 6 April 2011 the rate of AMAPs for cars and vans will be increased from 40p per mile to 45p per mile for the first 10,000 miles of business travel in the tax year. The rate for mileage beyond 10,000 miles will remain at 25p per mile.

### **1.10. Entrepreneurs' Relief**

The lifetime limit on gains qualifying for capital gains tax (CGT) Entrepreneur's Relief is increased from £5 million to £10 million. This will have effect for qualifying disposals on or after 6 April 2011.

### **1.11. Reduced Childcare Relief for Higher Earners**

From 6 April 2011, the income tax exemption for childcare vouchers (CCVs) and directly-contracted childcare through employer-supported childcare (ESC) schemes will be capped at approximately the same monetary level.

Currently the tax exempt limits are £55 per week, under the revised scheme the new income tax exempt limits will be £28 per week for higher rate taxpayers and £22 per week for additional rate taxpayers. This will ensure that the monetary equivalent of the tax relief entitlement for all taxpayers will be based on £11 per week.

### **1.12. Introduction of Junior ISAs**

The Government will introduce a new Junior ISA product which will be available for UK resident children who do not have a Child Trust Fund account. Junior ISAs will be tax-relieved and will have many features in common with existing ISA products. They will be available as a cash or stocks and shares product and it is expected that they will be available from Autumn 2011.

### **1.13. CPI Indexation**

It has been announced that from 6 April 2012 the following rates limits and thresholds will be in line with the Consumer Price Index (CPI) instead of the Retail Price Index (RPI):

- All national insurance contribution thresholds except for class 1 upper earnings limit, class 4 upper profits limit and the secondary threshold for class 1 employer NICs.
- The annual ISA subscription limit
- The capital gains tax annual exempt amount

## **2 BUSINESS TAX**

### **2.1 Corporation Tax rates**

The main rate of corporation tax will reduce by 2% to 26% from 1 April 2011 and thereafter by 1% each year to 23% by 1 April 2014.

The small companies rate will reduce by 1% from 1 April 2011 to 20% (the last government had proposed to increase the rate to 22% from that date)

The current rules provide that where a company's profits for corporation tax purposes do not exceed the lower limit (currently £300,000) those profits are taxed at the small companies rate.

### **2.2. Capital Allowances - Industrial, Agricultural and Enterprise Zone Allowances**

Changes announced previously mean that from 1 April 2011 for companies and from 6 April 2011 for unincorporated businesses industrial and agricultural buildings writing down allowances will no longer be available.

Balancing allowances or charges on disposals of Industrial and Agricultural Buildings were abolished in 2007.

### **2.3. Capital Allowances - Plant and Machinery**

Small and medium sized businesses have since April 2010 been able to claim an Annual Investment Allowance (AIA) on the first £100,000 spent on plant and machinery in a year. This available allowance is being reduced to a maximum of £25,000 spent on plant and machinery in a year. The reduction will have effect for expenditure incurred on or after 1 April 2012 for companies and 6 April 2012 for unincorporated businesses.

The rates of writing down allowances (WDAs) for new and unrelieved expenditure on plant and machinery will be reduced, effective for chargeable periods ending on or after 1 April 2012 for companies and 6 April 2012 for unincorporated businesses. The rates will reduce from 20% to 18% per annum for expenditure allocated to the main rate pool, and from 10% to 8% for expenditure allocated to the special rate pool. The special rate pool includes expenditure on cars with CO<sub>2</sub> emissions of more than 160g/km, and expenditure on long life assets, thermal insulation and integral features.

For businesses whose chargeable period spans 1 April 2012 (companies) or 6 April 2012 (unincorporated businesses) a hybrid rate of WDAs will have effect for new and unrelieved expenditure on plant and machinery or special rate items.

### **2.4. Capital Allowances – Short Life assets**

From 1 April 2011, the cut-off point for plant and machinery treated as short life assets has increased from 4 years to 8 years from the end of the chargeable period in which the expenditure is incurred.

If the asset is then sold or scrapped before the cut-off point, the total allowances given over the period of ownership will equal the actual net cost of the asset to the business. An election is beneficial if the asset depreciates faster than the rate at which capital allowances are given, and it is sold before the cut-off date.

The change only affects new expenditure on plant and machinery and cannot be applied retrospectively.

## **2.5. Capital allowances – Enhanced Capital Allowances (ECA) Scheme for Energy-Saving Technologies**

In order to encourage businesses to purchase more energy efficient plant and machinery, the ECA scheme allows businesses to claim 100% of expenditure on qualifying plant and machinery against profits in the period of purchase.

The Government has updated the list of technologies and products covered by the energy-saving ECA scheme. The updated list can be found at [www.eca.gov.uk](http://www.eca.gov.uk).

## **2.6. Research and Development Tax Credits for SMEs**

From 1 April 2011, the Research and Development (R&D) tax relief for small or medium sized enterprises (SMEs) is to increase from 175% to 200% on qualifying R&D expenditure. The relief will increase by a further 25% to 225% from 1 April 2012.

## **2.7. Company Car Tax**

Legislation will be introduced in Finance Bill 2011 to reduce the appropriate percentages by reference to which car benefits in kind are calculated by 1% for all vehicles with carbon emissions between 95g and 220g from April 2013. Zero emission cars will remain at 0% and ultra low emission cars with emissions up to 75g will remain at 5%.

## **2.8. Fuel Benefit Charge 2011-12**

Employees and directors who are provided with a company car and who also receive free fuel from their employers are subject to the fuel scale charge. The cash equivalent of the taxable benefit is determined by multiplying a set figure (currently £18,000) by the appropriate % for the car, based on its CO<sub>2</sub> emissions (grams per km). From March 2011 the set figure will increase to £18,800.

## **2.9. Business Rate Discounts**

The government has announced the creation of 21 new Enterprise Zones. The government will offer up to 100% business rates discount for 5 years to businesses located in Enterprise Zones.

The small business rate relief (SBRR) holiday will be extended by one year from 1 October 2011.

## **2.10. Furnished Holiday Lettings**

New rules for the tax treatment of Furnished Holiday Lettings (FHL) come into effect from 6 April 2011 with further changes from 6 April 2012. The rules of the new regime are extended to cover FHL income from properties in the European Economic Area (EEA).

From 6 April 2011 tax relief for trading losses may only be obtained by offset against income of the same FHL business. UK losses can only be relieved against UK FHL income and similarly with the EEA losses.

From 6 April 2012 to qualify as an FHL, a property must be available to let for at least 210 days and actually let for 105 days. Businesses meeting the actually let criteria in one year may elect to be treated as having met it in the 2 following years, provided certain criteria are met.

## **2.11. Interim CFC Reform**

The Finance Bill 2011 will introduce legislation for interim improvements to the Controlled foreign company (CFC) rules.

The changes proposed will:

- Modernize aspects of the rules so as to exempt commercially justified activities that both business and HM Revenue & Customs (HMRC) agree do not erode the UK tax base; and

- Introduce other improvements that will help UK businesses that wish to undertake overseas acquisitions and reorganizations and non-UK businesses that want to invest or locate in the UK.

A full reform is expected in 2012.

## **2.12. Taxation of Foreign Branches**

The finance Bill 2011 will introduce legislation to exempt the profits of foreign branches of UK resident companies from corporation tax (CT), precluding the need for credit relief to prevent double taxation. Companies will be able to opt into this exemption regime. Any such election will be irrevocable.

## **3 VALUE ADDED TAX**

### **3.1. Registration and de-registration thresholds**

With effect from the 1 April 2011, the VAT registration and de-registration limits will be increased as follows:

- the taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £70,000 to £73,000;
- the taxable turnover threshold, which determines whether a person may apply for de-registration, will be increased from £68,000 to £71,000; and
- the registration and de-registration threshold for relevant acquisitions from other EU Member States will also be increased from £70,000 to £73,000.

### **3.2. Mandation of online VAT registration and filing of VAT returns**

As from the 1 August 2012 all applications for registration and de-registration, and any notification of changes to the business, must be notified on-line. (Currently, businesses whose turnover is under £100,000 are not obliged to make notifications on-line).

VAT registered businesses who are not currently required to file their returns on-line will be required to do so for VAT accounting periods beginning on or after the 1 April 2012 (subject to the outcome of a consultation process this year).

### **3.3. Other Matters**

Other indirect tax announcements were as follows:

- New fuel scale charges will apply to VAT accounting periods beginning on or after the 1 May 2011.
- The Low Value Consignment Relief, which allows goods of a current value of £18 to be imported into the EU VAT free, is to be reduced to £15 with effect from the 1 November 2011. This will affect importers of low value goods from outside of the EU, such as those importing CD's, DVD's etc. The UK is also to consult with the European Commission as to how to implement further measures to prevent this import concession being exploited.
- The consultation process on the possibility of introducing a cost sharing exemption is continuing. The introduction of such an exemption will obviously benefit organisations such as charities, housing associations and universities.
- There are a number of other specific VAT changes in relation to diplomatic privilege, VAT grouping involving overseas members, public bodies and imported road vehicles which are not detailed in this publication.

## **4 CHARITIES**

### **4.1 IHT**

A reduced rate of Inheritance tax will apply where 10% or more of the deceased Estate is left to a charity. The current 40% rate will be reduced to 36%.

### **4.2 Donor Benefits**

Donations of over £10,000 to charities where an individual receives a benefit will be eligible for gift aid tax relief if the value of the benefit is less than £2,500. The limit was previously £500.

### **4.3 Self Assessment Donations**

Self assessment taxpayers will no longer be able to donate tax repayment direct to charities via their tax return from 2011-12 onwards.

### **4.4 Gift Aid**

From April 2013 charities will be able to claim gift aid relief on donations of £10 or less (up to £5,000 in total) without the need to obtain gift aid donation forms. In 2012-13 HMRC will introduce online filing of gift aid tax for charities.

## **5 MISCELLANEOUS**

### **5.1 Stamp Duty Land Tax-Reform of Rules for Bulk Purchasing**

Currently a purchaser acquiring multiple properties can pay a higher rate of tax than a purchaser acquiring a single property. Legislation will be introduced to provide a relief for purchasers of residential property who acquire more than one dwelling. Where the relief is claimed, the rate of SDLT is determined by the total consideration divided by the number of dwellings - subject to a minimum of 1%.

### **5.2 Disguised Remuneration**

Legislation is to be introduced to counter arrangements that are being used by some employers, directors and employees to avoid or reduce tax liabilities through the use of trusts and other vehicles. A new income tax charge will apply to these third party arrangements that provide an employee with reward, recognition or a loan in connection with their employment. The new income tax charge will be based on either the sum of money made available or the higher of the cost or market value where an asset is used.

This measure also applies to similar avoidance schemes that exist to avoid the restrictions on pensions relief.

### **5.3 Mutual Assistance Recovery Directive**

This EU directive will be implemented and it will enable EU Member States to provide each other with assistance in the recovery of tax debts and duties. It will include powers to serve documents and the exchange of information in connection with the recovery of claims.

### **5.4 Redundant Reliefs**

The Government has identified a number of reliefs that have either no further use, are poorly targeted or have an administrative burden that outweighs their benefit. 43 reliefs have been identified for withdrawal some with immediate effect and others after a period of consultation.

Reliefs earmarked for withdrawal include the exemption from tax for employers providing late night taxis, meals on 'cycle to work' days and luncheon vouchers to employees. Other reliefs to be withdrawn include the capital allowances available in respect of the flat conversion allowance and expenditure on safety at sports grounds as well as land remediation relief.

Some of the obsolete reliefs being withdrawn include the annual exemption from tax on the first £70 of interest from NSI 'Ordinary Accounts' as these accounts have not been available since 2004 and the withdrawal of the obsolete 'Millennium' Gift Aid relief only available for gifts made up to 31 December 2000 as the name suggests!

### **Disclaimer**

No responsibility can be taken for any action taken or refrained from being taken in accordance with these notes. Before undertaking any tax planning professional advice should be obtained. These notes are based on Budget Day press releases issued by HM Revenue and Customs and may or may not become law.