



Budget 2011 - A brief summary of the main points

Income & Personal Taxation

- The main headline is the consultation about the proposed merger of NIC and income tax. It is unclear if this is simply a merger of the rules or a full merger of the “taxes”. Also nothing has been said about employers NIC which is unlikely to be scrapped as it brings in some £50 billion a year. This is a major issue and will take some time to formulate.
- In addition to this there are changes to the collection of class 2 NIC. This will be collected on 31 July and 31 January in the future. Although these are the same dates for payments under self assessment they will be collected separately. This appears to be the start of the merger as surely they will be added to the SA collections eventually.
- The approved mileage allowance payment rate will increase by 5p per mile from April. That means that the first 10,000 miles claim is at 45p with 25p thereafter. That is £500 of tax freemileage for high mileage drivers.
- The income tax relief available for investments into EIS will increase to 30% from April and the thresholds for EIS and VCT investments will increase in April 2012 subject to State Aid approval from the EU.
- Although previously announced it has been confirmed that the annual allowance for tax relief on pension contributions reduces from £255,000 to £50,000 from April 2011.
- CGT The annual exemption like personal allowances will now increase using CPI not RPI. This will mean that the increases will be lower than using RPI.
 - Additionally the ceiling for entrepreneur’s relief is increased to £10 million.

Corporate and Business Taxation

- Corporation Tax -There is to be an acceleration of the reduction in the main rate of CT. This means that from 2011 the rate will reduce to 26% with further reductions yearly so that the rate will be 23% from 2014. The small companies’ rate will also reduce to 20% from 1 April 2011.

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- R&D Another consultation document is to be issued on R&D credits with a view to relaxing the rules. State Aid approval will be needed for these to be implemented so nothing can happen until April 2012.
- Capital Allowances -Tax relief on the equipment for electricity generation under the Feed in Tariff scheme and the Renewable Heat Incentives will be looked at with measures being introduced in the 2012 finance bill.
 - The length of a shortlife asset pool is to be increased to 8 years from the current 4. There is also a previously announced reduction in the rates of Writing Down Allowances. The rates reduce from 20% to 18% on the main pool and 10% to 8% on the special rate pools from 2012.
 - The already announced reduction in AIA relief in April 2012 from £100,000 to £25,000 is confirmed.
- 21 new Enterprise Zones are to be introduced. There will be a focus in giving enhanced capital allowances for high value manufacturing in these areas.
- VAT - An ESC which allows for overseas group companies to be disregarded in certain circumstances will be consulted upon in May 2011 with a view to establishing a statutory relief.

Residence and Domicile

- Residence - A consultation document is to be issued with regard to a statutory residence test. This is hoped to be in place for April 2012. This follows confusion and controversy with the Gaines Cooper case which is going through the courts at present.
- Domicile - Again a consultation document will be issued on various changes to the non-domicile rules. This is likely to be issued in July. The proposals will include the removal of remittance basis if the remittance is used for investment into a UK business and a new charge to supplement the £30,000 charge currently in place with a one of £50,000 for non-domiciles who have been in the UK for 12 years.

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Charitable Giving, Savings and IHT

- ISA's for under 18's are to be introduced from autumn 2011. It is not clear if there will be a restriction on these as to the source of the funds, in terms of parental gifts, as there are with the usual investments for minor children. We await the detail.
- Gift aid - From April 2013 charities and CASC's will be able to claim gift aid on small gifts (£10 or less) without gift aid declarations, subject to a £5,000 donation limit. HMRC will also be moving the claims to an online form from 2012/13.
 - The amount of benefit the person making the donation receives potentially restricts the relief available. Where the value of the benefit provided is worth more than 5% of the donation no relief is available. In addition to this there was an annual value limit of £500. This is to increase to £2,500 from April 2011.
 - The ability to donate tax refunds through the self assessment return will stop. This was apparently seldom used and a source of anxiety for HMRC, in terms of online security.
- IHT - Where 10% of an estate is gifted to charity a reduced rate of tax will apply to the estate. This is to be introduced from April 2012.

Anti-Avoidance and Administration

- Avoidance -The government will be looking at what they call "high risk cases" for avoidance and will report again next year with a view to including legislation in April 2013. The areas they are starting with are income tax losses and unauthorised unit trusts. More will be added later.
- The government also is looking to introduce from April 2012 measures to restrict the relief available where arrangements are made using double tax treaties to avoid UK tax. A lot of tax mitigation schemes use measures like this so it could stop a number of them from being effective in the future (assuming that they are not ineffective now).
- Measures have also been introduced that will stop a number of SDLT avoidance schemes.

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- Dishonest tax agents. A consultation process is to continue in this area. It is proposed that new legislation will be available in July.
- OTS The office of tax simplification has looked at IR35 and suggested that it should be abolished or revised. HMRC however have decided that IR35 is staying for now. HMRC are to provide some additional guidance and “assistance”. However, we await the proposals for the merger of NIC and tax which may make IR35 obsolete.

The OTS also identified a number of reliefs that could be removed. Most of these were rarely used and will not be missed.

Should you have any questions relating to the budget please do contact us.

Professional Tax Consultancy