

Budget 2011



23 March 2011

This presentation is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this presentation.

This presentation represents our understanding of law and HM Revenue & Customs practice as at 23 March 2011.

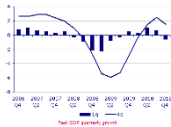
Budget themes

Plan A.
Because there
is no Plan B.

- **Plan A continues: there is no Plan B**
- **Borrowing in 2010/11 expected to be £2.6bn below previous forecast – still over £145bn**
- **But 2011 economic growth forecast cut to 1.7%**
- **No big surprises**
 - A flood of consultations since June
 - Draft Finance Bill 2011 clauses published last December
 - Most tax and benefits changes announced in 2010

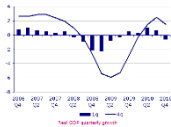


Personal tax allowances



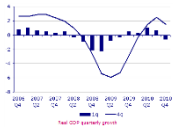
- **Main Allowance rises by £1,000 to £7,475 in 2011/12**
 - Benefit clawed back from higher rate taxpayers through smaller basic rate band
 - Other allowances generally rise by 4.7%
- **Main Allowance rises by £630 to £8,105 in 2012/13**
 - Benefit reduced for higher rate taxpayers by £630 reduction in the basic rate band
 - Higher rate tax starting point unchanged
- **CPI to be used for indexation from 2012/13**

Personal tax allowances



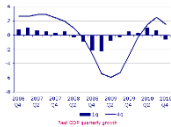
- **Personal allowance phased out above £100,000**
 - No indexation of limit
 - Allowance reduced by £1 for each £2 of excess
 - No personal allowance above:
 - £114,950 income in 2011/12
 - £116,210 income in 2012/13
 - Effective marginal tax rate 60% in band above £100,000 until allowance lost completely

Personal – income tax rates



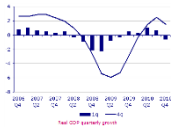
- **Starting rate of tax 10% up to £2,560**
 - Not available if non-savings taxable income >£2,560
- **Basic rate up to £35,000 – a drop of £2,400**
 - 20% generally, but 10% for dividends
 - Another £630 drop to £34,370 in 2012/13
- **Higher rate up to £150,000**
 - 40% generally, but 32.5% on dividends
- **'Additional rate' over £150,000 – no indexation**
 - 50% generally, but 42.5% on dividends
 - Effectiveness will be reviewed – 'temporary'.

Personal tax – ISAs



- **Higher limits**
- **2011/12 maximum investment** **£10,680**
- **2011/12 cash element** **£ 5,340**
- **RPI indexation this year**
 - But CPI indexation from next year
- **Junior ISA available from autumn 2011**
 - Details out very soon

Personal tax – VCT and EIS



- **EIS and VCT**

- EU State aid changes from 6 April 2011

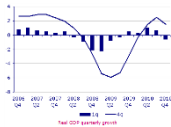
- **EIS**

- Relief increases to 30% from April 2011.
- Investment limit rises to £1,000,000 from April 2012

- **VCT and EIS Investment Companies – April 2012**

- Up to 249 employees
- Gross assets up to £15m
- Investment up to £10m

Cars and vans



- **Company car benefit April 2011**

- Main CO₂ threshold (15%) cut by 5g/km to 125g/km
- LPG, E85 etc reductions abolished
- 75g/km or less – 5% charge
- £80,000 list price limit abolished
- No change for vans
- Further 1% increase in scale rates in 2012/13



- **Fuel benefit**

- Basis figure for cars rises to £18,800, vans unchanged

- **Approved Mileage Payments**

- 45p/mile from April 2011

National insurance contributions

- **Limits**

- Lower earnings limit rises to £102 a week for 2011/12
- Primary (employee) threshold rises to £139 a week
- Secondary (employer) threshold rises to £136 a week
- Upper earnings limits falls to £817 a week

- **Rates**

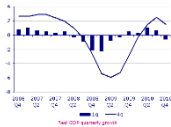
- 1% increase in all main rates
- Total NIC cost up to 13.8% + 12% = 25.8%

- **Contracting out**

- Personal pension rebate amounts fall at high income levels
- Money purchase contracting-out to end from April 2012
- Final salary NIC rebates cut by 0.5% from April 2012



Pensions



- **Annual allowance falls to £50,000 for 2011/12**
 - Stays there until at least 5 April 2016
 - Annual allowance charge will match tax relief given
 - New three year 'carry forward' facility – backdated to 2008/09 with an overall maximum of £150,000
- **Special annual allowance disappears after 5 April**
- **Lifetime allowance falls to £1.5m in 2012/13**
 - Future allowance increases very unlikely in short term
 - 'Fixed protection' option available until 5 April 2012
 - Implies no further contributions after 5 April 2012

Pensions

- **New income drawdown rules**

- Lower maximum income limits
- 'Flexible drawdown' available for those with £20,000+ secured income
- Three yearly reviews until age 75, one year thereafter
- 55% tax charge on lump sum death benefit, but no IHT

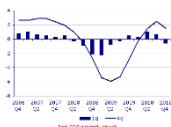
- **Alternatively secured pensions**

- Abolished from 6 April 2011
- Replaced by continuing drawdown

- **Do Nothing**

- Fund can be left uncrystallised until death
- But 55% tax charge from age 75 onwards





'Disguised remuneration'



- **Targets**
 - Employee Benefit Trusts (EBTs)
 - Employer Financed Retirement Benefit Schemes (EFRBS)
- **No deferral/avoidance of NICs or income tax**
- **Attack trailed in June 2010 Budget**
- **Measures announced 9 December 2010**
- **New law takes effect from 6 April 2011**
- **BUT....**
 - Relevant anti-forestalling measures closed opportunity from 9 December 2010



Capital taxes

- **CGT rate and annual exemptions 2011/12**

- Rates of tax 18% / 28%
- Individual £10,600
- Trusts £5,300

- **IHT**

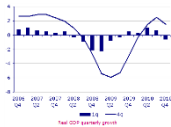
- Nil rate band frozen at £325,000

- **Stamp Taxes**

- 5% rate for £1m plus purchases from 6 April 2011
- £250,000 first buyer threshold ends 24 March 2012
- Average price sets rate for portfolio buyers
- New attack on SDLT avoidance schemes

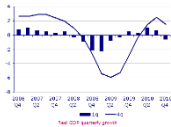


Corporation tax



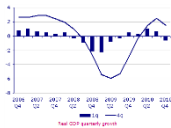
- **Main rate from April 2011: 26%**
 - 2% cut from 2010 – 1% had been expected
 - Falls to 23% by 2014
- **Small profits rate from April 2011: 20%**
- **Effective marginal rate from April 2011: 27.5%**
- **Thresholds remain at 1994 levels**
 - Up to £300,000
 - £300,000 – £1.5m
 - Over £1.5m

Capital allowances, R&D reliefs



- **Annual Investment Allowance remains at £100,000, but falls to £25,000 in 2012**
- **Main plant and machinery (P & M) rate of writing down allowance still 20%, falling to 18% in 2012**
- **Rate of R&D tax credit for SMEs rises to**
 - 200% from April 2011
 - 225% from April 2012
 - Subject to EU State aid approval

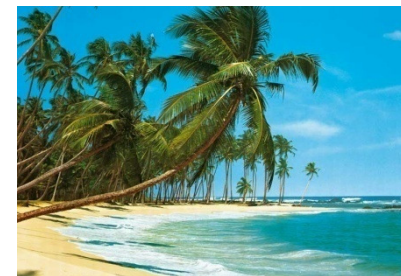
VAT



- **VAT rates: no change**
- **Turnover limits**
 - Registration limit £73,000
 - Deregistration limit £71,000
- **Fuel scale charges**
 - Revised upwards
- **Low value consignment relief**
 - Maximum value for VAT-free imports cut to £15 from November 2011
- **All returns and payments online from April 2012**



Non-domiciles, etc



- Consultation on further measures
- **£50,000 annual charge for those with 12 or more years UK residence from 2012/13**
- **Exemption for remittances used for commercial investment in UK business**
- **No more changes in this Parliament**
- **New statutory residence test from 2012**

Charities



- **Gift Aid benefit limits ceiling raised to £2,500**
 - Only applies for gifts of £10,000+
 - But 5% limit remains
 - £50,000 minimum gift to trigger full new limit
- **Automatic relief for up to £5,000 of small donations (£10 or less)**
- **Online filing introduced in 2012/13**
- **IHT relief for 10% of estate gifts**
- **Self assessment donation to be scrapped**



Tax simplification

$$P_r = P_t \int \frac{\lambda^2 g_t g_r}{(4\pi)^2 r_1^2 r_2^2} \sigma dV$$

- **43 'outdated' reliefs to be abolished**
 - 7 from April 2011, including millennium gift aid
- **Rest from April 2012 onwards**
 - Luncheon vouchers
 - Late night taxis
 - Life assurance premium relief
 - Black Beer
 - Angostura bitters
- **Consultation on merging NICs and income tax**
 - Not a quick fix



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