

Budget Summary



Budget

Summary

23 March 2011

Note: It must be remembered that these proposals are subject to amendment.

PERSONAL TAXATION	2011/12	2010/11	CAPITAL GAINS TAX	2011/12	23.6.10– 5.4.11
<i>Personal allowance</i>					
general	£7,475	£6,475	Rate — standard rate	18%	18%
personal allowance income limit	£100,000	£100,000	— higher rate	28%	28%
aged 65 or over in tax year	£9,940	£9,490	— trustees and personal		
aged 75 or over in tax year	£10,090	£9,640	representatives	28%	28%
age allowance income limit	£24,000	£22,900	— entrepreneurs' relief rate	10%	10%
minimum where income			General exemption limit	£10,600	£10,100
exceeds limit	£7,475	£6,475			
<i>Married couple's allowance</i> (10% relief)			INHERITANCE TAX	Transfers after 5/4/2009	
either partner aged 75 or			Threshold		£325,000
over in tax year	£7,295	£6,965	Death rate		40%
age allowance income limit	£24,000	£22,900			
minimum where income			VAT		
exceeds limit	£2,800	£2,670	Standard rate after 3 January 2011		20%
<i>Blind person's allowance</i>	£1,980	£1,890	Standard rate 1 Jan 2010 to 3 Jan 2011		17.5%
<i>Income tax rates</i>			Registration threshold after 31 March 2011		£73,000
Starting savings rate	10%	10%	(previously £70,000 after 31 March 2010)		
on income up to	£2,560*	£2,440*			
Basic rate	20%	20%	NATIONAL INSURANCE	2011/12	
on taxable income up to	£35,000	£37,400			
Higher rate	40%	40%	(2010/11 in brackets where different)		
on taxable income over	£35,000	£37,400	Class 1 contributions		
Additional rate	50%	50%	<i>Not contracted out</i>		
on taxable income over	£150,000	£150,000	The employee contribution is 12% (11%) of earnings between £139		
Lower rate on dividend income	10%	10%	(£110) and £817 (£844) p.w. plus 2% (1%) of all earnings above		
Higher rate on dividend income	32.5%	32.5%	£817 (£844) p.w. The employer contribution is 13.8% (12.8%) of all		
Additional rate on dividend income	42.5%	42.5%	earnings in excess of the first £136 (£110) p.w. Between £102 (£97)		
<i>Pension schemes allowances</i>			and £139 (£110) p.w., no employee contributions are payable but a		
Annual allowance	£50,000	£255,000	notional contribution is deemed to have been paid to protect		
Lifetime allowance	£1,800,000	£1,800,000	contributory benefit entitlement.		
<i>ISAs</i>			<i>Contracted out</i>		
overall limit	£10,680	£10,200	The 'not contracted out' rates for employees are reduced on the		
cash limit	£5,340	£5,100	band of earnings from £102 (£97) p.w. to £770 p.w. by 1.6%. For		
			employers, they are reduced on the band of earnings from £102		
			(£97) p.w. to £770 p.w. by 3.7% for employees in salary-related		
			schemes or 1.4% for employees in money purchase schemes.		
			Class 1A and 1B contributions		13.8% (12.8%)
			Class 2 contributions		
			Flat weekly rate		£2.50 (£2.40)
			Exemption limit		£5,315 (£5,075)
			Class 3 contributions		
			Flat weekly rate		£12.60 (£12.05)
			Class 4 contributions		
			9% (8%) on the band of profits between £7,225 (£5,715) and £42,475		
			(£43,875) plus 2% (1%) on all profits above £42,475 (£43,875).		
COMPANY TAXATION	FY2011	FY2010			
<i>Corporation tax rates</i>					
All companies (except below)	26%	28%			
Companies with small profits	20%	21%			
— 20 / 21% rate limit	£300,000	£300,000			
— marginal relief limit	£1,500,000	£1,500,000			
— marginal relief fraction	3/200	7/400			
— marginal rate	27.5%	29.75%			

*Starting rate applies only to savings income. If taxable non-savings income is above this limit, the starting rate is not applicable.

ADMINISTRATION OF TAX

Security for PAYE and National Insurance Contributions

HMRC will have the power to make regulations enabling them to require a security from employers for PAYE and National Insurance contributions considered seriously at risk of non-payment. Non-payment of a security will be a criminal offence liable to a fine.

The most common form of security is a cash deposit held by HMRC or paid into a joint HMRC/taxpayer interest-bearing banking facility. A security can also be a third party guarantee provided by an approved financial institution, normally a bank.

Subject to consultation responses, the aim is to implement the policy on 6 April 2012.

PERSONAL TAX

Rates and Allowances for 2012/13

For 2012/13 the personal allowance for those under 65 will be increased to £8,105, and there will be a reduction in the basic rate limit to £34,370. All other income tax personal allowances and limits subject to indexation will be increased in line with the Retail Prices Index.

Furnished Holiday Lettings

Legislation will be introduced in Finance Act 2011 to amend the tax treatment of furnished holiday lettings (FHL) as follows. The changes have effect on and after 1 April 2011 for companies and on or after 6 April 2011 for individuals and partnerships, unless indicated otherwise:

- FHL in both the UK and the European Economic Area (EEA) will be eligible as qualifying FHL. This treatment is currently non-statutory;
- the minimum period over which a qualifying property must be available for letting to the public in the relevant period will be increased from 140 days to 210 days in a year with effect from April 2012;
- the minimum period over which a qualifying property is actually let to the public in the relevant period will be increased from 70 days to 105 days in a year with effect from April 2012;
- losses made in a qualifying UK or EEA FHL business may only be set against income from the same UK or EEA FHL business; and
- a 'period of grace' will be introduced to allow businesses that do not continue to meet the 'actually let' requirement for one or two years to elect to continue to qualify throughout that period.

Income Tax and National Insurance Contributions Reform

The Government is to consult on options to integrate the operation of income tax and National Insurance contributions (NICs). A consultation document is to be published later in 2011 setting out current differences and options to address them. The contributory principle of NICs is to be retained and NICs will not be extended to those over state pension age or to additional forms of income.

Non-domicile Taxation

Changes are to be introduced to the tax regime for non-UK domiciled individuals. The Government intends to implement the changes with effect from April 2012 following consultation on the detail. The changes will include removing the tax charge on remittances of income or capital gains to the UK for the purposes of commercial investment and introducing a higher £50,000 annual charge for individuals who have been UK resident for 12 years or more who claim the remittance basis.

Statutory Residence Test

The Government is to consult on the introduction of a new statutory definition of residence. A consultation document will be published in June 2011 with the intention of implementing the definition from April 2012.

EMPLOYMENT TAX

Company Car Benefits

For 2011/12 the multiplier used to calculate the taxable benefit of free fuel for company cars is increased to £18,800.

For 2013/14 onwards, the percentages used to calculate the taxable benefit of a company car will be increased by one percentage point for all cars with carbon dioxide emissions between 95g/km and 220g/km.

Approved Mileage Allowance Payments

Regulations will be laid immediately to increase, from 6 April 2011, the rate of approved mileage allowance payments for cars and vans from 40 pence to 45 pence for the first 10,000 miles of business travel in a tax year. HMRC guidance will also be updated to permit an allowance for passenger payments currently in place for employees at a rate of 5 pence per passenger per mile to be extended to volunteers.

Employer-supported Childcare

Finance Act 2011 will restrict the level of income tax relief available to higher rate and additional rate taxpayers so that it matches the amount available to basic rate taxpayers. This will be achieved by reducing the monetary value of the income tax exemption for higher rate and additional rate taxpayers.

For those joining employer-supported childcare (ESC) schemes on or after 6 April 2011, the income tax exemption will be limited as follows:

- basic rate taxpayers, £55 per week;
- higher rate taxpayers, £28 per week; and
- additional rate taxpayers, £22 per week.

The change will apply only to individuals who join ESC schemes on or after 6 April 2011. Those who were members of ESC schemes prior to that date will be unaffected by the change.

National Insurance: Reduction in the Contracting Out Rebate

The contracted out rebate for defined benefit schemes is to be reduced for 2012/13 onwards from 3.7% to 3.4% for employers and from 1.6% to 1.4% for employees.

BUSINESS TAX

IR35 Review

In response to the Office of Tax Simplification's proposals, the Government has decided to retain IR35 but improve the way it is administered. Changes will aim to provide greater pre-transaction certainty, greater clarity through publishing guidance on the types of cases HMRC believe to be outside the scope of IR35, limit reviews to high-risk cases carried out by specialist teams and establish an IR35 forum to promote more effective engagement with interested parties.

CAPITAL ALLOWANCES

Annual Investment Allowance: Reduction to £25,000

The maximum amount of Annual Investment Allowance, which enables businesses to claim full tax relief on most plant and machinery expenditure in the year it is incurred, is to be reduced from £100,000

to £25,000. The decrease in the limit will apply from 1 April 2012 for businesses within the charge to corporation tax and 6 April 2012 for businesses within the charge to income tax.

Transitional rules will apply to businesses that have a chargeable period that spans the operative date of the decrease.

Writing-down Allowances: Reduction from April 2012

Finance Act 2011 will introduce legislation to reduce the rate of writing-down allowance (WDA) on the main rate pool of plant and machinery expenditure from 20% to 18%. The rate of WDA on the special rate pool of plant and machinery expenditure will be reduced from 10% to 8%. The provisions will have effect for chargeable periods ending on or after 1 April 2012 for corporation tax, and on or after 6 April 2012 for income tax. Businesses whose chargeable period spans the date of the change will have a hybrid rate for the whole of that transitional chargeable period, calculated on a pro-rata basis. Oil and gas ring-fence activities will retain their existing capital allowances treatment.

Short-life Assets

Legislation will be introduced in Finance Act 2011 to enable businesses incurring expenditure on an item of plant or machinery from April 2011 onwards to make a short-life asset election in respect of that item if they expect to sell or scrap it within an eight-year cut-off period. This is an extension from the current four year period.

Enhanced Capital Allowances for Energy-saving Technologies

The list of technologies which qualify for enhanced capital allowances will be amended to include certain energy-efficient hand dryers. The criteria for automatic monitoring and targeting equipment will also be revised. The changes will have effect on and after a date to be appointed by Treasury Order to be made prior to the summer 2011 Parliamentary recess.

Generating Equipment

The Government is proposing to introduce legislation to clarify the capital allowances treatment of generating equipment installed by businesses under the feed-in-tariffs and renewable heat incentive schemes. A consultation document is to be issued in May 2011.

Enterprise Zones

The Government has announced the creation of 21 new Enterprise Zones.

Anti-avoidance

Current capital allowances anti-avoidance legislation applies to transactions where the sole or main benefit is one of obtaining an allowance. The Government intends to change this test to one that is in line with effective anti-avoidance tests elsewhere in the Taxes Acts.

Fixtures Mandatory Pooling

The Government will consult on plans to introduce changes to the capital allowances fixtures rules requiring that businesses must pool their expenditure on fixtures in a building within a short period of acquiring the building, in order to qualify for capital allowances.

CORPORATION TAX

Reduction in Main Rate

Legislation will be introduced in the Finance Act 2011 to reduce the main rate of corporation tax for all non-ring fence profits from 28% to 26% for the financial year beginning 1 April 2011, and from 26%

to 25% for the financial year beginning 1 April 2012. The main rate for ring fence profits will remain at 30%.

Reduction in Small Profits Rate

The small profits rate of corporation tax for all non-ring fence profits will be reduced from 21% to 20% for the financial year beginning 1 April 2011. The small profits rate for ring fence profits will remain at 19%.

Reform of Associated Companies Rules

The threshold at which the small profits rate applies is proportionally reduced depending upon the number of associated companies (i.e. companies under common control) there are in a group. For accounting periods ending on or after 1 April 2011, legislation will ensure that when establishing control of a company, HMRC will not attribute to an individual all the rights and powers of a person's relatives unless there is 'substantial commercial interdependence' between the companies in question. This legislation will put a long-standing concession (ESC C9) on to a statutory footing and extend it to all relatives.

Taxation of Foreign Branches

With effect for accounting periods commencing on or after Royal Assent to Finance Act 2011, UK resident companies may opt for their foreign branches to be exempt from UK corporation tax. No relief will be available for foreign branch losses (subject to transitional arrangements that will ensure that any outstanding loss relief claimed in the last six years is recaptured by the Exchequer). The election will apply to all foreign permanent establishments and will be irrevocable.

Other significant features include anti-avoidance provisions, a profit entry limit, and restriction to profits from full treaty partner jurisdictions for small companies. The exemption will apply to some, but not all, life insurance companies.

Research and Development

For expenditure incurred on or after 1 April 2011, and subject to EU state aid approval, the additional corporation tax deduction for qualifying research and development (R&D) expenditure given to small or medium enterprises (SMEs) will increase from 75% to 100% (giving a total deduction of 200%). The rate of Vaccine Research Relief for SMEs will be reduced to 20% from the same date.

The Government also intends from 1 April 2012 to:

- increase the SME relief by a further 25% (to 225%), again subject to state aid approval; and
- abolish Vaccine Research Relief for SMEs.

The Finance Act 2012 will:

- simplify R&D tax relief rules for SMEs, including the abolition of the £10,000 minimum expenditure condition and the limitation to PAYE and National Insurance contributions paid; and
- make changes to the rules governing the provision of relief for work done by subcontractors under the large company scheme.

Interim Controlled Foreign Company Reform

Legislation will be introduced in Finance Act 2011 to deliver a package of interim improvements to the controlled foreign company rules as a first step to making the rules more competitive ahead of full reform in 2012.

Capital Losses after Change of Ownership (Simplification)

From the date of Royal Assent to Finance Act 2011, capital losses realised before a change in ownership of a company may only be used against gains arising on assets used in the same business that

the company conducted before joining the group. (Currently this restriction applies to both realised and unrealised gains and such gains can only be offset against gains on assets used in the same trade.)

Companies will be able to elect whether restricted 'pre-entry losses' or other losses have been allowed against gains. The circumstances in which restricted losses may be utilised are to be extended. Once a loss has become subject to restriction then the same restriction continues to apply should the company subsequently join another group.

Where a loss on the disposal of an asset after a company joined a group is subject to restriction under the current rule, then it will be treated as one that arose before the company joined the group for the purposes of the amended rules.

Degrouping Charge

For companies leaving groups on or after the date of Royal Assent to Finance Act 2011, the following changes are to be made to the operation of the degrouping charge:

- where a company leaves a group as a result of a disposal of shares by a group company, any degrouping charge will be made by way of an adjustment to the chargeable gain or allowable loss on the share disposal; consequently any exemption or relief that may apply to the share disposal (e.g. substantial shareholding exemption (SSE)) will also apply to the degrouping charge; alongside this amendment the SSE rules will be amended so that (for disposals on or after the date of Royal Assent to Finance Act 2011) they will apply when trading activities are transferred to a newly incorporated group company which is then sold out of a trading group;
- the degrouping charge may be reduced where it is just and reasonable to do so, taking into account the amount of share capital of the companies being sold, and the circumstances under which the company leaving the group acquired the asset which gives rise to the charge;
- the associated companies exception will be clarified to ensure that no degrouping charge will be triggered in respect of an asset that has been transferred between two companies belonging to the same sub-group if those companies leave the group together (identical provisions will also be introduced for intangible assets);
- the facility to roll over a degrouping charge on the acquisition of a replacement asset will be repealed; and
- the current rules permitting an election to be made to reallocate a gain or loss to another group company will be extended so that they can also apply to a stand-alone degrouping gain or loss. As a result of this, the specific facility to transfer a degrouping charge between group companies will be repealed.

In addition, anti-avoidance provisions have been announced which will apply where a company leaves a group on or after 23 March 2011. These provisions target avoidance using the current associated companies exception, and will ensure that the degrouping charge cannot be avoided by a series of transactions undertaken within a group before a disposal.

Corporate Capital Gains: Value Shifting (Simplification)

Legislation will be introduced in Finance Act 2011 to simplify anti-avoidance rules applying to the computation of corporate capital gains and losses. Value shifting provisions increase the consideration used to compute a gain or loss on the disposal of an asset if a scheme has reduced the asset's value and confers a tax advantage. The proposed legislation will replace existing value shifting provisions with a new targeted anti-avoidance rule. It will also only require a loss computation on a company share disposal for the effect of depreciatory

transactions if it takes place less than six years before the sale. The measure will have effect where companies dispose of shares or securities on or after the date that Finance Act 2011 receives Royal Assent.

Loan Relationships and Derivative Contracts (Disregard) Regulations

The Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 (SI 2004/3256) provide that, in certain circumstances, the debits and credits on a company's loan relationships and derivative contracts are not brought into account for tax purposes until some later time. The foreign exchange gains and losses on the loan relationship or derivative contract are matched with the equal and opposite foreign exchange gains and losses on the foreign exchange asset, and are not brought into account until the foreign exchange asset is disposed of. At present, the rules on the matching of share capital do not provide for tax to follow the economic outcome where companies invest in foreign currency assets through a partnership, or where a company sells foreign currency shares but expects to receive the proceeds at a later date.

The Regulations will be amended to allow companies to be taxed on the basis of the economic outcome where they issue foreign currency preference share capital to raise foreign currency finance, invest directly in foreign currency partnerships or in foreign currency assets through a partnership, or agree to sell foreign currency shares and receive the proceeds at some future date. The changes relating to foreign currency preference shares and the net asset value of foreign currency shareholdings will take effect for accounting periods beginning on or after 1 July 2011.

The changes relating to investment in foreign currency partnerships, and the future disposal proceeds of foreign currency shares, will take effect for accounting periods beginning on or after 1 January 2012.

Amendments to the Tax Treatment of Financing Costs and Income

The ongoing consultation on the debt cap rules has identified practical issues with their application that need to be addressed. The Government will conduct informal consultation with stakeholders. Following this further consultation, legislation will be published in draft in autumn 2011 and introduced in Finance Act 2012. The legislation will aim to allow businesses to more easily apply the debt cap rules.

Consultation on Devolving Corporate Taxation to Northern Ireland

The Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and on 24 March 2011 will publish a consultation paper looking at mechanisms for devolving the rate of corporation tax to the Northern Ireland Executive.

Patent Box

The Government proposes to introduce a 10% rate of corporation tax for profits arising from patents, effective from 1 April 2013. A consultation document will be published in May 2011.

CAPITAL GAINS

Increase in Lifetime Limit for Entrepreneurs' Relief

The lifetime limit on gains qualifying for capital gains tax entrepreneurs' relief will be increased from £5m to £10m for qualifying disposals on or after 6 April 2011.

Rollover Relief and the Single Payment Scheme

Legislation is to be introduced to restore the availability of capital gains tax rollover relief for payment entitlements under the EU single payment scheme. The current legislation has become ineffective following the replacement of the relevant EU Directive in January 2009.

INHERITANCE TAX**Reduced Rate**

The rate of inheritance tax will be reduced from 40% to 36% for deaths on or after 6 April 2012 where at least 10% of a deceased's net estate is left to charity.

SAVINGS AND INVESTMENTS**Enterprise Investment Scheme and Venture Capital Trusts**

Subject to state aid approval, Finance Act 2011 will introduce legislation to increase the income tax relief given under the Enterprise Investment Scheme (EIS) from 20% to 30% of the amount subscribed for shares from 6 April 2011. In addition, with effect from 6 April 2012, Finance Act 2012 will increase:

- the employee limit to fewer than 250 employees for both EIS and Venture Capital Trusts;
- the size threshold to gross assets of no more than £15m before investment for both schemes;
- the maximum annual amount that can be invested in an individual company to £10m; and
- the annual amount that an individual can invest under EIS to £1m.

Finance Act 2012 will also introduce legislation providing that companies whose trade consists mainly of feed-in tariffs or similar subsidies will only be able to benefit from the schemes for shares issued from 23 March 2011 where commercial electricity generation commences before 6 April 2012.

Introduction of Junior ISAs

The Government plans to introduce a Junior ISA, which is expected to be available from autumn 2011. They will be available to UK resident children aged under 18 who do not have a Child Trust Fund account and will be tax-relieved.

Qualifying Time Deposits

With effect from 6 April 2012, taxable interest on new qualifying time deposit accounts will suffer deduction of income tax at source.

PENSIONS**Reduction in Annual Allowance and Lifetime Allowance**

Although there are no limits to how much can be saved in registered pension schemes, there is an overall limit on the total amount of an individual's tax-relieved annual pension savings (including any employer contributions), known as the annual allowance. There is also an overall limit on the total amount of tax-relieved pension savings that an individual can have in his or her lifetime, known as the lifetime allowance. In both cases, tax charges apply if the allowance is exceeded.

The annual allowance is to be significantly reduced from £255,000 to £50,000 for 2011/12 onwards. The lifetime allowance is to be reduced from £1.8m to £1.5m from 6 April 2012.

There are also a number of other changes to the annual allowance rules for 2011/12 onwards as follows.

- The rate of the annual allowance charge (currently 40%) will be the individual's marginal tax rate.
- The method of computing pension savings (to be measured against the annual allowance) alters for defined benefits schemes and cash balance arrangements but not for money purchase arrangements; in particular, for defined benefit schemes, the valuation factor changes from 10 to 16.
- A carry-forward facility is introduced whereby any unused part of the annual allowance for a tax year is automatically carried forward for up to three tax years. The current year's annual allowance is always treated as used up first. If this is insufficient to avoid a charge, any unused annual allowance from the three previous years can then be used; the earliest year's unused allowance is used first and so on. Unused allowances for 2008/09, 2009/10 and 2010/11 can be carried forward to 2011/12, but, for this purpose only, the unused amount for any of those years is computed under post-2010/11 rules. Therefore, it is assumed that the annual allowance was only £50,000 for each of 2008/09, 2009/10 and 2010/11 and pension savings for those years are recalculated as if the new rules had already been in place.
- The annual allowance rules will normally apply in the year of taking benefits but there will be exemptions in the year of death or where the individual retires because of severe ill-health.
- Exemption from the annual allowance charge for those with enhanced protection will no longer apply.
- Inflation-linked increases in expected pensions for deferred members of schemes will not count towards the annual allowance charge.
- An individual with an annual allowance charge of over £2,000 will in most cases be able to elect for his pension scheme to pay the tax on his behalf, with his scheme benefits then being actuarially reduced.

Pension savings for a tax year are tested against the annual allowance over a 12-month period which does not necessarily match the tax year. The period is known as the pension input period. At 14 October 2010 when the reduction in the annual allowance was first announced, some individuals will already have been in a pension input period that started in 2010/11 and will end in 2011/12. Because it was originally expected that the 2011/12 annual allowance would remain at £255,000, those individuals may have already made pension savings of more than £50,000 for that pension input period. To cover this situation, there are transitional rules for such pension input periods. Broadly, in order to avoid an annual allowance charge:

- the pension savings for this transitional pension input period must not exceed £255,000; and
- the pension savings for that part of the transitional pension input period that begins on 14 October 2010 must not exceed £50,000.

As regards the lifetime allowance those with savings above £1.5m, or who believe the value of their pension fund will rise above this level through investment growth without any further contributions or pension savings, will be able to apply for a new personalised lifetime allowance of £1.8m providing they cease accruing benefits in all registered pension schemes before 6 April 2012. Applications must be received by HMRC before that date.

Removing the Effective Requirement to Annuitise by Age 75

Current legislation effectively imposes a requirement to use savings in defined contribution registered pension schemes to provide an income by age 75. The provisions imposing this requirement are amended or repealed with effect (broadly) from 6 April 2011. On and after that date members of such schemes who have not yet taken

a pension may defer the decision indefinitely. Changes also affect the use of a drawdown facility, treatment of lump sums, and inheritance tax effects.

Employer Asset-backed Pension Contributions

The Government will consult on changing tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes, so that tax relief accurately reflects the increase in fair value of the pension plan assets.

CHARITIES

Gift Aid Benefit Limits

The upper limit on benefits that donors making large donations to charities and community amateur sports clubs can receive, where donations of more than £10,000 are eligible for Gift Aid tax relief, will be increased from 6 April 2011 (or accounting periods ending on or after 1 April 2011 for corporate donors).

The overall limit is increased from £500 to £2,500 (still subject to a maximum 5% of the gift).

Self-assessment Donate Withdrawal

The Self-assessment Donate Scheme, under which taxpayers were able to direct that a tax repayment due from HMRC should instead be made direct to a charity of their choice, is to be withdrawn for tax returns for the year 2011/12 onwards and earlier years where repayments are made on or after 6 April 2012.

Substantial Donors to Charity

Following representation by the charity sector, the anti-avoidance legislation surrounding donations is to be revised to ensure better targeting and to reduce the administrative burden. The revised legislation will deny tax relief on donations only where the donor is party to arrangements the main purpose, or one of the main purposes, of which is to obtain a financial advantage for the donor or a connected person from the charity, either directly or indirectly. There will be a carve out for relevant housing providers and charitable payments made to a charity for onward transmission to a non-charitable body.

The revised legislation will have effect in relation to donations made on or after 1 April 2011.

Gift Aid

From April 2013 charities and community amateur sports clubs that receive small donations of £10 or less will be able to apply for a Gift Aid repayment on total donations of up to £5,000 without the need to obtain Gift Aid declarations, provided that they have been operating the Gift Aid scheme for at least three years and have a good compliance record.

In 2012/13 HMRC intend to introduce a new online system for charities to register their details for Gift Aid and to make Gift Aid claims.

ANTI-AVOIDANCE

Disguised Remuneration

There is to be anti-avoidance legislation included in Finance Act 2011 aimed at those who use third party arrangements, commonly involving trusts and other vehicles, to avoid, reduce or defer liabilities to income tax (and National Insurance contributions) on rewards of an employment. It will have effect for 2011/12 onwards but see also the anti-forestalling provisions below.

A new income tax (and National Insurance) charge will apply where a third party provides an employee with reward, recognition or a loan in connection with the employee's employment. Third party arrangements that are not tax avoidance will as far as possible be excluded; examples include genuine deferred remuneration arrangements which last less than five years and genuine commercial arrangements for the provision of designated employee car ownership schemes.

The legislation applies equally to third party arrangements that are used in addition to, or instead of, registered pension schemes to remunerate individuals above the annual and lifetime allowances for registered schemes.

The new income tax charge will apply to:

- sums or assets that are earmarked for employees by trusts or other intermediaries;
- loans provided to employees by trusts and other intermediaries;
- assets provided to employees by trusts and other intermediaries; and
- sums or assets that are earmarked by the employer with a view to a trust or other intermediary providing retirement benefits to the employee.

The charge will be based on:

- the full amount of any sum of money made available, including the value of any loan; and
- the higher of cost and market value of any asset used to deliver the reward or recognition, for example where the asset in question is transferred or otherwise made available for an employee's use and benefit as if the employee owned the asset.

The amount chargeable will be employment income and will also be PAYE income, which means that PAYE must be accounted for by the employer at the time the income is treated as arising to the employee, i.e. when the money, asset or loan is earmarked or provided.

Anti-forestalling provisions apply to the payment of sums and the provision of readily convertible assets (i.e. assets easily convertible into money) for the purposes of securing the payment of sums (including loans) where:

- the sum is paid, or the asset is provided, on or after 9 December 2010 and before 6 April 2011; and
- if it had been paid or provided on or after 6 April 2011, it would have been caught by the new legislation above.

Chargeable income will be deemed to arise on 6 April 2012 if the sum paid has not been repaid, or the readily convertible asset has not been returned, before that date and has not otherwise been charged to tax as earnings. It will be PAYE income.

Derecognition of Loan Relationships

Revised anti-avoidance rules are to be introduced to counter arrangements under which corporation tax profits fall out of account, or losses are claimed, as a result of the derecognition of a financial asset that is a loan relationship or a derivative contract. The provisions will apply where amounts in respect of such assets are not fully recognised in a company's accounts as a result of tax avoidance arrangements to which the company is a party, provided that the company continues to be party to the relationship or contract. Credits and debits will have to be brought into account as if the amounts concerned had been fully recognised. Furthermore, any losses arising from the derecognition of the asset will not be allowable. These rules will apply to debits and credits arising on or after 6 December 2010.

Additionally, with effect from 23 March 2011, a company will be required to bring into account any difference between the accounts carrying value and the fair value of a derivative contract as a credit for the period in which tax avoidance arrangements are entered into.

Loan Relationships, Derivative Contracts and Group Mismatches

New anti-avoidance provisions are to be introduced to prevent groups of companies using loan relationships or derivative contracts to gain a tax advantage as a result of asymmetries in the way the group members bring amounts into account for corporation tax purposes.

An interim measure will apply to debits and credits arising on or after 6 December 2010 and will deal with specific disclosed schemes. This will be replaced by a generic measure which will apply to arrangements to which a company is party on or after the date of Royal Assent to Finance Act 2011. This measure will impose symmetrical tax treatment where either:

- obtaining a tax advantage from asymmetrical treatment was certain from the start and the expected tax advantage is at least £2m; or
- one of the main purposes of any group company was to obtain the chance of a tax advantage and such an advantage is more likely to result from the scheme than a disadvantage.

Functional Currency of Investment Companies

An anti-avoidance provision is to be introduced to prevent companies retrospectively choosing a functional currency (the currency in which their profits are computed before conversion into sterling) in order to gain a tax advantage. The provision will apply for periods of account beginning on or after 1 April 2011 so that, where a company changes the currency in which accounts are drawn up, no foreign exchange gains or losses from loan relationships or derivative contracts will be brought into account for tax purposes in the first period of account under the new currency.

With effect from the same date a company whose main purpose is to make investments will also be able to make a prospective election for a functional currency for tax purposes, other than the currency of the accounts, where this reduces its compliance burden. An elected currency will only be acceptable if there is a reasonable basis for its use.

Plant and Machinery Leasing

HMRC have identified an avoidance scheme involving the sale, leaseback, and reacquisition of plant and machinery over a short period with the aim of claiming tax relief twice on a single amount of expenditure. The scheme is dependent on the lessee paying an amount under a guarantee of the value of the plant or machinery at the end of a long funding finance lease (the 'residual amount'). Legislation will be introduced to counter the scheme and to ensure that tax relief available to a lessee under such a lease, whether through capital allowances or otherwise, does not exceed his actual expenditure.

The legislation will have effect in relation to new arrangements guaranteeing a residual amount under a long funding finance lease entered into on or after 9 March 2011 and to pre-existing arrangements where payment under a guarantee has not been made prior to that date.

Sale of Lessor Companies

Changes are to be made to the sale of lessor company charge, and the option to elect out of the charge is to be removed. The changes are intended to ensure that the full amount of profits from a business of leasing plant or machinery that are deferred for tax purposes are brought into charge at the time of the sale. Broadly, the changes will apply where the sale or transfer triggering the charge takes place on or after 23 March 2011. Where an opt-out election is made in respect of the sale of a company before that date and there is a disposal event involving plant or machinery on or after that date, the full value of the

plant or machinery will have to be taken into account in calculating the disposal value.

Tax Treaties

Finance Act 2012 will include anti-avoidance legislation with the aim of ensuring that relief or exemption from UK tax will not be given where a claim is made under the UK's double taxation treaties and where arrangements have been made in relation to the claim to avoid tax. This is aimed at:

- UK residents (individuals, trustees and companies) who use tax avoidance schemes; and
- overseas residents who enter into arrangements to obtain benefits under the UK's double taxation treaties where they are not properly due.

STAMP TAXES

Stamp Duty Land Tax Avoidance

Finance Act 2011 will include three changes to stamp duty land tax to ensure that certain avoidance schemes are ineffective. The changes will apply on or after 24 March 2011. Subject to detailed transitional provisions, the changes will not apply to transactions or arrangements entered into before 24 March 2011 and completed on or after that date. The changes are as follows:

- the exception from the sub-sale rules relating to alternative finance reliefs will be extended to include all such reliefs;
- for the purpose of those reliefs, qualification as a financial institution will no longer be possible just by holding a consumer credit licence; and
- the chargeable consideration for exchanges involving a major interest in land will be the greater of the market value of the interest acquired and what the chargeable consideration would be under the normal rules.

Stamp Duty Land Tax: Bulk Purchases

Legislation is to be introduced in Finance Act 2011 to provide a relief for purchasers of more than one dwelling from the same vendor. Instead of the rate of stamp duty land tax being based on the total consideration, it will be based on the mean consideration, i.e. by the aggregate consideration divided by the number of dwellings (subject to a minimum rate of 1%).

VALUE ADDED TAX

Online Registration and Online Filing of Returns

The Government will require online VAT registration, deregistration and notification of changes with effect from 1 August 2012. The VAT registration threshold for businesses not established in the UK will also be removed from that date. The Government will also require all remaining VAT customers to file their VAT returns online and pay electronically from 1 April 2012.

Zero-rating: Splitting of Supplies

With effect from Royal Assent to Finance Act 2011, zero-rating will no longer apply to printed matter which is ancillary to a differently rated service where, if the service and printed matter had been supplied by a single company, the two supplies would have been treated as a single standard-rated, reduced-rated or exempt supply.

This is an anti-avoidance measure to combat the splitting of an otherwise single supply into its component elements such that one or more of those elements may be zero-rated.

Costs Incurred by Academies

With effect from 1 April 2011, academy schools will be able to recover VAT on costs which are incurred to support their non-business activities (primarily the provision of free education). This is to ensure that academies are treated for VAT purposes in the same way as schools which are controlled by local authorities.

Car Fuel Scale Charges

The scale used to charge VAT on fuel used for private motoring in business cars will be amended from the start of the first VAT period beginning on or after 1 May 2011.

The revised charges are:

CO ₂ emissions (grams per km)	VAT fuel scale charge		
	12-month period	3-month period	1-month period
120 or less	630	157	52
125	945	236	78
130	1,010	252	84
135	1,070	268	89
140	1,135	283	94
145	1,200	299	99
150	1,260	315	105
155	1,325	331	110
160	1,385	346	115
165	1,450	362	120
170	1,515	378	126
175	1,575	394	131
180	1,640	409	136
185	1,705	425	141
190	1,765	441	147
195	1,830	457	152
200	1,890	472	157
205	1,955	488	162
210	2,020	504	168
215	2,080	520	173
220	2,145	536	178
225 or more	2,205	551	183

Change of Treatment of Business Samples

Finance Act 2011 will contain legislation to remove the restriction which limits VAT relief on samples to the first such sample. This follows the ECJ decision in *EMI* (Case C581/08), which held that this restriction was incompatible with European legislation.

The legislation will come into force with effect from Royal Assent to Finance Act 2011. It will, however, have retrospective effect and affected businesses may submit claims, subject to the capping restrictions.

Low Value Consignment Relief

Finance Act 2011 will introduce legislation to reduce, with effect from 1 November 2011, the threshold for low value consignment relief from £18 to £15.

Diplomatic Privilege

Finance Act 2012 will authorise indirect tax and duty reliefs for diplomatic missions, international bodies, visiting NATO forces and European research infrastructure consortiums. With regard to the first three categories, this will provide a statutory basis for reliefs which are currently given by extra-statutory concession.

Fraud on Imported Road Vehicles

The Government has launched a joint initiative between HMRC and the Driver and Vehicle Licensing Agency (DVLA) to combat VAT

fraud on road vehicles brought into the UK. Finance Act 2012 will include legislation providing that vehicles entering the country for permanent use on UK roads will have to be notified to HMRC online before they are registered with the DVLA. Private individuals, and businesses which are not registered for VAT, will be required to pay the VAT due at the time of notification. VAT-registered businesses will continue to make payment through their VAT return.

EXCISE DUTIES

Fuel Duty Rates

The fuel duty escalator, which was introduced in 2009 and was intended to increase fuel duty each year until 2014/15, will be abolished and will be replaced by a 'fair fuel stabiliser'. This will have the effect that when oil prices are high, fuel duty will only increase by the Retail Prices Index (RPI). However, if the oil price falls below a set trigger price on a sustainable basis, the Government is committed to increasing fuel duty by RPI plus one penny per litre in each such year. The Government believes that a trigger price of \$75 per barrel would be appropriate, but will set a final trigger price and mechanism after consulting with oil companies and motoring groups.

The main fuel duty rate will be reduced by one penny per litre from 18.00 on 23 March 2011. The rate will then increase by 3.02 pence per litre on 1 January 2012. The 2012/13 increase in fuel duty will be implemented on 1 August 2012, when duty on rebated oils will also rise in proportion to the main rate. The duty differential for compressed natural gas will be maintained, but the differential for liquefied petroleum gas will be reduced by the equivalent of one penny per litre.

MISCELLANEOUS

Small Business Rate Relief Holiday: Extension

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

Mutual Assistance Recovery Directive

The UK will implement the Mutual Assistance Recovery Directive agreed by EU Finance Ministers during 2010. Under this Directive, which covers all national taxes and duties, local taxes and motor taxes, EU member states can provide each other with assistance in the recovery of tax debts and duties, which includes service of documents and exchanging information in connection with the recovery of claims.

Legislation will be included in Finance Act 2011 and will come into force on 1 January 2012 when the Directive becomes fully applicable.