

Budget 2011

Chancellor George Osborne would not have relished having to present his second Budget today against such a poor economic backdrop. The GDP growth figures for the last quarter crumbled to a disappointing 0.5% reduction, not helped by the pre Christmas snowfall, the public sector coming to terms with deep spending cuts and the VAT rise, coupled with soaring fuel prices, are adding nasty inflationary pressures to an already sluggish recovery from recession.

So with all this in mind, how has the Chancellor managed to square the almost impossible circle? Well, here are the main tax changes that affect businesses and individuals:

BUSINESS

Corporation Tax Rates

It has previously been announced that the main rate of corporation tax would reduce by 1% to 27% from April 2011. In a surprise move, the Chancellor went a step further, announcing a 2% reduction to 26% this year, followed by further 1% annual reductions to 23% by 2014. The small profits rate, for profits up to £300,000, will be reduced as announced this April to 20% and then fixed at this rate going forward.

Entrepreneurs Relief

A surprise announcement was the lifetime limit on capital gains qualifying for Entrepreneurs Relief being doubled from £5m to £10m. Gains qualifying for this relief are taxed at 10% rather than the less favourable rates of 18% and 28%, which will bring about additional tax savings of up to £900,000. This change is effective in respect of qualifying disposals made on or after 6 April 2011.

Capital Allowances

No new rate changes were announced for capital allowances. From April 2012, the annual writing down allowance for the main pool will reduce to 18%, the special rate pool to 8% and the annual investment allowance from £100,000 to £25,000. The only new announcement was the extension to the short life asset election, where items of plant are sold or scrapped, from a four year to an eight year cut off period. This is welcome and will better align tax relief with economic depreciation.

Research and Development Tax Credits for SMEs

Proposal to increase tax credit to 200% (from 175%) which relates to expenditure incurred on or after 1 April 2011. There will be a further increase to 225% for expenditure incurred on or after 1 April 2012. The £10,000 minimum expenditure condition has been removed.

Indirect tax changes

VAT changes are minimal with a £3,000 increase in the annual turnover limit for compulsory VAT registrations and increases in the VAT fuel scale charges. Compulsory online filing of VAT returns to be extended to all businesses with effect from 1 April 2012. Aggregates levy rate of £2.00 per tonne is to remain frozen until 2012 – 2013. Landfill tax standard rate to increase to £64 per tonne with effect from 1 April 2012.

National Insurance

The proposed changes to the National Insurance rates and thresholds remain as previously announced. Whilst the primary threshold has been increased to £7,228 the rates levied have increased by 1%, for both employees and employers. From 2012/13 the rates, limits and thresholds for National Insurance will be linked to the consumer prices index.

Foreign Branch Exemption

For accounting periods commencing after Royal Assent to Finance Act 2011, UK companies with overseas branches can opt into an exemption from UK corporation tax on the foreign branch profits. At present, branch profits are taxed in both the UK and overseas, with complex double taxation relief provisions that allow credit for overseas tax suffered against the UK tax liability.

This measure is a welcome simplification but will not be beneficial in all cases. Careful consideration is therefore recommended before opting into the exemption regime.

Tax Avoidance – disguised remuneration

Confirmation of legislation effective from 6 April 2011 which is aimed at third party arrangements such as EBT's and EFRBS and used to provide "rewards" to employees. As expected loans and assets provided through these structures will be caught. The value will be treated as employment income and taxed under PAYE. Some exemptions are provided, including approved share incentive arrangements and genuine deferred remuneration arrangements, for example.

Tax Avoidance – general

The main focus was on tax avoidance and its aim is to make the UK tax system more "watertight" against avoidance. It is specifically aimed at artificial, high risk tax schemes. There is a study group looking at the merits of a "General Anti-Avoidance Rule" which is due to be complete by 31 October 2011.

INDIVIDUALS

Personal Rates and Allowances

As previously announced, the personal allowance for those aged under 65 will increase to £7,475 with effect from 6 April 2011. In another step aimed at bringing the personal allowance closer to £10,000 it was announced that the basic allowance for 2012/13 will be further increased to £8,105.

The Capital Gains Tax annual exemption is also increasing from £10,100 to £10,600 with effect from 6 April 2011. Future increases to this valuable exemption will be linked to the consumer prices index.

The 20% basic rate tax band will be decreased in 2011/12 and 2012/13 to £35,000 and £34,370 respectively. The reason for the reduction in the basic rate tax band is to ensure higher rate taxpayers do not benefit from the increased personal allowances. The 40% higher rate will continue to apply to income between the basic rate tax band and £150,000 and the 50% additional rate will be charged on income in excess of £150,000. Although no change has been made to the 50% rate, the Chancellor has confirmed that this is a temporary measure and he has asked HM Revenue & Customs to report on the tax that is collected at this rate.

ISAs

The annual ISA limit will increase to £10,680 from 6 April 2011. However from 2012-13 the limit will only be increased in line with consumer prices index. Also from Autumn 2011 Junior ISAs will be available to children under 18 who do not have a Child Trust Fund account.

Enterprise Investment Scheme (EIS)

From 6 April 2011 income tax relief on an investment into an EIS company will be increased from 20% to 30%. Also from 6 April 2012 the thresholds for the size of a company to qualify as an EIS company, the annual amount that can be raised through EIS investment and the annual amount an individual can invest will all be increased, all in an attempt to encourage investment into UK businesses.

Pensions

From 6 April 2011 an annual contribution limit of £50,000 will be introduced. There will also be the option to carry forward unused contribution limits (up to £50,000) from the previous three years.

Furnished Holiday Lettings (FHL)

There has been a lot of discussions over FHL's and whether or not the special tax rules that apply to them should be abolished. It now looks as if they are here to stay but the qualification criteria has been modified including extending the number of days the FHL has to be actually let in a tax year. The main change is that losses can no longer be offset against other income and can only be used against profits from the same business.

Inheritance Tax

The Nil Rate Band (NRB) for Inheritance Tax (IHT) purposes will remain frozen at £325,000 until 2015/16 and after this time it will be linked to consumer prices index. However, it will be possible to reduce the tax rate that

is applied from 40% to 36% if at least 10% of the deceased's net estate is left to charity. The net estate is the estate after exemptions, reliefs and the NRB. Therefore, if you have assets which qualify for business property relief or agricultural relief, it may be possible to leave less than 10% of your overall estate to charity and benefit from the reduced rate. This will become available for deaths on or after 6 April 2012.

Domicile and Residence

Under the current rules if you are non-domiciled and have been resident in the UK for seven out of the last nine years you can choose to either pay tax on your worldwide income and gains or pay £30,000 and only pay tax on income and gains remitted to the UK.

The proposal is to increase the £30,000 charge to £50,000 where an individual has been resident for twelve or more years. However, there will be no tax charge if the income or gains are brought into the UK to invest in UK businesses.

A consultation has been announced regarding the introduction of a statutory residence test to make the rules more certain.

Charities

With effect from the 2011/12 tax returns, it will no longer be possible to elect for your tax repayment to be paid directly to a charity of your choice.

From 6 April 2011, the benefit that a donor can receive as a consequence of making a charitable donation, whilst still obtaining gift aid relief, increases from £500 to £2,500. However, the existing rule that the benefit must not exceed 5% of the gift still remains.

Watch this space for...

- The 50% rate of tax – a temporary measure?
- Merger of income tax and national insurance?
- A review of inheritance and trusts?

TAX FACTS

Click [here](#) to view the latest tax rates and allowances.

Contact

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