



March 2011

In his second Budget, the Chancellor George Osborne announced a range of measures intended to stimulate growth in the economy and improve the competitiveness of the UK as a place for business in Europe. These measures include: a reduction in corporation tax rates; changes to the Controlled Foreign Company rules; and enhancing tax incentives for investment in higher risk companies. Only time will tell whether these measures achieve their objective.

## Companies

The Chancellor announced that the main rate of corporation tax will reduce to 26% (from 28%) from 1 April 2011 and will further reduce to 23% by 2014. The small profits rate of corporation tax will reduce to 20% (from 21%) from 1 April 2011, but there was no proposal to reduce this further to match the reduction in the main rate.

## Income Tax

The personal tax allowance for the under 65s will be increased by £630 to £8,105 in 2012/13. The basic rate limit for 2011/12 has already been set at £35,000 and there will be a £630 reduction in this limit in 2012/13. The Chancellor also made it clear that he regards the 50% tax rate for higher earners as a temporary measure.

## Enterprise Investment Scheme

Subject to EU approval, the rate of income tax relief given for investments under the Enterprise Investment Scheme (EIS) will increase from 20% to 30% from 6 April 2011.

It was also announced that wider changes to the EIS and Venture Capital Trust (VCT) rules are proposed from 6 April 2012. These include an increase in the threshold for the size of qualifying companies (to include companies with gross assets before the investment of up to £15 million) and an increase in the annual amount that an individual can invest through EIS to £1 million.

## Employment Benefits

Employees and directors who are provided with a company car and who also receive free fuel are subject to a fuel benefit charge. This fuel benefit charge is a set figure (currently £18,000) multiplied by an appropriate percentage based on the CO2 emissions of the car. The set figure (or multiplier) will increase to £18,800 from 6 April 2011.

Where an employee uses their own car for business mileage, they can claim reimbursement from their employer using approved mileage allowance payment rates (AMAPs). The current AMAP rate is 40p per mile for the first 10,000 of business miles and 25p per mile thereafter. From 6 April 2011 the higher rate increases to 45p per mile. This new rate will also apply for volunteer drivers.

In December 2010 the Government announced measures to tackle arrangements (including the use of employee trusts) that are put in place to reduce or defer income tax and NI liabilities for employees. They are intending to amend the previously announced draft legislation to limit the impact of these measures to exclude certain short-term loans, as well as arrangements related to deferred remuneration and certain employment-related securities schemes. Most of the other proposed changes remain as drafted.

As previously announced, a tax charge will arise on 6 April 2012 in respect of benefits (eg loans and assets) provided by third parties (eg employee trusts) after 8 December 2010, that have not been repaid or been subject to tax before that date.



## Capital Gains Tax

Capital gains that qualify for entrepreneurs' relief are taxed at 10%, rather than the standard rate of 18% or 28%. The Chancellor announced that he intends to increase the lifetime limit on gains qualifying for this relief from £5 million to £10 million from 6 April 2011.

The capital gains tax annual exempt amount for 2011/12 will be £10,600 (£10,100 for 2010/11).

## Charities and Charitable Giving

In order to qualify for tax relief under the Gift Aid scheme, donors must not receive a significant benefit in exchange for their charitable donation. From 6 April 2011, donors who give more than £10,000 to charity can receive benefits (eg dinner invitations) totalling up to £2,500 (previously £500), but this is subject to a 5% limit.

From April 2013 charities (and community amateur sports clubs) that receive individual donations of £10 or less (typically from bucket collections) will be able to claim a tax repayment, even though the donor will not have signed a "Gift Aid" declaration. Donations under this scheme will be capped at £5,000 per year and only charities with a "good tax record" will be able to benefit.

## Inheritance Tax

The Government has announced that a reduced rate of Inheritance Tax will apply (for deaths after 6 April 2012) where 10% or more of a deceased's estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In that case the current 40% tax rate will reduce to 36%. The relief is intended to benefit charities, rather than other beneficiaries and further details of the proposal will be released soon.

The Inheritance Tax nil rate band is frozen and will remain at £325,000 until April 2015.

## Pension Savings

As announced previously, the annual allowance for tax relief on pension savings for individuals will reduce from £255,000 to £50,000 from 2011/12 and the lifetime allowance will reduce from £1.8 million to £1.5 million from 2012/13. We will be providing further information about these changes in an article in our forthcoming "Paragraph" newsletter.

## Domicile and Residence

The Government has been reviewing the rules for the taxation of non-domiciled individuals and has concluded that there is still currently a beneficial tax regime for non-domiciled individuals, regardless of how long they have been resident in the UK. However, the Government accepts that there is a real disincentive for these individuals to invest in UK businesses. For this reason they are proposing that from April 2012:

- There will no longer be a tax charge when non-domiciled individuals remit foreign income or capital gains to the UK, provided the money is used for a commercial investment in UK business; and
- The existing £30,000 "remittance basis" charge will be increased to £50,000 for individuals who have been resident in the UK for twelve years or more and who wish to continue to be taxed on a remittance basis. The £30,000 charge will continue to apply for individuals who have been resident for at least seven of the past nine years and fewer than twelve.

The Government has also announced that it will be consulting in June on the introduction of a statutory definition of "residence" to provide greater certainty for taxpayers.

## Furnished Holiday Lettings

As announced previously, the tax rules for furnished holiday lettings (FHL) will change from 6 April 2011. From that date losses in a FHL business can only be deducted from income of the same FHL business. For this purpose FHL properties in the UK are treated as one business and those in the European Economic Area (EEA) are treated as a separate business.

From April 2012 to qualify as a FHL property it must be available to let for at least 210 days each year and actually let for at least 105 days. Further changes will be announced in due course.

*Please note that this is only a brief summary of the budget proposals and that the rules are subject to change. The information given is of a generic nature and is not intended to constitute advice.*

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