Budget 2011: Contents and Consequences

George Osborne's second Budget was a rather different animal from the creature that emerged in his first despatch box exercise last June. For a start, it marked the first of a new style of Budgets, with a more considered legislative approach. Thus last December over 500 pages of draft Finance Bill 2011 legislation and explanatory notes were published for consultation. Nevertheless there was still a fair smattering of surprises in the Chancellor's speech, in spite of the limitations imposed by the UK's precarious finances.

A second reason for this year's Budget difference is the fact that so many planned tax increases and reforms were announced in the preceding three Budgets – Mr Osborne's first and Alistair Darling's final pair. In June 2010 the then new Chancellor nodded through no less than 31 tax changes coyly described in his Budget Red Book as 'Measures announced in the March 2010 Budget or earlier which take effect from April 2011 or later'.

The impact of those inherited changes i.e. the 1% rise in National Insurance contributions, will start to bite in 2011/12, alongside the first stage of expenditure cuts. It may not feel like it, but in a sense this Budget marks little more than the firing of the starting gun for the government's plan to eliminate an annual deficit projected to be over £145bn for 2010/11.

The economic backdrop against which the tax rises and spending cuts are taking place is worse than was expected at the time of last year's emergency Budget. The UK economy contracted by 0.6% in the final quarter of 2010, leaving it much the same size in real terms as it was five years ago. Annual inflation, measured on the government's favoured CPI basis, is running at 4.4%, while the more familiar RPI is registering a year-on-year rise of 5.5%, its highest since July 1991.

The Office for Budget Responsibility (OBR) now expects the UK economy to grow by 1.7% in 2011, 0.4% down on the projection it made last November. In 2010 growth was 1.5% according to the latest estimate from National Statistics. A year ago, the previous Chancellor was predicting growth of 3%-3.5% for 2011. With short-term interest rates likely to rise soon, even the OBR's revised figure may prove to be elusive.

The headline-grabbing moves announced in the Budget included:

- A cut of 1p a litre in fuel duty and the scrapping of the fuel duty escalator, largely financed by a substantial hike in tax on North Sea oil and gas companies
- A reduction of 2% in the main corporation tax rate to 26% for 2011
- The promise of a further rise in the personal allowance to £8,105 for 2012/13, partially offset by an equal cut in the size of the basic rate band
- An increase in the tax levy on longer-staying 'non-doms' to £50,000 a year from 2012/13
- A change to using the CPI rather than RPI as the basis for indexation of most income tax allowances and bands

In this Bulletin we look at the main changes that will affect individuals and businesses and examine some of the related planning issues.

Contents

The contents of this Bulletin are based on the proposals put forward by the Chancellor in his Budget speech and explained in documents subsequently published by HMRC, the Treasury and the Office for Budget Responsibility. All Budget proposals may be subject to change before the relevant Finance Act is passed (which is expected to be in July).

References to spouse, husband and wife and married couples include references to registered civil partners and civil partnerships.

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Personal Income Tax and National Insurance Contributions

The income tax bands and allowances and National Insurance contributions (NICs) rates for 2011/12 were announced last December by the Treasury. The Budget contained no changes to these, so for the new tax year:

- The personal allowance has increased by £1,000 to £7,475, as initially revealed in last June's Budget. It will continue to be phased out where total income exceeds £100,000. Anyone with total income exceeding £114,950 will not receive a personal allowance

- A quid pro quo for the increase in the personal allowance is a reduction of £2,400 in the size of the basic rate band. Thus, if you are only entitled to a personal allowance, the starting point at which you pay higher rate tax will *fall* from £43,875 to £42,475

- Other allowances have risen by 4.7%, broadly in line with September 2010 RPI inflation

- The 10% tax band, only accessible to a few, also rose by 4.7%. However, the starting point for the 50% income tax rate (referred to as the 'additional rate') remains at £150,000: the legislation which introduced this did not include automatic indexation

- The basic rate of tax remains at 20% (10% for dividends)

- There are a number of changes to NICs. The main rates for employees, employers and the self-employed have all risen by 1%, as originally proposed by Alistair Darling. The sting of this increase has been dampened by other amendments to the NICs regime:

    - If you are an employee or self-employed, the starting point at which you begin to pay Class 1 or Class 4 NICs has risen by £29 a week, to £139 a week (£7,225 a year). The upper earnings and upper profits limits, beyond which the NIC rate now falls to 2% (1% in 2010/11), has come down from £43,875 to £42,475, in line with the changed starting point for 40% tax

    - Confusingly, for employers the corresponding starting threshold for NICs has risen by £26 a week, to £136 a week

    - The lower earnings limit has increased by £5 a week to £102 a week

Allowing for the tax and NIC changes, it is clear that high earners are worse off in 2011/12, mainly because of the increased NICs. Those with incomes of under about £42,600 are better off, with lower earners gaining most, thanks to the rise in the personal allowance and NIC starting point.

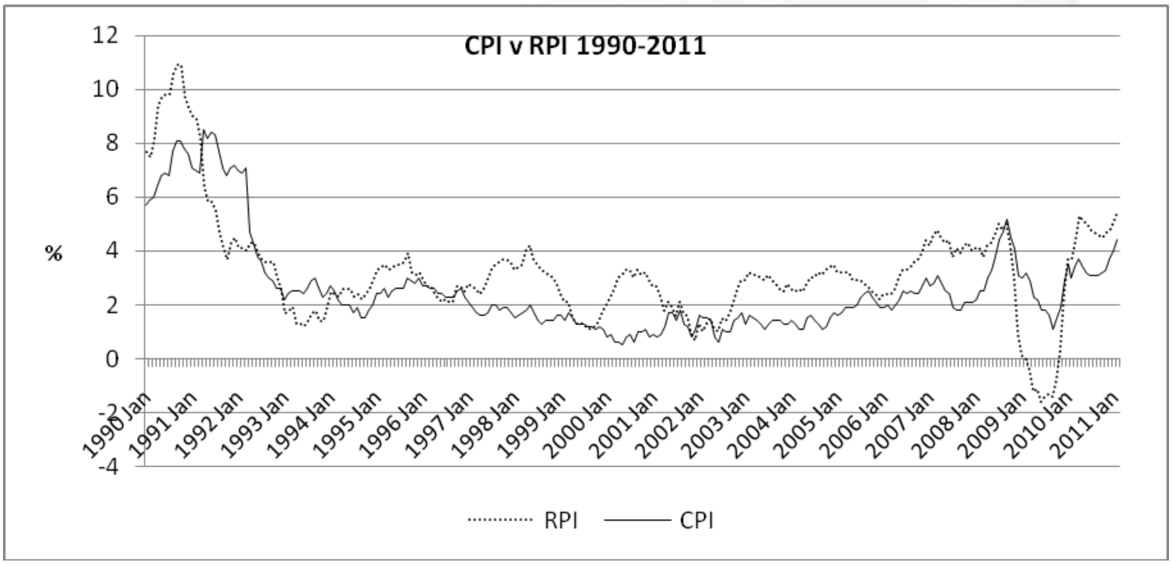
Earnings £	2010/11		2011/12		Overall Change* £
	Income Tax £	NICs £	Income Tax £	NICs £	
10,000	705	471	505	333	+338
15,000	1,705	1,021	1,505	933	+288
20,000	2,705	1,571	2,505	1,533	+238
25,000	3,705	2,121	3,505	2,133	+188
30,000	4,705	2,671	4,505	2,733	+138
40,000	6,705	3,771	6,505	3,933	+38
50,000	9,930	4,259	10,010	4,381	-202
75,000	19,930	4,509	20,010	4,881	-452
100,000	29,930	4,759	30,010	5,381	-702
125,000	42,520	5,009	43,000	5,881	-1,352
150,000	52,520	5,259	53,000	6,381	-1,602
175,000	65,020	5,509	65,500	6,881	-1,852
200,000	77,520	5,759	78,000	7,381	-2,102
250,000	102,520	6,259	103,000	8,381	-2,602

* *Based on an employee under state pension age with a single personal allowance who is contracted in to the State Second Pension. Tax credits are ignored.*

In 2012/13, the basic personal allowance will increase by £630 to £8,105, if government inflation assumptions are met. However, the size of the basic rate band will simultaneously be reduced by £630 to £34,370, leaving the starting point of higher rate tax unchanged.

CPI Indexation

At present direct tax allowances and bands which are subject to indexation are generally increased each April in line with the change in the RPI for the year to the previous September. For 2011/12 Mr Osborne moved most benefit indexation to the Consumer Prices Index (CPI) and from April 2012 direct taxes will follow. However, apart from the announced increase in the basic personal allowance and the reduction in the size of the basic rate band, other income tax personal allowances and limits subject to indexation will be over-indexed compared to the CPI and increase by the equivalent of the RPI.



This is a well-disguised tax rise, just as the change on benefits was an expenditure cut. The RPI to CPI switch is projected to increase tax receipts by over £1bn in 2015/16. Over the last 20 years the CPI measure of inflation has averaged 0.5% less than the RPI. At present the gap is 1.1%, the same as it was last September.

Reforming income tax and NICs

The Chancellor announced that in 2011 he will be consulting on 'the options, stages, and timing of reforms to integrate the operation of income tax and NICs'. In theory the idea makes sense, as NICs are now little more than another tier of income tax which only applies to earnings. In practice, the complexities of the combination have been enough to dissuade previous Chancellors from doing much more than aligning thresholds for a while. This reform – if it ever happens – will probably have to wait until the Chancellor has some spare cash to smooth the transition.

Tax credits

Some elements of working tax credits (WTCs) rise by 3.3% for 2011/12, in line with the CPI to September 2010, while others, such as the basic element, are frozen. However, the maximum percentage of child care costs covered has been cut from 80% to 70%, meaning a loss of up to £30 a week for some families. The income threshold at which WTC is withdrawn was frozen, but the withdrawal rate increased from 39% to 41%.

The first stage of the cut backs to Child Tax Credit (CTC) begins in 2011/12. The most widely claimed credit, the family element of CTC, stays at £545 and the level at which it was first set in 2003/04. However, the income threshold at which it usually starts to be reduced falls from £50,000 to £40,000 and the rate at which it is withdrawn jumps from 6.67% to 41%. Thus there is normally no entitlement if income exceeds £41,329. The baby element of CTC, worth another £545 for one year, was withdrawn on 5 April 2011.

The 'income disregard', effectively a Treasury fudge to avoid claw back of tax credits when income rises from one tax year to the next, has been cut to £10,000 from £25,000.

Company Cars

The company car benefit scales are subject to a variety of changes for 2011/12:

- There is a 5g/km decrease to 125g/km for the lower threshold (15% for petrol)
- The reduced rates for LPG, E85 and dual fuel vehicles have been scrapped, as has the 3% scale reduction for pre-2006 Euro IV diesels. All diesels now have a 3% addition (subject to the usual maximum total of 35%)
- The £80,000 list price ceiling used in determining car benefit – allegedly introduced to help Rolls Royce sales – has gone
- The multiplier for calculating car fuel benefit in 2011/12 increased by £800 to £18,800
- The flat amounts for van benefit and van fuel benefit were unchanged

Planning Points

2012/13 will see another 5g/km cut made in the threshold and the scale will be extended downwards. As a result, the 10% petrol car and 13% diesel car factors, which currently apply to cars with emissions of up to 120g/km, will only apply to cars with emissions of above 75g/km but no more than 99g/km. 2013/14 will see more changes, with the scale charge for cars with emissions of between 95g/km to 220g/km (195g/km for diesels) rising by 1%.

Non-domiciled UK residents

There will be a review of the taxation treatment of non-domiciled people resident in the UK, with changes to be introduced from 2012/13. These are planned to include:

- An increase in the annual charge from £30,000 to £50,000 for those who have been UK tax resident for 12 or more years and wish to continue on the remittance basis of taxation

- An exemption from tax for remitted income and gains which are used to make commercial investment in UK businesses

- A number of technical simplifications to ease the tax administration burden for individuals

HMRC powers and deterrents

As previously announced, penalties of up to 200% of tax are now due for taxpayers who, from 6 April 2011, fail to provide a full account of their income tax or capital gains tax liabilities, 'where the failure is linked to an offshore matter'. The maximum 200% penalty only applies if the offshore jurisdiction has not agreed exchange of information with the UK. The penalty is up to 150% of tax due where information is shared only on request.

Turning the tables on the basic personal allowance restriction

The impact of the phasing out of the basic personal allowance once total income exceeds £100,000 has been exacerbated by the above-inflation increase in the personal allowance. We now have a system under which the marginal rate of tax in the £100,000 - £114,950 band of income is 60% - a fifth higher than the supposed top rate of 50%.

The corollary is that if your income is in that band, or marginally above it, you may be able to obtain 60% tax relief on some pension contributions, as the example below shows.

60% Tax Relief

In 2011/12 Bill has income of £114,000, all of which consists of earnings and interest. He is not affected by the revised annual allowance as his current pension contributions are under £30,000. He can thus make an extra £14,000 gross pension contribution without tax penalty because the aggregate contributions of £44,000 would still fall within the reduced £50,000 annual allowance. Depending upon whether he makes the pension contribution, his tax bill would be:

	No Pension Contribution		**Pension Contribution**	
	£	**£**	**£**	**£**
Gross income	114,000		114,000	
Pension contribution	-		14,000	
Personal allowance	475		7,475	
Taxable income	113,525		92,525	
Basic rate tax	35,000 @ 20%	7,000	35,000 @ 20%	7,000
Higher rate tax	78,525 @ 40%	31,410	57,525 @ 40%	23,010
Total tax		**38,410**		**30,010**

Thus a gross pension contribution of £14,000 will save Bill £8,400 in tax, an effective 60% rate of relief.

The age allowance trap

Your entitlement to age allowance depends upon your total income if you are 65 or over by 5 April 2012. You receive the full allowance provided your total income does not exceed £24,000. Above that level your allowance entitlement is reduced by £1 for each £2 of income, although the allowance cannot be reduced below the basic personal allowance. With the basic rate at 20% in 2011/12, the age allowance reduction means that at the margin you could be a 30% taxpayer, paying tax on £2 of income plus a further £1 because of the lost allowance.

A similar rule applies to the husband if you and/or your spouse were born before 6 April 1935 and are therefore eligible for the married couple's age allowance. However, the relief given by this allowance is at a rate of only 10%, so the effective tax loss is at a rate of 25%. Not surprisingly, the married couple's allowance is reduced only *after* all the personal age allowance is lost.

The bands in which the 25% and 30% tax rates could apply can be surprisingly wide. For a single person or married couple aged under 75, the 30% band now stretches from £24,000 to £28,930, while for the husband of a married couple aged 75 or over, the two bands extend from £24,000 to £38,220.

If you are 65 or over and have a total income above £24,000, you may be able to regain some or all of your age allowance, and thus save tax, by rearranging your investments. This need not mean reducing your spendable income – the key is to reduce your *taxable* income. There are variety of ways in which a suitable reduction can be achieved, including the use of ISAs and investment bonds.

Turning tax credit claw back to your advantage

The changes to the Child Tax Credit (CTC) rules mean that most higher rate taxpayers, who received some or all of the family element of CTC in 2010/11, will lose it completely in 2011/12. If your total family income in 2011/12 is marginally above £40,000, you could be in a position where for each extra £1 of income:

- Income tax is at 20%;
- NICs are at up to 12%; and
- You lose 41p of Child Tax Credit

The combined effect of income tax, national insurance and tax credit claw back can therefore be up to 73%. In other words, an extra £1 of taxable income could leave you just 27p better off.

The reverse is also true: £1 less of taxable income could imply only 27p less net income. So, for example, if you reduce your taxable income in exchange for your employer making a corresponding pension contribution, you may be securing £1 of retirement benefit at an effective cost of 27p.

Capital Gains Tax

Last June's emergency Budget reinstated the treatment of capital gains as the top slice of income just over two years after Alistair Darling had abandoned the idea. The change meant that since 23 June 2010, for individuals, gains have been taxable at 18% to the extent they fall in the basic rate band and 28% if they fall into the higher or additional rate bands. Trustees suffer 28% tax, regardless of income.

There had been rumours in the run up to last June's Budget that Mr Osborne would raise the CGT rate to match income tax and/or slash the annual exemption. In the event, capital gains generally remain more favourably taxed than income. The Budget announcement that the annual exemption for 2011/12 would rise to £10,600 (up to £5,300 for most trusts) underlines the point.

From April 2012 onwards, the annual exemption will increase in line with the CPI rather than the RPI.

Entrepreneurs' relief

There were two improvements to entrepreneurs' relief in 2010 and the Chancellor announced a third in his latest Budget. The relief now means that for 2011/12 capital gains on the sale of certain businesses and business-related assets are taxed at 10% up to a lifetime ceiling of £10m of gains realised after 5 April 2008.

Planning Points

18% is better than 20% and 28% is superior to 40% or 50%

Unless you are one of those lucky few who are able to benefit from the 10% rate on savings income, investment returns in the form of capital gains are usually taxed at a lower rate than income. There is also a £10,600 annual capital gains exemption, which is not tapered away. Although capital gains are now taxed as the top slice of income, the rates are lower and capital gains tax is not subject to the same payments on account rules as income tax: you pay your full capital gains tax on 31 January in the tax year following the one in which the gains arose.

While the tax tail should never wag the investment dog, the case for favouring growth over income when setting your investment goals is a strong one. There are many anti-avoidance rules which prevent income being transformed into capital gains, but it remains a fact that some financial product structures provide income returns while others produce capital gains, even though the underlying investments are the same. Selecting the right structure could therefore significantly reduce your tax bill.

Use your annual exemption

Would you waste a tax exemption worth up to nearly £3,000 a year?

That is what your full 2011/12 annual capital gains tax exemption could be worth in terms of tax saving, if you pay tax at above the basic rate. As far as possible it is important to use the exemption each year (and for your spouse to do the same) because, if unused, it cannot be carried forward.

If you do not systematically use your annual exemption, you are more likely to reach a point where some of your gains are subject to tax. Unfortunately, you cannot simply crystallise a gain by selling and then repurchasing an investment – what used to be called bed-and-breakfasting. However, there are other ways of achieving similar results:

- *Bed-and-ISA - You* can sell an investment i.e. shares in an open-ended investment company, and buy it back immediately within an ISA. For 2011/12 the maximum ISA investment is £10,680

- *Bed-and-SIPP* - This is a similar process to bed-and-ISA, but the cash realised is used to make a contribution to a self-invested personal pension (SIPP). The reinvestment is then made within the SIPP. This approach has the added benefit of income tax relief on the contribution and may also offer a higher reinvestment ceiling than an ISA, depending on your earned income and other pension contributions. However, the new lower annual allowance from 2011/12 and the April 2012 reduction in the lifetime allowance need to be borne in mind

- *Bed-and-spouse* - You can sell an investment and your spouse can buy the same investment without falling foul of the rules against bed-and-breakfasting. However, you cannot sell your investment to your spouse – the two transactions must be separate

Keeping down your CGT bill

There are a variety of tactics that can be used to limit your exposure to capital gains tax, including:

- Maximising the use of ISAs, where there is no capital gains tax. Do not forget that from 6 April 2008, all existing PEPs became stocks and shares ISAs

- Using funds of funds rather than individual fund holdings. Fund changes made *within* a fund of funds do not create any immediate gain for the investor

- Sharing your gains. Transfers between spouses living together are on a no gain/no loss basis, so if your spouse has not fully used their annual capital gains tax exemption and you have, together you could save tax

- Use pension contributions to bring your marginal rate of income tax down to basic rate. Pension contributions cannot be offset directly against capital gains, but to the extent that they remove income from higher rate tax, they can cut your capital gains tax bill

- Take advantage of venture capital trusts (VCTs) and enterprise investment schemes (EISs). These are high risk investments, but they are generally free of capital gains tax. While they offer income tax relief at 30% (see below), they do not reduce your income for tax purposes, so they cannot cut your capital gains tax bill in the same way that a pension contribution can

Defer your 28% CGT

An investment in an EIS allows you to claim deferral relief for any capital gain that you have made in the previous three years. This enables you to reclaim any tax you have paid on the gain or defer any tax that is due. When you sell the EIS shares, the gain you have reinvested is crystallised and becomes chargeable, but at *current* tax rates.

Therein lies a trap. There is no point in deferring pre-23 June 2010 gains which would have attracted 18% CGT only to pay 28% when the deferral ends. So while the deferral feature has a three year backdating time limit, in practice for now the useful timescale is much shorter.

The Budget announced that the maximum amount of EIS investment that qualifies for income tax relief will be £1,000,000 in 2012/13, double the 2011/12 figure. There is no limit to investment if the claim is only for CGT deferral relief.

Mind your losses

The FTSE 100 index today is around the level it was five years ago, before the financial crisis hit, and about 1,000 points below its end 1999 peak. Many long-term holdings could still be standing at a loss, despite the strong rally in the market since March 2009. This means that you cannot afford to ignore the rules on the tax treatment of capital *losses* as well as the (hopefully) more familiar rules about capital gains. The combined rules contain a trap for the unwary – see the box below.

Beware the Wasted Loss

If you realise a gain and a loss *in the same tax year*:

- The loss will be set off against the gain made during the year
- If you made gains after 22 June 2010 and face 28% CGT for 2010/11, you can choose to offset the loss first against this gain, regardless of when the loss occurred in the tax year
- The mandatory offset means you could end up wasting the loss if your gain would have been covered by your available annual exemption

However, if you carry forward a loss *from a previous tax year*:

- The carried forward loss is only used up to the extent that it reduces your overall gains to the level of your annual exemption
- You can still choose which gains to offset (for 2010/11)
- The loss is therefore only used when necessary

The lesson is that you should always take care before realising gains and losses together in the same tax year.

Identification matters

When the flat rate of CGT was introduced from 2008/09, taper relief was scrapped and with it most of the complex identification rules for share/fund transactions. If you sell a holding in a single company or investment fund, for CGT purposes the disposal is matched:

1. First to acquisitions made on the same day;

2. Second to acquisitions made in the next thirty days (the rule which blocks bed-and-breakfasting); and

3. Thirdly all other acquisitions, taken together as one pool

The pooling provision means that you no longer identify a sale with a recent purchase – the so-called last in-first out (LIFO) rule has disappeared. This can make quite a difference to the calculation, as the example below shows.

An Oily Pool

Harry bought 6,000 BP shares in summer 2006 for £39,000 – equivalent to 650p a share. In early June 2010, as BP was rocked by the Gulf Coast oil spill, Harry summoned up the courage to buy 5,000 more shares at a cost of £17,500 - 350p each. The shares kept falling, hitting a low just above 300p a few weeks later.

From that low the share price jumped to a little over 400p and then steadily rose to around 500p. Harry is thinking of taking some profits on the shares he bought last year. He reckons that if he sells the 5,000 shares, he will make a gain of £7,500 i.e:

5,000 x (500p – 350p) = £7,500

His calculation ignores the changes introduced from April 2008. The correct calculation pools together his two share purchases:

Total number of shares = 6,000 + 5,000 = 11,000

Total cost = £39,000 + £17,500 = £56,500

Average cost = $\frac{£56,500}{11,000}$ = 513.64p

So the reality is that any sale at 500p will be at a *loss* of 13.64p a share.

Inheritance Tax

The inheritance tax nil rate band has now been at £325,000 since 6 April 2009. If it had been indexed-linked, as it used to be, the band would now be £340,000. However, there will be no increases for some while. In his final Budget, Mr Darling announced that the nil rate band would remain frozen at £325,000 until 5 April 2015. As part of the Coalition Agreement, this promised freeze has been carried over by the new government. From 2015/16 it will rise in line with the CPI. With inflation now running at over 5%, the standstill in the nil rate band will potentially bring more people into the IHT net and increase the amount that they have to pay.

The one easement the Chancellor offered IHT payers was that a reduced rate of 36% (instead of 40%) will apply on estates where:

- death occurred after 5 April 2012; and

- at least 10% of the net taxable estate is left to charity

Further details are awaited, but initial calculations show that this option will save less in tax than it will cost the beneficiaries in terms of lost inheritance. Ironically, it may result in a short-term loss of income to charities, as the change creates an incentive to defer charitable gifting until death.

The Chancellor said nothing about reform of IHT, even though his Office of Tax Simplification had called for a radical review of the tax. Mr Osborne's silence may have been designed to discourage preventive action. It is hard to see that any restructuring of IHT would make the treatment of lifetime gifts more favourable than it is at present.

Planning Points

Time to review your estate planning

The introduction of the transferable nil rate band in October 2007 made inheritance tax planning considerably simpler for many married couples. It is no longer necessary to ensure that your nil rate band is used on first death to minimise IHT liabilities. As some families are now discovering, the reform can result in significantly reduced IHT bills for widows (and widowers), even if their spouse died many years ago.

Not everybody benefited from the change. If you had already planned (and had the resources) to use the nil rate band on first death, you were no better off as the result of the introduction of transferability. If you are not married, you cannot benefit, other than as a widow/widower.

If you have not reviewed your estate planning and Wills since October 2007, you should do so now. It may be that no change needs to be made to your existing arrangements but, as ever with estate planning, it is better to be safe than sorry. Even though a revised plan may not reduce your IHT bill, it could simplify estate administration by, for example, removing the need to include a complex trust in your Will.

Regular and out of income

There are three yearly exemptions which are available for IHT planning:

- The £3,000 annual exemption. Any unused part of this exemption can be carried forward one tax year, but it must then be used after the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2010/11, you can makes gifts totalling £5,000 covered by the annual exemption in 2011/12

- The £250 small gifts exemption. You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption

- The normal expenditure exemption. Any gift that you make is exempt from IHT if:

    - it forms part of your normal expenditure; and

    - taking one year with another it is made out of income; and

    - it leaves you with sufficient income to maintain your usual standard of living

The normal expenditure exemption is often forgotten. You may be making regular gifts which you think are covered by the £3,000 exemption, but which could actually count under normal expenditure, leaving your £3,000 exemption intact. For example, if you pay premiums for a life policy held under trust, such payments frequently satisfy all the conditions to be treated as normal expenditure, leaving the £3,000 exemption available for other gifts.

The normal expenditure exemption will potentially become more useful in the future, when used in conjunction with flexible income drawdown from pensions (see the Pensions section below).

Investments

A range of investment tax changes has taken place over the last year. Some have been the result of much consultation and have received little attention.

Individual Savings Accounts (ISAs)

The most important change on the investment front was the revision of the ISA limits. From 6 April 2011 the annual limit rose to £10,680 (of which up to £5,340 may be in cash). The number may look odd, but it is a reflection of the new rules for annual ISA increases:

- The increase is in line with annual inflation to the September of the previous tax year. This is currently on an RPI basis, but the Budget revealed that from April 2012 CPI will be used instead

- The resultant figure is rounded to the nearer £120, to make the corresponding monthly limits divisible by £10

The original ISA investment ceiling, set in April 1999, was £7,000 and it remained at that level until 2008/09, when it increased by £200. Anyone who was able to contribute to the maximum each year, up to and including 2010/11, would by now have placed £83,400 into their ISAs and largely out of the taxman's reach.

The reduction in the pension annual allowance to £50,000 and, in 2012/13, the cut in the lifetime allowance to £1.5m both mean the importance of ISAs as a tax-efficient investment wrapper has increased.

Junior ISA

The Chancellor confirmed in his Budget that all children under 18 who do not already have a Child Trust Fund (CTF) will be able to invest in a Junior ISA. The exclusion of CTF holders means Junior ISA eligibility will be limited to any child born before 1 September 2002 or after 2 January 2011.

Venture Capital Trusts and Enterprise Investment Schemes

A number of changes were announced to the rules for Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs), all of which will require EU State aid approval before taking effect:

- From 6 April 2011, the rate of tax relief for EIS investment rises from 20% to 30%, bringing it into line with the relief given for VCTs

- From April 2012, for single EIS companies and for companies which are invested in by VCTs and EIS funds:

    - The maximum number of full-time employees will increase from 49 to 249;

    - The maximum amount of gross assets held by the company before investment will rise from £7m to £15m; and

    - The maximum a company can raise from all VCTs and EISs will increase from £2m to £10m

These changes will allow new VCTs and EISs to invest in larger companies rather than, as now, confine themselves to the smallest enterprises. A further amendment was aimed at 'solar' VCTs and EISs, which exploit the generous Feed-in Tariffs (FITs) for green energy generation. VCT/EIS reliefs will only be given for companies whose trade consists wholly or substantially in the receipt of FITs if commercial electricity generation starts before 6 April 2012. VCTs and EISs which issued shares before 23 March 2011 are unaffected.

The Budget's proposed revisions follow on from another set of changes to the VCT/EIS rules which were included in the third of 2010's Finance Acts (yes, there were three) and took effect from 6 April 2011. They resulted in:

- A change to the minimum amount that a VCT must hold in shares. Previously 'eligible shares' in unlisted companies had to represent at least 30% of a VCT's qualifying investments (which in turn had to be at least 70% of the VCT). The eligible shares minimum holding has more than doubled to 70%

- The definition of VCT 'eligible shares' being extended to include shares which may carry certain preferential dividend rights

- A VCT being able to be listed on any EU/EEA investment market rather than being limited to a UK listing

- Shares in companies that are 'in difficulty' ceasing to be qualifying for VCTs and EISs

- For EISs and VCTs, the previous requirement that a company must have a qualifying trade carried out wholly or mainly in the UK has changed to one that it need only have a permanent establishment in the UK

These recent changes have been rumbling around since first being floated in late 2009. Their main impact will be on 'limited-life' VCTs, which traditionally have minimised equity investment in favour of loan capital.

Planning Points

ISAs

Since 6 April 2008 it has been possible to transfer the cash component of an ISA, including anything from a former TESSA, into the stocks and shares component. When this option was first announced, it was generally viewed as a somewhat pointless facility, as for most investors the value of the income tax saving from the cash component was greater than any tax savings offered by the stocks and shares component.

Wind forward three years plus one financial crisis and the switch facility looks rather more useful. We have now had a base rate of just 0.5% for over two years. There are now strong hints from the Bank of England that rates will start increasing gradually, with the money markets projecting a 3% base rate by 2014. Meanwhile, many existing cash ISAs are offering rates of below 1%, with some paying just 0.1%. If you invested in a cash ISA a year ago at a rate of around 3%, do check what interest you are now receiving. Most of the headline-catching rates incorporated a substantial 12 month bonus, which will have now ended.

If you are looking for income from your ISA, a switch from cash to the stocks and shares component now has much more appeal. For example, an investment in a corporate bond fund could produce 5% or more, while a UK equity income fund could offer upwards of 3.5%.

Both yields are tax free via an ISA. The quid pro quo for the immediate extra income is that you lose the capital security of the cash ISA and your new higher income could fall as well as rise. Before making the switch – which is irreversible – you should always take independent advice.

Venture Capital Trusts

The past few Budgets have placed a range of constraints on pension planning for high earners. Firstly there was the special annual allowance, which thankfully disappeared on 5 April 2011. However, in its place there is a drastically lowered annual allowance and, from next tax year, a cut in the lifetime allowance. Two favoured escape routes, the employer-financed retirement benefits scheme (EFRBS) and the employee benefit trust (EBT) were effectively killed off last December when the Treasury announced legislation on 'disguised remuneration'.

These measures have increased the relative attraction of the tax breaks still available for investments totalling up to £200,000 per tax year in Venture Capital Trusts:

- 30% income tax relief on subscription to new VCT shares. This relief is clawed back on disposals within the following five years

- Dividends are free of income tax, although the 10% tax credit cannot be reclaimed

- Any gains made on disposal of shares are free of capital gains tax

- Within the VCT there is no tax on gains

The recent VCT season has seen many VCTs promoted with a 5% dividend target. This is not always what it seems – most VCTs rely mainly upon distributing capital rather than pure income to cover such a payment.

Business Tax

There was one surprise change to corporation tax announced in the Budget. The mainstream rate of corporation tax falls by 2% to 26% for the 2011 financial year, 1% more than the Chancellor had promised last June. The small profits rate drops by 1% to 20%, so that it now matches the basic rate of tax.

Capital allowances

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery, was doubled to £100,000 from April 2010, but will drop to £25,000 from April 2012. The main writing-down allowances will drop by 2% for periods of account ending on or after 1 April 2012 (companies), and on or after 6 April 2012 (other businesses).

Small business taxation

Before the Budget, the Office of Tax Simplification had published a small business tax review. This had suggested the abolition of IR35, the controversial legislation aimed at personal service companies. Unfortunately, the Budget contained a statement that IR35 would not be abolished, although the Government committed to making 'clear improvements' in the way it is administered.

There was better news for small businesses with a one year extension to the small business rate relief (SBRR) holiday to 1 October 2012 and confirmation that HMRC will continue to offer 'time to pay' agreements. However, the latter news has been greeted with some scepticism as there is much anecdotal evidence that HMRC is now taking a tougher line in such cases.

Planning Points

Dividends or Salary........or Pension Contribution?

Higher national insurance contributions and lower corporation tax rates have altered the mathematics of the choice between dividends and salary. If you are in a position to choose between the two, and not caught by the IR35 personal company rules, a dividend remains the more efficient choice, as the example below shows. However, a pension could avoid all immediate tax and NIC costs, provided the reduced annual allowance is not an issue.

Still Worth It

Brendan has £50,000 of gross profits in his company which he wishes to draw, either as bonus or dividend. Assuming the company pays corporation tax at the 2011 small profits rate of 20% and Brendan has annual income in excess of £42,475, his choice can be summarised thus:

	Bonus £		**Dividend £**	
	40% tax	**50% tax**	**40% tax**	**50% tax**
Marginal gross profit	50,000	50,000	50,000	50,000
Corporation tax @ 20%	N/A	N/A	(10,000)	(10,000)
Dividend	N/A	N/A	40,000	40,000
Employer's National Insurance contributions £43,937 @ 13.8%	(6,063)	(6,063)	N/A	N/A
Gross bonus	43,937	43,937	N/A	N/A
Brian's NICs £43,937@ 2%	(879)	(879)	N/A	N/A
Income tax *	(17,575)	(21,969)	(10,000)	(14,444)
Net benefit to Brendan	**25,483**	**21,089**	**30,000**	**25,556**

**after allowing for 10% tax credit on dividends*

The benefit of the dividend route is due to the savings in NICs; more tax (corporation tax and income tax) is payable under the dividend route.

Capital allowances timing issue

The April 2012 reduction from £100,000 to £25,000 for the 100% Annual Investment Allowance (AIA) in plant and machinery and the cut to an 18% writing-down allowance for most expenditure from accounting periods ending from April 2012 means the timing of a major investment needs to be considered carefully.

It may be wiser to bring forward major purchases to maximise the use of the AIA rather than defer investment until 2012/13.

Pensions

The last year has seen a raft of announcements about major changes in pension tax law, only some of which have yet reached the statute book. The pace of change has caught all sides by surprise – even HMRC has been forced to introduce some temporary measures. Many pension providers are struggling to cope with the reforms. It is symptomatic of the situation that most of the major players had not completed the system amendments to handle new rules that took effect on 6 April 2011. One good reason is that the final rules will not be legislated for until the Finance Act receives Royal Assent, probably in July.

As a refresher, the main *tax* changes are:

- The special annual allowance (SAA) was abolished with effect from 6 April 2011. The SAA was a temporary measure, designed to restrict higher rate tax relief on some pension contributions. The legislation due to replace the SAA was contained in the first Finance Act of 2010, but subsequently repealed

- The revenue that was to be raised by the SAA's abandoned replacement will not be lost. To achieve the same effective tax take, from 6 April 2011 the annual allowance was cut from £255,000 to £50,000. It is likely to remain at that level for at least the next five tax years. A revised annual allowance charge will mean that *all* tax relief on personal contributions above the available annual allowance will effectively be lost and all excess employer contributions will be taxed on the employee

- You can now carry forward any unused annual allowance for up to three tax years. This concession is backdated to tax years since 2008/09, but based on a deemed annual allowance of £50,000, not the actual amounts for the previous tax years (see example in planning points below)

- There is now no requirement to start drawing income by no later than age 77 (previously 75): you can hold on to your uncrystallised pension fund for as long as you live. However, once you reach age 75 there is a 55% flat tax charge on any lump sum death benefits. The quid pro quo is that there will generally be no IHT

- Since 6 April 2011, there has been a new set of rules for income withdrawals now described as drawdown:

    - There is now no upper age limit for income withdrawals

    - The upper income levels have changed, with the ceiling now 100% of a revised HMRC/GAD rate table (previously 120%) for 'capped' drawdown. Until 5 June 2011 the old table can still be used, but the 100% limit will generally still apply. If drawdown started before 6 April 2011, normally the new limits will take effect from the next review date, which could be as much as nearly five years away. As the table below shows, the changes create winners and losers

    - Reviews move to a three yearly cycle up to age 75 and yearly thereafter

    - If your total annual secured income (basically scheme and state pensions plus pension annuities) is at least £20,000, you can opt for 'flexible drawdown' instead of the capped version. This removes the ceiling on what you can withdraw – in theory, you could withdraw your entire pension fund in one (taxable) payment

    - The flat rate tax charge on lump sum death benefits has risen to 55% from 35%

Maximum Income Drawdown Rates per £1,000†				
	Male		Female	
Age attained	2011/12	2010/11	2011/12	2010/11
	£	£	£	£
55	55.00	66.00	52.00	62.40
60	59.00	72.00	57.00	68.40
65	66.00	81.60	62.00	75.60
70	75.00	96.00	71.00	86.40
75	90.00	87.30*	83.00	76.50*
80	115.00	87.30*	105.00	76.50*

† Assuming 4.0% interest rate, the applicable interest rate for determining drawdown in April 2011
* Alternatively secured pension (ASP) limit for 2010/11 only

- The new drawdown rules mean that alternatively secured pensions (ASPs) have been abolished. Any pre-6 April 2011 ASP has become a drawdown pension

- From 6 April 2012, the standard lifetime allowance will be reduced from £1.8m to £1.5m and frozen at that level for an indeterminate period. A new 'fixed protection' option will be available to allow you to secure the £1.8m level, but the downside is that this protection will be lost if any further benefits accrue or contributions are made after 2011/12. Fixed protection is not available if you have primary or enhanced protection. If you already have enhanced protection, you will be unaffected by the lower allowance. If you have primary protection, this will continue, based on a £1.8m standard lifetime allowance

The Budget added one further technical change, which will allow annual review dates to be aligned from age 75, when pension arrangements are under the same scheme i.e. as a result of consolidation.

There have also been important *non-tax* pension changes announced, again showing somewhat more speed than haste in their development:

- The June Budget announced a move to using the Consumer Prices Index (CPI) from the Retail Prices Index (RPI) for indexation of most state benefits and public sector pensions. The measure was primarily a cost-cutting one: over the last 20 years CPI inflation has averaged 0.5% a year less than RPI inflation. In fact the gap for the first round of increases affected by the change is much wider: RPI inflation in the benchmark month of September 2010 was 4.6%, whereas CPI figure was 3.1%

  Subsequent to the June Budget move, the government announced that CPI rather than RPI would apply to private sector final salary pension scheme statutory increases, both before and after retirement. This caused much consternation, not least because over two thirds of private sector pension schemes had 'hard wired' reference to the RPI into their rules and faced having to give increases based on whichever index was the higher. By December the government had backed down a little. It issued a consultation paper suggesting that schemes would not be bound to match the higher index, but neither would there be any legislation to override scheme rules. The outcome of the consultation is now awaited

- Changes to state pension age (SPA) were another measure that started with an announcement in the June Budget. These will become law, once the Pensions Bill 2011 goes through Parliament. The changes, shown in the table below, are particularly bad news if you are a woman who has just celebrated your 57th birthday. This time last year, your SPA was 6 March 2018 (age 64), now it is 5 March 2020 (age 66).

Women: Date of birth	Date State Pension Age Reached
6 April 1953 to 5 May 1953	6 July 2016
6 May 1953 to 5 June 1953	6 November 2016
6 June 1953 to 5 July 1953	6 March 2017
6 July 1953 to 5 August 1953	6 July 2017
6 August 1953 to 5 September 1953	6 November 2017
6 September 1953 to 5 October 1953	6 March 2018
6 October 1953 to 5 November 1953	6 July 2018
6 November 1953 to 5 December 1953	6 November 2018

Women and Men: Date of birth	Date State Pension Age Reached
6 December 1953 to 5 January 1954	6 March 2019
6 January 1954 to 5 February 1954	6 July 2019
6 February 1954 to 5 March 1954	6 Nov 2019
6 March 1954 to 5 April 1954	6 March 2020
6 April 1954 to 5 April 1960	66th birthday

The Budget contained an announcement that the Government would 'bring forward proposals to manage future changes in State Pension Age more automatically, including the option of a regular independent review of longevity changes'. This will almost certainly mean that the scheduled increases to an SPA of 67 between 2034 and 2036 and to 68 between 2044 and 2046 will be brought forward.

The Chancellor also confirmed that the Government 'will look to reform the state pension for future pensioners', introducing a 'single tier pension around £140 a week'. This would result in the end of defined benefit contracting out – other forms of contracting out are already set to stop from April 2012. The restructuring would be designed 'so as not to increase spending dedicated to state pensions'.

Planning Points

After the Special Annual Allowance

Graham was caught by the special annual allowance in 2009/10 and 2010/11, with the result that in those two tax years his pension contributions were £20,000 a year, compared with the £38,000 he had paid in 2008/09. In 2011/12 he can use the new carry forward rule to make contributions of up to £122,000 without any tax relief penalty, as the table below shows.

If Graham does not contribute at least £62,000 in 2011/12, he will lose part of the £12,000 unused allowance carried forward from 2008/09. The rules offset his contribution first against the current year's allowance and then against the carried forward amounts, oldest years first.

Tax Year	Contribution	Annual Allowance*	Carried Forward to Next Tax Year	Total Carried Forward
2008/09	£38,000	£50,000	£12,000	£12,000
2009/10	£20,000	£50,000	£30,000	£42,000
2010/11	£20,000	£50,000	£30,000	£72,000
2011/12	£122,000	£50,000	Nil	Nil

* For carry forward calculation purposes only in 2008/09-2010/11.

In theory, provided he has sufficient 'relevant UK earnings', Graham can carry on contributing £50,000 a year after 2011/12, but he may wish to elect for the new fixed protection before 6 April 2012. While this would give him a minimum lifetime allowance of £1.8m, it would also mean that he must cease contributions after 5 April 2012 to retain the protection.

Passing on the Pension

Gail is 73 and has just been widowed. She now finds herself with a large widow's pension from her late husband's occupational scheme and much lower outgoings, because she no longer has to meet his care home fees. Suddenly she has no need of the £250,000 of pension fund which she had transferred into a self-invested personal pension (SIPP) four years ago.

Under the new rules in force from 6 April 2011, Gail could simply leave the SIPP as it is, with the lump sum death benefit passing under a discretionary trust to her nominated beneficiaries (her grandchildren), free of inheritance tax. However, if she dies on or after her 75^{th} birthday – and she is currently in excellent health – then there will be a 55% tax charge on the fund before it is paid out.

A more attractive, albeit also more complex, option would be:

- For Gail to leave the SIPP untouched until her 75^{th} birthday. Until then the death benefit would not be subject to any tax

- At age 75 Gail could draw out her maximum pension commencement lump sum (25% of her fund) and opt for flexible income drawdown. She can do this because her state and widow's pensions comfortably exceed the £20,000 per year Minimum Income Requirement

- Gail immediately gifts the lump sum outright to her grandchildren. This would be a potentially exempt transfer and, because she has made no other gifts beyond her £3,000 annual exemption, will never attract any tax. However, the gift would fall back into her estate for IHT purposes if she dies within the following seven years and so use up part of her nil rate band which would otherwise be available to her estate

- She can use flexible income to strip out the balance of the fund over the next four years. The income payments will mostly be taxable at 40%, with a small element attracting basic rate tax

- Each net income payment can be given by Gail to her grandchildren. These would count as normal expenditure gifts and would therefore be free of IHT, regardless of when she dies

- If she does not survive to make all the income payments, the remaining balance of her fund would be all that suffers the 55% tax rate

Appendix – Tax Facts and Figures and NICs

Main Income Tax Allowances and Reliefs

	2010/11	**2011/12**
	£	**£**
Personal allowance – standard	6,475	7,475
- Age 65 – 74	9,490	9,940
- Age 75 and over	9,640	10,090
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Married couple's allowance – minimum amount*	2,670	2,800
- Age 75 and over*	6,965	7,295
Age-related allowances reduced if total income exceeds ¶	22,900	24,000
Maintenance to former spouse □	2,670	2,800
Employment termination lump sum limit	30,000	30,000

∞ For 2011/12 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £114,950 (£112,950 for 2010/11).

* Relief at 10%. Minimum amount applies for age allowance purposes only.

□ Relief available at 10% only if at least one of the couple was born before 6 April 1935.

¶ For 2010/11 and 2011/12 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:

	2010/11	**2011/12**
	£	**£**
Taxpayer aged 65 - 74 [personal allowance]	28,930	28,930
Taxpayer aged 75 and over [personal allowance]	29,230	29,230
Taxpayer aged 75 and over [married couple's allowance]	37,820	38,220

Income Tax Rates

	2010/11	2011/12
	£	£
Starting rate on savings income- 10%	1 – 2,440	1 – 2,560
Basic rate	20%	20%
Maximum tax at basic rate†	7,480	7,000
Higher rate - 40%	37,401-150,000	35,001-150,000
Tax on first £150,000†	52,520	53,000
Additional rate – 50%	Over 150,000	Over 150,000
Discretionary and accumulation trusts (except dividends) °	50%	50%
Discretionary and accumulation trusts (dividends) °	42.5%	42.5%
Ordinary rate on dividends	10%	10%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	42.5%	42.5%

† Assumes 10% band not available. £6,744 on first £35,000 (£7,236 on first £37,400 in 2010/11) and £52,744 (£52,276 in 2010/11) on first £150,000 if full 10% band is available.

° Up to the first £1,000 of gross income is generally taxed at the standard rate i.e. 20%, or 10% as appropriate.

Car Benefits

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras. For 2010/11 only this was capped at £80,000.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure:

CO_2 g/km	% of price subject to tax		CO_2 g/km	% of price subject to tax		CO_2 g/km	% of price subject to tax	
	10-11	11-12		10-11	11/12		10-11	11/12
75 or less	5	5	155-9	20	21	195-9	28	29
76-120	10	10	160-4	21	22	200-4	29	30
121-129	15	15	165-9	22	23	205-9	30	31
130-134	15	16	170-4	23	24	210-4	31	32
135-9	16	17	175-9	24	25	215-9	32	33
140-4	17	18	180-4	25	26	220-4	33	34
145-9	18	19	185-9	26	27	225-9	34	35
150-4	19	20	190-4	27	28	230-	35	35

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 125g/km or more (130g/km or more in 2010/11).

2. For all diesels add 3%, subject to maximum charge of 35%. For 2010/11 no surcharge applied to diesels meeting Euro IV and registered on or before 31 December 2005.

3. For 2010/11 only, hybrid petrol/electric cars are subject to a 3% reduction, with a minimum 10% charge.

4. For 2010/11 only, LPG, dual LPG/petrol and E85 cars are subject to a 2% reduction, with a minimum 10% charge. Reduction does not apply to LPG conversions.

5. There is no charge for any car which cannot produce CO_2.

For cars with no approved CO_2 emissions figure, the charge is based on engine size:

Engine Size (cc)	**Percentage of car's price charged to tax**
0 – 1,400	15
1,401 – 2,000	25
2,001 and more	35

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras. For 2010/11 only this was capped at £80,000.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure:

CO_2 g/km	**% of price subject to tax**		**CO_2 g/km**	**% of price subject to tax**		**CO_2 g/km**	**% of price subject to tax**	
	10-11	**11-12**		**10-11**	**11/12**		**10-11**	**11/12**
75 or less	5	5	155-9	20	21	195-9	28	29
76-120	10	10	160-4	21	22	200-4	29	30
121-129	15	15	165-9	22	23	205-9	30	31
130-134	15	16	170-4	23	24	210-4	31	32
135-9	16	17	175-9	24	25	215-9	32	33
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For cars with no approved CO_2 emissions figure, the charge is based on engine size:

Engine Size (cc)	Percentage of car's price charged to tax
0 – 1,400	15
1,401 – 2,000	25
2,001 and more	35

Car Fuel Benefits

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £18,800 (£18,000 for 2010/11). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 10% to 35%) is multiplied by £18,800. The percentage figures allow for a diesel fuel surcharge. For example, in 2011/12 a petrol car emitting 162 g/km would give rise to a fuel benefit of 21% of £18,800 = £3,948.

Value Added Tax

From	1 April 2010	4 January 2011	1 April 2011
Standard rate	17.5%	20.0%	20.0%
Reduced rate i.e. domestic fuel	5.0%	5.0%	5.0%
Annual turnover limit for registration	£70,000	£70,000	£73,000
Deregistration threshold	£68,000	£68,000	£71,000
Flat rate scheme turnover limit	£150,000	£150,000	£150,000
Cash accounting and annual accounting limits	£1,350,000	£1,350,000	£1,350,000

Inheritance Tax

	Cumulative chargeable transfers [gross]		tax rate on death %	tax rate in lifetime* %
	2010/11 £	2011/12 £		
Nil rate band†	325,000	325,000	0	0
Excess	No Limit	No Limit	40	20

* Chargeable lifetime transfers only
† On the death of a surviving spouse on or after 9 October 2007, their personal representatives may claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).

Capital Gains Tax

Main exemptions and reliefs

	2010/11 £	2011/12 £
Annual exemption	10,100*	10,600*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	$^{4}/_{9}$ths of business gain - lifetime limit £2,000,000 (to 22/6/2010) Lifetime limit £5,000,000 (from 23/6/2010)	Lifetime limit £10,000,000 Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

Individuals:

To 22/6/2010: 18%

From 23/6/2010: 18% on gains within basic rate band, 28% for gains in higher and additional rate bands

Trustees and personal representatives:

To 22/6/2010: 18%

From 23/6/2010: 28%

Stamp Duty and Stamp Duty Land Tax

Residential	**Commercial**	**Rate**
£125,000* or less	£150,000 or less	Nil
Over £125,000* up to £250,000	Over £150,000 up to £250,000	1%
Over £250,000 up to £500,000	Over £250,000 up to £500,000	3%
Over £500,000 up to £1,000,000	Over £500,000	4%
Over £1,000,000	N/A	5%
**£250,000 for first-time buyers where completion is before 25/3/2012, £150,000 for property in disadvantaged areas*		
Stamp Duty (including SDRT): stocks and marketable securities		0.5%
No charge unless the duty exceeds £5		

Corporation Tax

	Year Ending 31 March	
	2011	**2012**
Main rate	28%	26%
Small profits rate *	21%	20%
Small profits limit *	£300,000	£300,000
Upper marginal level	£1,500,000	£1,500,000
Effective marginal rate	29.75%	27.5%

* Formerly the small companies' rate/limit

Tax-Privileged Investments (Maximum Investment)

	2010/11 £	**2011/12 £**
ISA		
Overall per tax year:	10,200	10,680
Cash component:	5,100	5,340
Stocks and shares component:	Balance up to 10,200	Balance up to 10,680
Maximum in cash for 16 and 17 year olds	5,100	5,340
ENTERPRISE INVESTMENT SCHEME (30%† income tax relief in 2011/12, 20% income tax relief in 2010/11)	500,000*	500,000*
Maximum carry back to previous tax year for income tax relief	500,000	500,000
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.
† Subject to EU State aid approval

Pensions

	2010/11	2011/12
Lifetime allowance*	£1,800,000	£1,800,000
Lifetime allowance charge: Excess drawn as cash Excess drawn as income	 55% of excess 25% of excess	
Annual allowance	£255,000	£50,000
Annual allowance charge	40% of excess	20%-50% of excess
Special annual allowance	£20,000 - £30,000	N/A
Special annual allowance charge	20%-30%+	N/A
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under transitional protection provisions
\+ Depends on taxable income: effect is to reduce relief to basic rate

Working and Child Tax Credits

The main features of the tax credits are:

1. **Child tax credit**

- Eligibility is assessed on household income
- The claimant must be responsible for one or more children aged 16 or under, or at least one child under age 20 and in full-time non-advanced education
- The family element of the tax credit is £545 per annum
- The child element is £2,555 per annum for each child
- The disabled child element is £2,800 per annum (where relevant)
- HMRC will pay the CTC to the main carer for the child

2. **Working tax credit**

- The claimant, or one of the joint claimants, must be in qualifying remunerative work
- The amount of WTC will be based on circumstances which are primarily the number of hours worked and the income of the claimant (or joint income for a couple)
- The age and working hours conditions are not straightforward. Generally, the minimum weekly working requirement will be:

  a) 16 hours for families with children and workers with a disability. The claimant can be aged 16 or over

  b) 30 hours for workers with no children and no disability. The claimant has to be aged 25 or over

- The basic element of the tax credit is £1,920 per annum

- The couple or lone parent element is £1,950 per annum

- A 30 hour element of £790 per annum is payable where the claimant or one of the claimants works at least 30 hours a week (couples with children may aggregate their hours for this purpose)

- A disabled worker element of £2,650 per annum or more is available where the claimant, or his or her partner, has a disability

- There is 50-plus element and a childcare element, worth 70% of care costs, subject to an eligible maximum of £300 a week

- For employees, payment will normally be made by their employer with their wages (except the childcare element which is paid direct to the main carer). For the self-employed, payment is made directly by HMRC

3. Calculating the credits

It is necessary first to total the various elements available to arrive at the maximum available amount of tax credits before any reduction on account of income. All elements can be reduced at the rate of 41% i.e. 41p per £1 of income.

National Insurance Contributions for Tax Year 2011/2012

Definitions

Lower Earnings Limit (LEL)	The minimum level of earnings at which an employee will qualify for a State Second Pension (S2P). This is also the lower level of earnings which will be used in determining any NI Rebate. For tax year 2011/12 the Lower Earnings Limit is £102 per week.
Upper Accrual Point (UAP)	The upper level of earnings on which an employee's S2P entitlement is based (or on which any NI Rebate is determined). For tax year 2011/12 (and subsequent years) the Upper Accrual Point is fixed at £770 per week.
Upper Earnings Limit (UEL)	The upper level of earnings on which full NICs are charged. The reduced 2% NI contributions will apply to earnings above this level. For tax year 2011/12 the Upper Earnings Limit is £817 per week.
NI Rebate	The Rebate of employer's and employee's National Insurance contributions that is available where an employee is contracted out of S2P. This is based on the employee's earnings between the Lower Earnings Limit (LEL) and Upper Accrual Point (UAP). The Rebate will vary depending on the type of pensions vehicle used to contract out of S2P. Where this is a final salary occupational scheme this will be 3.7% (employer) and 1.6% (employee) in respect of the employee's earnings between the LEL and UAP. Where this is a money purchase occupational scheme or contracted out money purchase stakeholder pension scheme the Rebate will be 1.4% (employer) and 1.6% (employee) in respect of the employee's earnings between the LEL and UAP. The aggregate Rebate will be determined on an age related basis (varying from 3.0% to 7.4%) and any further Rebate due (ie over and above the amounts mentioned earlier in this paragraph) will be paid by the HMRC NICO to the scheme after the end of the tax year. Where this is a personal pension or stakeholder scheme National Insurance contributions will be paid at the contracted in rate and the Rebate, which will be determined on an age related basis, will be paid directly to the member's personal pension by the HMRC NICO after the end of the tax year to which it relates. The Rebates will also vary in accordance with an individual's earnings, in each of the following two bands:

Band	Age related Rebate
1 (£5,304 - £14,400)	9.4% - 14.8%
2 (£14,401 - £40,040)	2.35% - 3.7%

Primary Threshold

The level of earnings at which employees start to pay Class 1 National Insurance contributions.

For tax year 2011/12 this is £139 per week.

Secondary Threshold

The level of an employee's earnings at which the employer starts to pay Class 1 National Insurance contributions.

For tax year 2011/12 this is £136 per week.

Employees - Class 1

Contracted in

Nil on first £139 per week i.e. up to Primary Threshold
12% of £139.01 per week to £817 per week.

2% on earnings above £817 per week.

Contracted out via occupational scheme

Nil on first £139 per week i.e. up to Primary Threshold

10.4% of £139.01 per week to £770 per week

12% of £770.01 per week to £817 per week.

2% on earnings above £817 per week.

The employee's NI Rebate is still payable in respect of the employee's earnings between the LEL and UAP including those in excess of the LEL and up to and including the Primary Threshold. In the first instance, the Rebate reduces the National Insurance contributions payable by the employee. However, where the National Insurance contribution payable by the employee is reduced to nil, the excess Rebate will be available for the employer to set against his overall National Insurance contribution bill.

Married Women and Widows Reduced Rate

5.85% of £139.01 to £817 per week.

2% on earnings above £817 per week.

Employer - Class 1 Contributions

Weekly Earnings	Contracted In	Contracted Out	
		COSR	COMP**
	%	%	%
On first £136	Nil	Nil	Nil
£136.01-£770	13.8	10.1	12.4
Over £770	13.8	13.8	13.8

Although the reduced level of National Insurance contributions only applies to the employee's earnings in the band between the Secondary Threshold (£136 per week) and the UAP (£770 per week), the NI Rebate is still available in respect of the employee's earnings between the LEL and UAP, including those earnings between the LEL (£102 per week) and the Secondary Threshold (£136 per week). Employers are able to reduce their overall National Insurance contributions liability to reflect the Rebate applicable to the employer's contributions on the employee's earnings between £102 per week and £139 per week.

** Where a COMP (Contracted Out Money Purchase Occupational Scheme) is involved the Rebate is determined on an age related basis and any additional Rebate due over and above that shown above will be payable by HMRC NICO to the scheme after the end of the tax year. This will also apply to a Contracted Out Money Purchase Stakeholder Pension Scheme (COMPSHP).

COSR is a Contracted Out Salary Related Occupational Scheme.

Self-Employed

Class 2 (lower profits limit)	£2.50 per week flat rate. (applicable where profits are less than £5,315 per annum)
Class 4	9% of profits between £7,225 p.a. and £42,475 p.a.
	2% on profits above £42,475 p.a.

Voluntary Contributions

Class 3	£12.60 per week

Do not act on this information alone!

If you would like to discuss any area in more detail, please contact:

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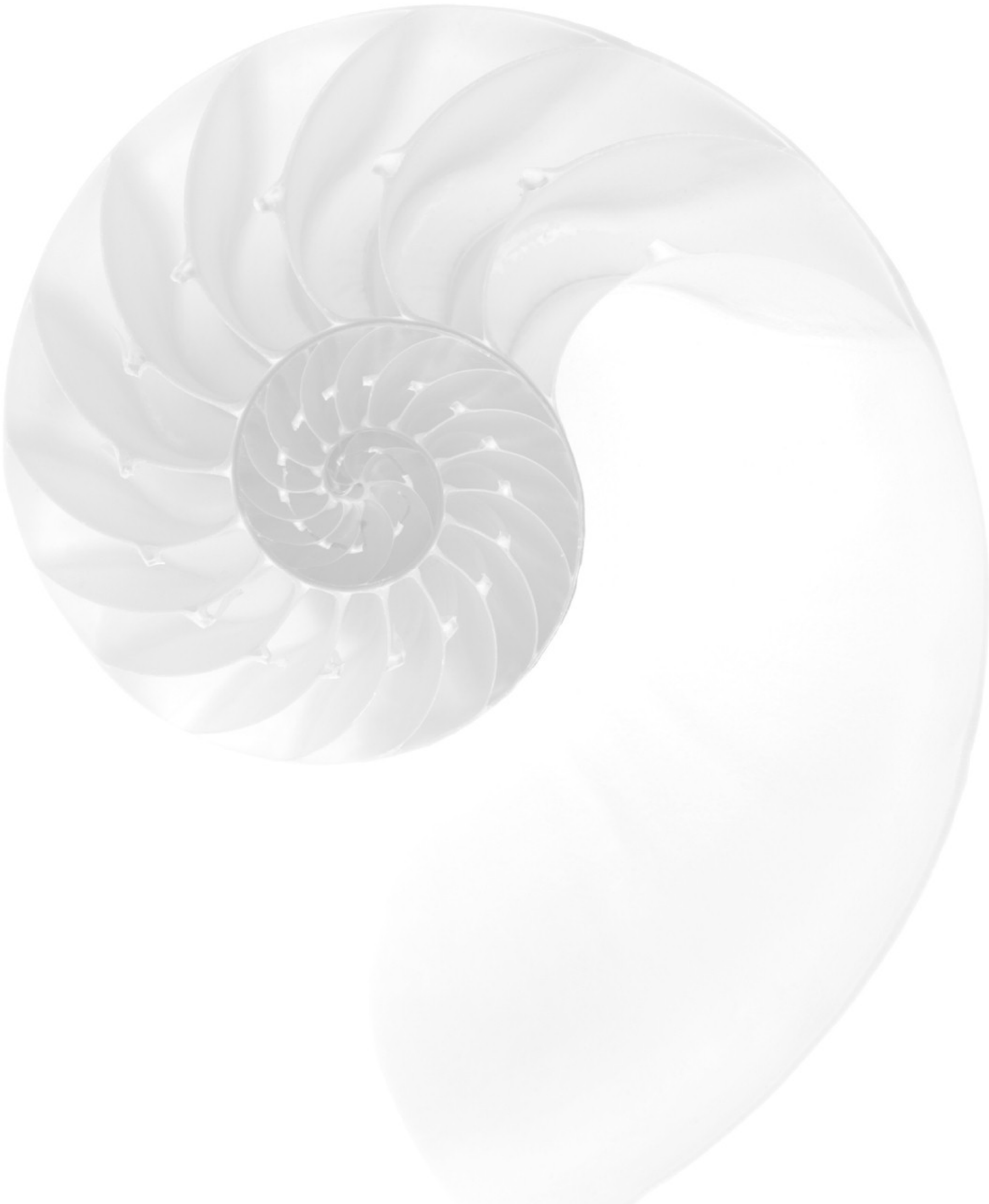

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