

## Budget 2012: Contents and Consequences

A substantial part of George Osborne's third Budget was trailed in last November's Autumn Statement. Shortly afterwards more than 1,000 pages of draft Finance Bill 2012 clauses and explanatory notes were published for the tax community to absorb over the festive season.

However, during the run up to the Chancellor's speech rumours started to circulate of major changes not in December's drafts from the Treasury. There was widespread talk of a further move towards a £10,000 personal allowance, a cut in the top rate of tax, a super-prime rate of SDLT for super-prime properties and suggestions of another attack on pension tax relief. Such was the flow of press predictions that somebody suggested that Mr Osborne's Budget Day performance would be akin to a review of the newspapers.

It did not quite turn out that way, although many of the leaks proved surprisingly well-informed: Budget purdah seems not to work with a coalition government. Mr Osborne announced a wide variety of measures – including a few that managed to escape the rumour machine – but in overall terms his actions will make very little difference to the UK's financial position.

One reason the Chancellor was mostly confined to low-cost political changes was the deterioration in the economy over the last twelve months. In November Mr Osborne effectively added two years to the period of austerity by announcing unspecified cuts of £15bn for 2015/16 and 2016/17 – after the end of this Parliament. Although it may not feel like it, the UK austerity programme has hardly started. According to the well-respected Institute for Fiscal Studies, as at April 2012, 73% of the planned tax increases will have been implemented, but only 12% of the planned spending cuts will be in place – and the cuts account for about £3 in every £4 of the Chancellor's projected reduction in government borrowing.

The economic backdrop against which the bulk of the spending cuts and remaining tax rises will occur is worse than was expected at the time of the 2011 Budget. The UK economy contracted 0.2% in the final quarter of 2011, leaving it about the same size in inflation-adjusted terms as it was at the end of 2006. Growth this year is now forecast to be 0.8% by the Office for Budget Responsibility, broadly in line with the IMF's most recent forecast of 0.6%.

At least annual inflation, measured on the government's favoured CPI basis, is now on a downward trend, thanks in no small part to the 2011 VAT increase dropping out of the yearly comparison. Lower inflation should reduce the squeeze on spendable incomes that was a notable feature of last year, when earnings increases were around 2%.

The headline-grabbing moves announced (or re-announced) in the Budget included:

- An £1,100 rise in the personal allowance to £9,205 for 2013/14, partially offset for higher rate taxpayers by a £2,125 cut in the size of the basic rate band.
- The freezing of personal age allowances in 2013/14 followed by their eventual phasing out.
- A move to a 45% top rate of tax from 2013/14.

- The introduction of a General Anti-Abuse Rule (GAAR) from April 2013, to counter the most aggressive forms of tax avoidance.
- An additional 1% cut in the main rate of corporation tax to 24% for 2012/13. There will be further 1% cuts in the next two years.
- A new 7% SDLT rate for residential properties valued at over £2m and a range of anti-avoidance measures on residential property ownership via corporate and other entities.
- No changes to the main pension tax rules, but an effective £3,600 annual premium ceiling imposed on new qualifying life policies..

In this Bulletin we look at the main changes that will affect individuals and businesses and examine some of the related planning issues. If any of these strikes a chord, you are strongly recommended to consult your financial adviser.

## Contents

Personal income tax and National Insurance contributions	<u>4</u>
Capital gains tax	12
Inheritance tax	16
Investments	18
Business tax	23
Pensions	25
Tax tables	<u>Appendix</u>

*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 Budgetary 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.*

*This Newsletter is provided for general consideration only and no action should be taken or refrained from based on its contents alone. Accordingly, no responsibility can be accepted for any loss occasioned as a result of any such action or inaction. Professional advice must always be taken.*

## Personal Income Tax and National Insurance Contributions

The income tax bands and allowances and National Insurance contributions (NICs) rates for 2012/13 were announced last November by the Treasury. The Budget contained no changes to these, but did reveal some numbers for the 2013/14 tax year:

- The personal allowance has increased by £630 to £8,105, as initially revealed in last year's Budget. It will continue to be phased out where total income exceeds £100,000. Anyone with total income exceeding £116,210 in 2012/13 will not receive a personal allowance.

For 2013/14 there will be an £1,100 increase in the personal allowance. The income threshold at which the allowance will be lost completely rises correspondingly to £118,410.

- A quid pro quo for the increase in the personal allowance in 2012/13 is a reduction of £630 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 is unchanged at £42,475. The net effect will be to increase the number of higher rate taxpayers again. HMRC's latest statistics suggest that already over one in eight income tax payers pay tax at the higher rate.

For 2013/14 there will be another reduction in the basic rate band, this time by £2,125. As a result the starting point for higher rate tax will fall by £1,025 to £41,450. HMRC says this change will create another 300,000 higher rate taxpayers. According to the Institute for Fiscal Studies (IFS), 15% of taxpayers will face the higher (or additional) marginal rate in 2013/14 against just 3% in 1978/79.

- Other 2012/13 allowances have risen by around 5.6%, in line with September 2011 RPI inflation. Ironically, that marked the peak of the inflation cycle – the latest annual RPI (for February 2012) was 3.7%.
- A surprise change was the announcement that the personal age allowances would be frozen at 2012/13 levels from 2013/14; and then in 2013/14 the lower allowance of £10,500 would only be available to those born before 6 April 1948, with the higher level of allowance (£10,660) available only to those born before 6 April 1938. Anyone born after 5 April 1948, ie. reaching their 65<sup>th</sup> birthday after 5 April 2013, will be entitled to only the personal allowance. The freezing of the age allowances will mean that within a few years the standard personal allowance will overtake the age allowances, which will fall away. The Chancellor made no comment about the future of the married couple's age allowance, which is only available where at least one spouse was born before 6 April 1935 (ie. to those aged 77 and over).
- The 10% tax band, only accessible to a few, also rose by 5.6% for 2012/13. 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. In 2013/14 the additional rate will be reduced by 5% to 45% with a corresponding cut in the dividend rate to 37.5% from 42.5%.
- The basic rate of tax remains at 20% (10% for dividends).
- There were no major changes to NIC rates this year, but the bands have been adjusted in line with inflation:

- 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 £7 a week, to £146 a week (£7,605 a year). The upper earnings and upper profits limits, beyond which the NIC rate falls to 2%, remain at £42,475, in line with the unchanged starting point for 40% tax.
- For employers the corresponding starting threshold for NICs has risen by £8 a week, to £144 a week.

The lower earnings limit has increased by £5 a week to £107 a week.

Allowing for the tax and NIC changes, most people in employment will be £172 a year better off in 2012/13, as illustrated in the table below, because of the increased personal allowance and higher NICs starting point. Those with incomes of over about £115,800 will be marginally worse off, but their maximum loss will be £80.

Earnings £	2011/12		2012/13		Overall Change*
	Income Tax	NICs	Income Tax	NICs	
	£	£	£	£	
10,000	505	333	379	287	+172
15,000	1,505	933	1,379	887	+172
20,000	2,505	1,533	2,379	1,487	+172
25,000	3,505	2,133	3,379	2,087	+172
30,000	4,505	2,733	4,379	2,687	+172
40,000	6,505	3,933	6,379	3,887	+172
50,000	10,010	4,381	9,884	4,335	+172
75,000	20,010	4,881	19,884	4,835	+172
100,000	30,010	5,381	29,884	5,335	+172
125,000	43,000	5,881	43,126	5,835	- 80
150,000	53,000	6,381	53,126	6,335	- 80
175,000	65,500	6,881	65,626	6,835	- 80
200,000	78,000	7,381	78,126	7,335	- 80
250,000	103,000	8,381	103,126	8,335	- 80

\* 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.

### Reforming income tax and NICs

The Chancellor announced in Budget 2011 that he would be consulting on 'the options, stages, and timing of reforms to integrate the operation of income tax and NICs'. This was widely misinterpreted at the time as meaning that the two levies would be combined, which is not what the Chancellor had in mind: he was looking to align the administration of the two taxes rather than have a single tax.

In this year's Budget, the Chancellor said nothing beyond offering a promise of consultation in the near future.

## **Tax credits**

Some elements of working tax credits (WTCs) rise by 5.2% for 2012/13, in line with the CPI to September 2011, while others, such as the basic element, are frozen. There are several further twists of the fiscal screw for tax credits, all of which have been announced previously:

- The income limit for the Family Element of Child Tax Credit (CTC), worth up to £545 a year, is being cut. In 2011/12 this element was phased at between £40,000 and £41,330 of family income. For 2012/13 the phasing out starts immediately after the Child Element of CTC is withdrawn. The impact of this depends upon personal circumstances, but HMRC suggest as a 'very rough guide' that no Family Element will be payable if:
  - you have one child, and your annual income is more than around £26,000; or
  - you have two children, and your annual income is more than around £32,200.
- For couples with at least one child, there is an increase in minimum period of work during a week to qualify for WTC. In 2011/12, one party needed to work at least 16 hours a week to claim WTC. From 6 April 2012, this has risen to 24 hours. Where both parties work, the 24 hours total still applies, but one party must still work at least 16 hours.
- The 50 plus element of WTC is withdrawn from April 2012.
- There will no longer be an in-year recalculation of tax credit entitlement if your income falls during a tax year below the level of the previous year, unless the fall exceeds £2,500.

## **Child Benefit**

Details emerged on one of the more controversial of the Government's welfare cuts, the effective removal of Child Benefit for some higher income families from January 2013. In 2012/13 the benefit is worth an (unchanged since April 2010) £20.30 a week for the first child and £13.40 a week for each additional child.

Mr Osborne's original plan, announced at the Conservative Party conference in October 2010, was to remove the benefit from *all* higher rate taxpayers starting in January 2013. Unlike the rules for tax credits, the proposed income test was on an individual basis, so a two-earner couple each with income of £42,000 would have avoided losing the benefit while a couple with a sole £43,000 earner would have received no benefit. The Treasury calculated that the result would be a loss of income for around 1.5m families, saving the Exchequer £2.4bn a year.

The proposal also threatened to create a 'cliff edge' situation where, in theory, £1 income taxed at the higher rate could lead to a loss of at least £1,056 a year. In the words of the IFS, this threatened to 'create a bizarre and economically damaging set of incentives for people within certain income bands'. The IFS calculated that 'about 170,000 families could increase their net income if an individual in that family managed to lower their pre-tax income to just below the higher rate tax threshold, and about 200,000 families slightly below the higher rate tax threshold could find themselves with a lower net income if their pre-tax income were to rise slightly'.

In the face of these and other criticisms, the Chancellor made a number of changes to the original proposal:

- The income threshold from which Child Benefit will start to be lost will be £50,000. Where both members of a family have income above this level, only the person with the higher income will be considered.
- Child Benefit will be clawed back via a tax charge of 1% of total Child Benefit per £100 of income above the £50,000 threshold (see example below).
- For those with income of £60,000 or more, the tax charge will match the Child Benefit, so the one will cancel the other. To avoid this it is possible to request that Child Benefit not be paid: if no Child Benefit is received, there is no Child Benefit tax charge.

While sidestepping the 'cliff edge' controversy, Mr Osborne did not attempt to address the couple v single earner issue and has created a situation where, in many families, the mother will receive the full Child Benefit, while the father effectively repays all or part of it via his self assessment tax bill. A side result is that up to 500,000 more people will be dragged into completing self assessment returns so HMRC can calculate the right Child Benefit tax charge.

#### **Child Benefit Tax Charge**

John has total income of £54,000 in 2013/14. He and June, his non-working wife, have two children and June receives total Child Benefit of £33.70 a week (£20.30 a week for their first child and £13.40 for the second child).

In 2013/14, the first full year of the new regime for clawing back Child Benefit, John will be subject to a tax charge of:

$$\frac{\underline{£4,000}}{100} \times 1\% \times (£33.70 \times 52) = £700.96$$

#### **Company Cars**

The company car benefit scales are subject to another set of changes in the new tax year. The 2011/12 structure, with a 10% rate applying to all cars with CO<sub>2</sub> emissions between 76g/km and 120g/km and incremental steps from 15% at 121g/km, has been rationalised.

The (theoretical) 5% rate for cars with CO<sub>2</sub> emissions of 75g/km or less stays, but above that level the rate is 10% to 99g/km, rising thereafter by 1% for each additional 5g/km. The 3% addition remains for diesels, subject to an overall maximum rate of 35%. The result of the changes is that some low emission cars suffer a significant jump in their taxable value. For example, the taxable benefit of a £20,000 diesel car with CO<sub>2</sub> emissions of 119g/km rises by nearly a third from £2,600 to £3,400. The same percentages apply for car fuel benefits. The Budget revealed that after 2012/13 there will be further scale adjustments for the next four tax years, each of which will generally increase the tax bill on a company car.

### ***Non-domiciled UK residents***

Following a review of the taxation treatment of non-domiciled people resident in the UK, various changes are being introduced for 2012/13. These include:

- The annual charge for any non-domiciled person wishing to claim the remittance basis of taxation rises from £30,000 to £50,000 if the individual has been UK tax resident for 12 or more of the last 14 tax years.
- There is a new exemption from tax for remitted income and gains which are used to make commercial investment in UK companies, whether listed or unlisted.

### ***Anti-avoidance***

The Budget contained the usual raft of anti-avoidance provisions covering everything from the widely expected measures against SDLT avoidance to more esoteric attacks on 'interdependent' clustered life assurance policies. These were presented as a quid pro quo for the cut in the top rate of tax from 2013/14 with the assertion that together they would raise five times more from 'the rich' than the Treasury would lose in moving from a 50% to a 45% top tax rate. While the Office for Budget Responsibility (OBR) accepted this calculation, it is open to considerable doubt because of the assumptions made about the behavioural patterns of those with high incomes. As the OBR says 'huge uncertainty surrounds all such estimates'.

In the longer term, a more significant step in the government's battle against avoidance is likely to be the introduction of a General Anti-Abuse Rule (GAAR) from April 2013. This will be targeted at 'artificial and abusive tax avoidance schemes' rather than bread-and-butter tax planning. There will be consultation on the details this summer, building on the recommendations of last year Aaronson Report.

## Planning Points

### ***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 again 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 - £116,210 band of income is 60% on non-dividend income - 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 2012/13 Frank has income of £114,000, all of which consists of earnings and interest. 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 £50,000 annual allowance. Depending upon whether he makes the pension contribution, his tax bill would be:

	<b>No Pension Contribution</b>		<b>Pension Contribution</b>	
	£	£	£	£
Gross income	114,000		114,000	
Pension contribution	-		14,000	
Personal allowance	<u>1,105</u>		<u>8,105</u>	
Taxable income	112,895		91,895	
Basic rate tax	34,370 @ 20%	6,874	34,370 @ 20%	6,874
Higher rate tax	78,525 @ 40%	<u>31,410</u>	57,525 @ 40%	<u>23,010</u>
<b>Total tax</b>		<b><u>38,284</u></b>		<b><u>29,884</u></b>

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

### ***Recapturing Child Benefit***

The same principle which applies to countering the restrictions on personal allowances at the £100,000 level will now also apply at the £50,000 level for families in receipt of Child Benefit. If the partner who has the higher income can reduce that income by £100, then potentially a tax charge of 1% of Child Benefit can be avoided. In 2012/13 the benefit of such an exercise will be relatively small, because only a quarter of the year's total Child Benefit can be collected as tax. From 2013/14 the new rules will have full effect, so £100 less income could mean £17.52 less Child Benefit tax charge for a two child family.

### Child's Play?

Janet and John have two children, aged five and seven. Janet currently receives £33.70 a week Child Benefit for the two, which supplements her part-time earnings of £15,000 a year. John has total income of £53,000 a year, the vast bulk of which is self-employed earnings.

#### 2012/13

John's income means that he will face a Child Benefit income tax charge of 30% of the 13 weeks of Child Benefit Janet receives between 7 January 2013 and 5 April 2013, ie:  $£33.70 \times 13 \times 30\% = \underline{£131.43}$

#### 2013/14

Assuming John's income is unchanged, in this tax year he will face a Child Benefit income tax charge of:  $£33.70 \times 52 \times 30\% = £525.72$

Ideally John wants to cut his income to £50,000. This would cost the family a loss in net terms of £1,668.57 in 2012/13 and £1,274.28 in 2013/14 (ignoring the impact of 2% NICs). His potential options for reducing his income for Child Benefit tax purposes include:

- Making a pension contribution of £3,000 gross;
- Increasing capital expenditure in his business and taking advantage of the 100% annual investment allowance.
- Employing his wife on a part time basis at £3,000 a year. This would actually increase the couple's net income as Janet would pay 20% tax and no NICs against John's 40% (and 2% NICs) on the diverted income.
- Placing income producing investments in Janet's name alone.
- Incorporating, so that he can control his total income via dividend payments.

### ***Turning tax credit claw back to your advantage***

The changes to the Child Tax Credit (CTC) rules mean that many basic rate taxpayers who received the full family element of CTC in 2011/12 will lose it completely in 2012/13. If your total family income in 2012/13 is on the margin where you start to lose the tax credit, you could be in a position where for each extra £1 of income:

- Income tax is at 20%;
- NICs are at up to 12%;
- 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

The Chancellor's Emergency Budget in June 2010 reinstated the treatment of capital gains as the top slice of income. The change meant that, for individuals, gains are 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.

For 2012/13, the Chancellor has made no significant changes. Indeed, he has left the capital gains tax annual exemption unaltered at £10,600. From April 2013 onwards, the annual exemption will increase in line with the CPI.

### 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 2012/13 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 immediately 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, eg shares in an open-ended investment company, and buy it back immediately within an ISA. For 2012/13 the maximum ISA investment is £11,280.
- ***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.

- *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.
- *Bed-and-something-very-similar* The growing number of funds which track the main stock market indices has created an opportunity to replicate the tax benefit of the old bed-and-breakfast strategy. For example, if you hold the ABC FTSE 100 Fund, you could sell it and immediately reinvest in the XYZ FTSE 100 Fund. Your underlying investment – shares in the constituents of the FTSE 100 index – would not alter, but because the fund provider has changed, you would escape the rules against bed-and-breakfasting.

### ***Keeping down your CGT bill***

There is 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.
- 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), 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 or even eliminate 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 rests 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 the useful timescale is for now less than two years.

The maximum amount of EIS investment that qualifies for income tax relief is £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.

Looking further out, the Finance Act 2012 will herald the introduction of SEIS. As well as offering 50% income tax relief, gains made in 2012/13 and reinvested in an SEIS in the same tax year will be exempt from tax – effectively adding up to another 28% tax relief. This extra relief will only be available in 2012/13, but before you rush to take advantage, do read the information on SEIS in the Investment section below.

## ***Mind your losses***

The FTSE 100 index today is a little below the level it was five years ago, before the financial crisis got going, and about 1,000 points below its end 1999 peak. Many long-term holdings could thus 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.
- 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.
- The loss is therefore only used when necessary.

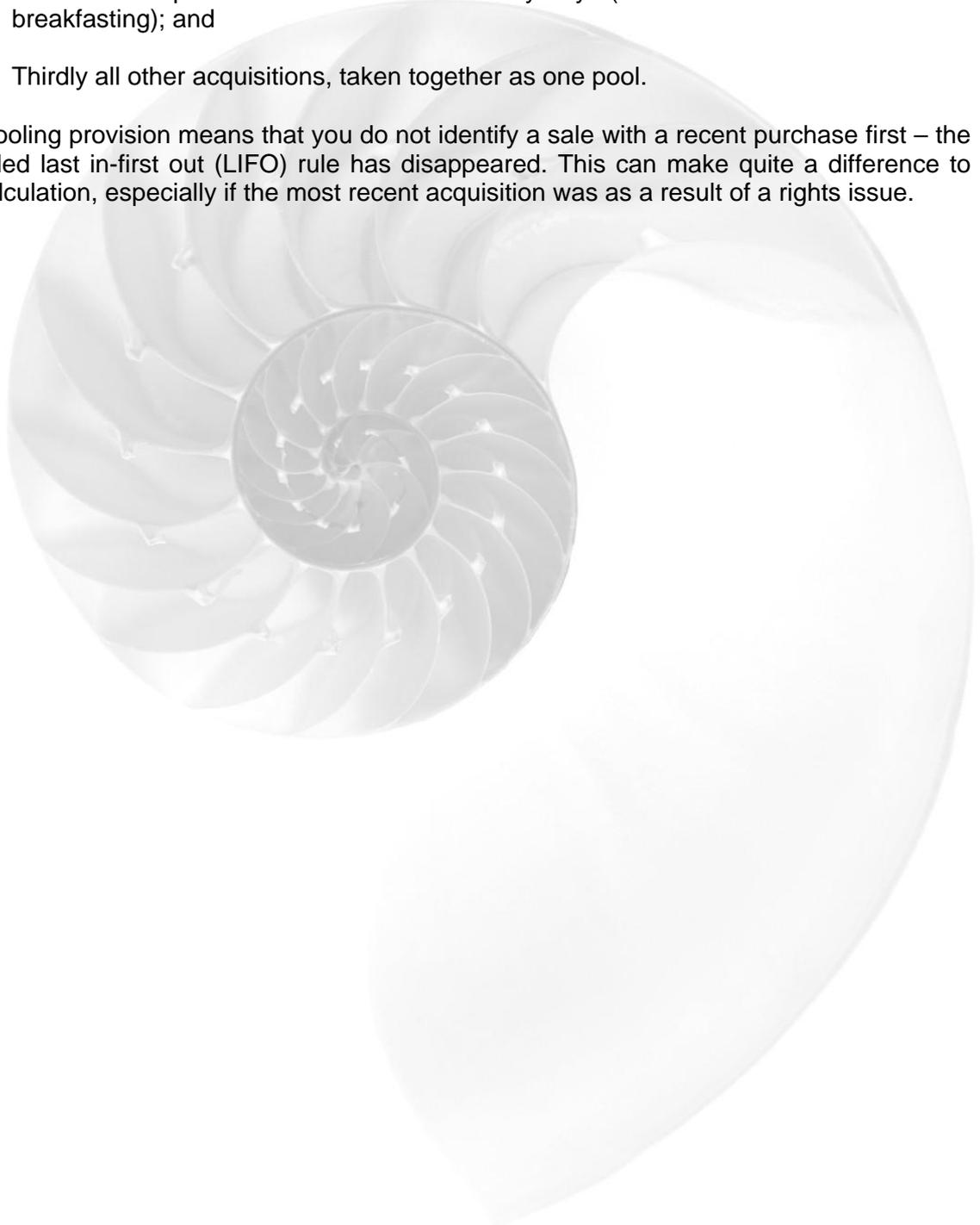
The lesson is that you should always take care before realising gains and losses together in the same tax year.

### ***Identification matters***

The rules for identifying the order in which you are deemed to sell shares or fund holdings are now relatively straightforward. 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 do not identify a sale with a recent purchase first – the so-called last in-first out (LIFO) rule has disappeared. This can make quite a difference to the calculation, especially if the most recent acquisition was as a result of a rights issue.



## 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 £355,000. However, there will be no increases until 6 April 2015, when the band will once again rise in line with inflation (measured by the CPI, not the generally higher RPI used previously).

The one easement the Chancellor has offered IHT payers is a reduced rate of 36% (instead of 40%) for estates where:

- death occurs after 5 April 2012; and
- at least 10% of the net taxable estate before deducting the charitable legacy is left to charity.

This option will save less in tax than it will cost the beneficiaries in terms of lost inheritance, but if you are already planning charitable bequests, you might want to consider their size relative to your estate.

The Chancellor made no comment about the reform of IHT, even though last year the Office for Tax Simplification had called for a radical review of the tax, possibly combining it with capital gains tax. Mr Osborne's silence may reflect the political difficulties that would surround any changes. The Liberal Democrats are reportedly calling for higher taxes on the rich and IHT would be an obvious target, particularly if the idea of a mansion tax is abandoned.

### Planning Points

#### ***Time to review your estate planning***

Have you reviewed your Will and estate planning in the last five years? If not, they may not be best suited to the current IHT structure.

In October 2007 the transferable nil rate band was introduced, which made inheritance tax planning much simpler for many married couples. The change removed the need to use as much as practical of the nil rate band on first death to minimise IHT liabilities. The reform reduced potential IHT bills for widows (and widowers), even if their spouse died many years ago. However, the benefit is now being gradually eroded by the freezing of the nil rate band.

From 6 April 2012, the new tax rate reduction for charitable bequests also needs to be considered, and not just as part of estate planning. You could find your beneficiaries will be better off if you cease lifetime gifts to charities and concentrate on charitable legacies.

In any event, estate planning and Wills need regular review and that means more than once every five years. A review could reveal that no change to your existing arrangements is necessary 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 2011/12, you can make gifts totalling £5,000 covered by the annual exemption in 2012/13.
- *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 unused. 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.

## Investments

A range of investment tax changes has taken place over the last few years, with more that will take effect from 6 April.

### ***Individual Savings Accounts (ISAs)***

The main ISA investment limits are now inflation linked, albeit the link is to the CPI rather than the RPI. For 2012/13 the annual limit is £11,280 (of which up to £5,640 may be in cash). The numbers are not round hundreds because the limit is rounded to the nearer £120, so that the corresponding monthly limits are 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 2011/12, would by now have placed £98,280 into their ISAs and largely out of the taxman's reach.

The introduction of 28% CGT in 2010 and the reduction in both the pension annual allowance and the lifetime allowance (from 2012/13) have all increased the importance of ISAs as a tax-efficient investment wrapper.

### ***Junior ISA***

The Junior ISA (JISA) was launched in November 2011 for all children under 18 who were not eligible for the Child Trust Fund (CTF). The exclusion of CTF holders means Junior ISA eligibility is limited to any child born before 1 September 2002 or after 2 January 2011.

The maximum annual contribution to a JISA is £3,600 and, unlike CTFs, JISA contributions are based on tax years. Last year few JISAs were launched, but more have now appeared as providers prepared for the tax year end ISA season. The JISA sits alongside the previous ISA provisions, so children aged 16 or over can invest in a cash ISA, with the normal £5,680 limit applying, as well as benefiting from a JISA.

### ***Venture Capital Trusts and Enterprise Investment Schemes***

Changes to the rules for Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs) have been in the air for several years, but delays, including the need for EU State aid approval, have delayed legislation. However, this year's Finance Bill at last introduces a range of reforms, generally with effect from 6 April 2012:

- The maximum number of full-time employees for an investee company of a VCT or EIS increases from 49 to 249.
- The maximum amount of gross assets held by an investee company before VCT/EIS investment rises from £7m to £15m before investment and from £8m to £16m after investment.
- The maximum an investee company can raise from all tax-relieved venture capital schemes increases from £2m to £10m.
- The maximum an individual may invest in EIS with income tax relief (at 30%) doubles to £1m per tax year.

- Revised investment rules, including a new 'disqualifying purpose test', will allow HMRC to prevent schemes primarily designed to produce tax relief where none would normally be due. One of these changes will put an end to new VCTs and EISs which access Feed-in Tariffs (FiTs) for green energy generation.

These changes will allow new VCTs and EISs to invest in larger companies than has been the case, although they are also likely to make the creation of 'limited life' schemes more difficult.

### **Seed Enterprise Investment Schemes**

The Seed Enterprise Investment Scheme (SEIS) will be legislated for in this year's Finance Bill. The SEIS is a junior version of the EIS, aimed at young, very small businesses. Its key features are:

- The maximum total individual investment in SEIS will be £100,000 per tax year, which will qualify for 50% income tax relief given by way of a reduction in the amount of income tax otherwise payable by the investor in the tax year of investment. Relief is initially available for shares issued between 6 April 2012 and 5 April 2017.
- For 2012/13 only, there will also be a capital gains tax exemption where gains realised in the tax year are re-invested in a SEIS. Thus total tax relief could be 78%.
- An eligible SEIS company must:
  - Be no more than two years old;
  - Conduct a genuine new business;
  - Have fewer than 25 full-time equivalent employees;
  - Have gross assets of not more than £200,000; and
  - Raise no more than £150,000 in total (*not* per tax year).

It is clearly early days for SEIS, but there have already been comments that take up is likely to be limited because of the costs involved in vetting a qualifying company, the limited sum that such a company can raise and the ongoing monitoring needed to protect entitlement to tax relief.

**If you are tempted by SEIS, make sure that you have considered other investment options – including pensions – first. The very high tax relief is a reflection of very high risk. The value of investments in a Seed Enterprise Investment Scheme may fall as well as rise and you may not get the full amount invested. This type of investment is not suitable for everyone because of the high risk. It is important that you receive Independent Financial Advice to see if these schemes are suitable for you.**

The relative benefits and features of VCT, EIS and SEIS for 2012/13 are shown in the table below, which assumes the current Finance Bill 2012 draft legislation passes unamended.

	<b>VCT</b>	<b>EIS</b>	<b>SEIS</b>
<b>TAX ASPECTS</b>			
Income tax relief	30%	30%	50%
Maximum personal investment per tax year	£200,000	£1,000,000 for income tax relief, no limit for CGT deferral relief	£100,000
Tax relief clawback	5 years	3 years	3 years
Backdating to previous tax year?	No	Yes, up to 100% of investment.	Yes, up to 100% of investment, but not in 2012/13
CGT reinvestment relief	No	Yes, deferral for gains made 3 years before/1 year after EIS investment	Yes, exemption for gains realised and reinvested in 2012/13
Investor capital gains tax liability	Nil at any time	Nil after 3 years, except for reinvested gains	Nil after 3 years
Dividends	Tax-free, but no tax credit reclaim	Taxable	Taxable
IHT business property relief	No	Yes, after 2 years	Yes, after 2 years
<b>INVESTMENT ASPECTS</b>			
Structure	Authorised investment trust company	Unlisted company	Unlisted company less than two years old
Listing	Must be listed on main market	May be listed on AIM, not main market	May be listed on AIM, not main market
Liquidity	In theory tradeable as listed shares, in practice market may be very thin	Usually nil unless AIM listing. Exit may be by takeover or liquidation.	Probably nil
Qualifying companies for investment	Unlisted small trading companies, subject to various restrictions	Unlisted small trading companies, subject to various restrictions	Unlisted small trading companies, subject to various restrictions
Investments in qualifying companies	At least 70% of qualifying investments must be shares. Balance can be debt.	100% shares	100% shares
Maximum holding in any one company	15% of value	100% - single company structure	100% - single company structure
Non-qualifying investments	Up to 30%, eg in gilts	Ultimately none	Ultimately none
Maximum period to acquire qualifying investments	3 years	80% 1 year, balance 2 years	3 years

## **Maximum Investment Plans**

The Treasury's move against maximum investment plans (MIPs) was one of the few Budget measures which was not pre-announced in the press. MIPs, and certain other long-term regular savings-linked life assurance (strictly speaking 'qualifying policies', including mortgage endowments) have long enjoyed an exemption from personal tax on benefits, subject to a minimum term of premiums being paid and a minimum policy duration. This tax break is mainly of advantage to higher and additional rate taxpayers, as the life company effectively suffers basic rate tax on the income and gains generated by the policy's underlying investments.

From 6 April 2013, there will be an effective total annual premium limit of £3,600 for qualifying policies. Any policies that take the total premium level above this threshold will not be classed as a qualifying policy and thus not be exempt from personal tax. Transitional rules will apply to:

- Pre-21 March policies, which will be unaffected by the £3,600 cap unless altered after 21 March 2012 to extend the premium payment term; and
- Policies started between 21 March 2012 and 5 April 2013, which will fall within the new regime from 2013/14.

MIPs had increasingly been seen as an alternative to pension provision for those who were up to their pension limits on contributions and/or benefits. This avenue has now largely been closed.

## **Planning Points**

### **ISAs**

In April 2008 it became possible to transfer the cash component of an ISA, including anything from a former TESSA, into the stocks and shares component. The option was generally viewed as a somewhat pointless facility when it was first announced: for most investors the value of the income tax saving from the cash component was greater than the combined income and CGT tax savings offered by the stocks and shares component.

Now, after more than three years of a 0.5% base rate, the facility to move out of cash looks rather more useful. There are no signs that the Bank of England will start increasing rates soon and the latest market projections do not envisage base rate reaching the dizzying heights of 1% until 2015. Meanwhile, many existing cash ISAs are offering rates of below 1%, with some paying just 0.1%. If you put money in a cash ISA a year ago at a rate of around 3%, you would be well advised to check what interest rate 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 4% 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***

Recent Budgets have placed a range of constraints on pension planning for high earners. From 2011/12 the annual allowance was slashed from £255,000 to £50,000, while on 6 April 2012 the lifetime allowance is cut by a sixth. Trust-based schemes used as alternative income tax escape routes were attacked at the end of 2010 and HMRC is now busy challenging the schemes set up before then – as Glasgow Rangers' fans know to their cost.

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 changes to VCTs from 6 April 2012 (see above) have further enhanced the appeal of VCTs by increasing the size and hence number of companies eligible for investment. VCTs are now in a strong position to choose where they place their investors' funds as many small businesses are now more willing to consider sources of finance outside of the still-cautious mainstream banks.

**For the EIS and the VCT it is essential that would-be investors are aware of the likely greater investment risk and lower liquidity that will have to be accepted in return for the attractive tax reliefs. The value of an investment in a VCT and EIS may fall as well as rise and an investor may not get back the full amount invested. These types of schemes are not suited to everyone**

## Business Tax

There was one important change to corporation tax announced in the Budget. The mainstream rate of corporation tax falls by 2% to 24% for the 2012 financial year, whereas a 1% cut had previously been planned. By 2014 the mainstream rate will be 22%. The small profits rate remains at 20%.

### **Capital allowances**

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

### **IR35**

There was a time when it seemed the government might abolish the complex tax regime for personal service companies and the like, generally known under the label of the press release in which the rules were first announced, IR35. Abolition was recommended by the Office for Tax Simplification, but HMRC and the Treasury have resisted any such move, concerned at potential revenue loss. The Budget reinforced the here-to-stay stance by announcing a range of measures 'to tighten up on avoidance through the use of personal service companies and to make the existing IR35 legislation easier to understand'[!].HMRC will:

- Strengthen their specialist compliance teams;
- Simplify the way IR35 is administered; and
- Consult on proposals to require the primary employee of the personal service company to have PAYE and NICs deducted at source.

## Planning Points

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

Regular changes to National Insurance contributions and 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 service 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 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 2012 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%	<u>(6,063)</u>	<u>(6,063)</u>	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 *	<u>(17,575)</u>	<u>(21,969)</u>	<u>(10,000)</u>	<u>(14,444)</u>
<b>Net benefit to Brendan</b>	<b><u>25,483</u></b>	<b><u>21,089</u></b>	<b><u>30,000</u></b>	<b><u>25,556</u></b>

\*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.

In practice, if Brendan is an additional (50%) rate taxpayer then, cash flow permitting, he will prefer to wait until 2013/14 to draw his dividend or salary, when the new 45% (37.5% for dividends) tax rate will apply. The bottom line figures would then be £23,286 (bonus) and £27,778 (dividend).

### Capital allowances timing issue

The reduction to £25,000 for the 100% AIA on plant and machinery and the cut to an 18% writing-down allowance for most expenditure from accounting periods ending on or after 1 April 2012 means the timing of a major investment needs to be considered carefully. The changes are pro-rated across business years so, for example, if your company year end is 30 June, its AIA in the current financial year is:

$$\frac{3}{4} \times £100,000 + \frac{1}{4} \times £25,000 = £81,250$$

It may therefore be wise to bring forward major purchases to maximise the use of the AIA in the current year rather than defer investment until later.

## Pensions

There has been a raft of changes to pension tax rules in the past couple of years, the last of which took effect on 6 April 2012.

As a refresher, the main changes of late were:

- From 6 April 2011 the annual allowance was cut from £255,000 to £50,000 as part of a quid pro quo for the abolition of the special annual allowance. The £50,000 limit is likely to remain unchanged for at least the next four tax years, although there is always a risk that it will be cut in the interim. The revised annual allowance charge which accompanied the reduction removes *all* income tax relief on contributions above the available annual allowance, whether made by the individual or their employer.
- Since 6 April 2011 it has been possible to carry forward any unused annual allowance for up to three tax years. This concession was 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 draw income at any time from a pension fund: you can leave your pension fund uncrystallised 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, although generally there will be no IHT.
- From 6 April 2011, the rules for income withdrawals, now called drawdown, changed:
  - There is now no upper age limit for income withdrawals, meaning the unloved alternatively secured pension (ASP) has disappeared.
  - The basis for calculating the upper income level was amended. Combined with the fall in long term gilt yields over the last year, the result has been a significant drop in the upper limits in most instances. For example, in March 2011 the maximum rate of drawdown for a man aged 65 was 8.4%, while the latest figure for April 2012 is 5.8%.
  - Drawdown reviews are now three yearly up to age 75 and yearly thereafter.
  - It is now possible to take unlimited withdrawals by opting for flexible drawdown. To be eligible, your total annual secured income (broadly scheme and state pensions plus pension annuities) must be at least £20,000. In theory, under flexible drawdown 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%.
- From 6 April 2012, the standard lifetime allowance was reduced from £1.8m to £1.5m. It will be frozen at that level for an indeterminate period. The option to claim 'fixed protection' – effectively retaining the former £1.8m level – is no longer available, as the deadline was 5 April 2012.

## 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 £53,000 he had paid in 2008/09. In the pension input period ending in 2011/12 he contributed £50,000 to his pension. In the pension input period ending in 2012/13 he can use the carry forward rule to make contributions of up to £110,000 without any tax relief penalty, as the table below shows.

Tax Year	Contribution	Annual Allowance*	Carried Forward to Next Tax Year	Total Carried Forward
2008/09	£53,000	£50,000	Nil	Nil
2009/10	£20,000	£50,000	£30,000	£30,000
2010/11	£20,000	£50,000	£30,000	£60,000
2011/12	£50,000	£50,000	Nil	£60,000
2012/13	£110,000	£50,000	Nil	Nil

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

Unless Graham contributes at least £80,000 in the current tax year, some or all of the unused annual allowance from 2009/10 will be lost because the maximum carry forward period is three years.

### ***Passing on the Pension***

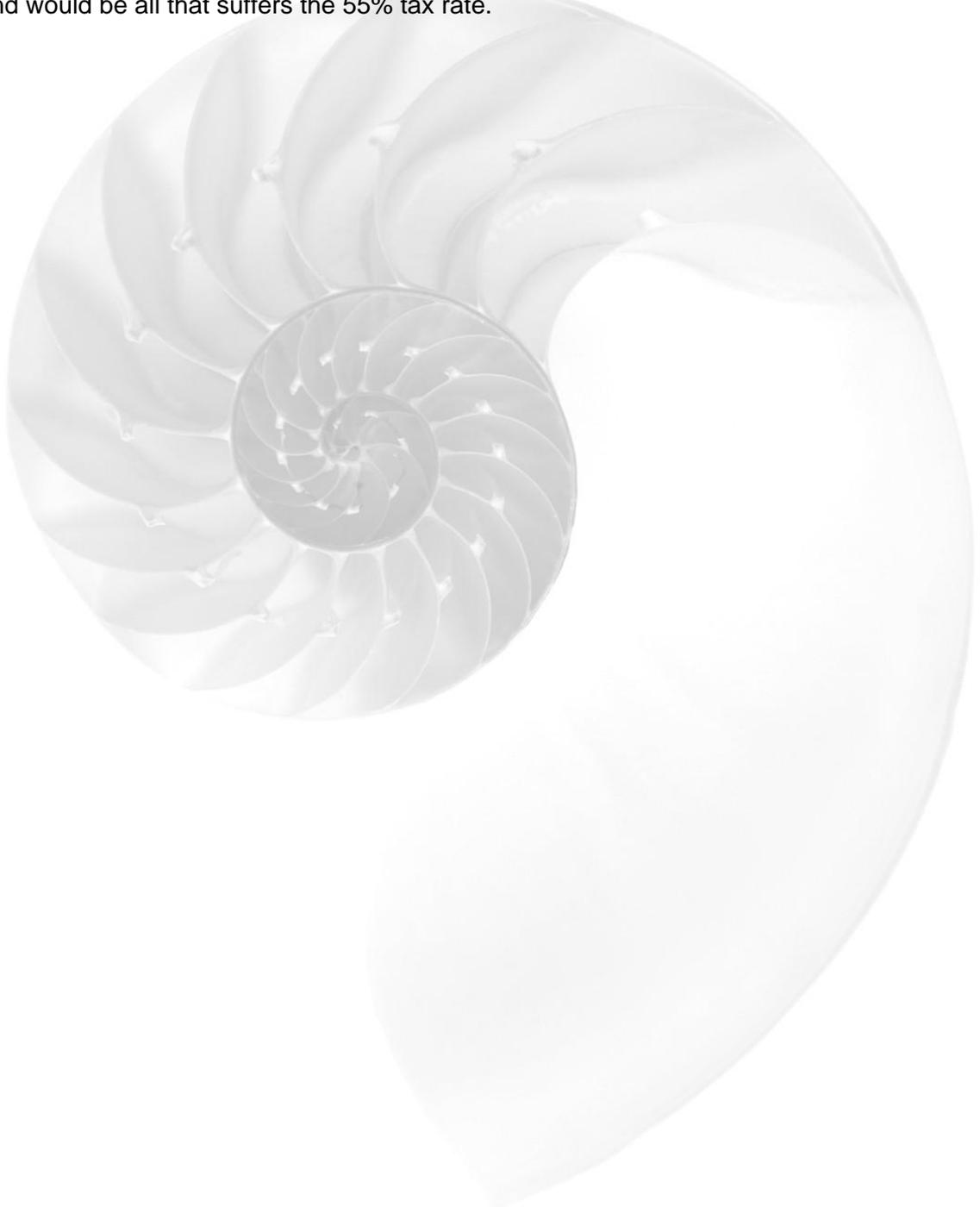
Gail is 73 and has just been widowed. She now finds herself with a large widow's pension from her late husband's occupational scheme and much lower outgoings, because she no longer has to meet his care home fees. Suddenly she has no need of the £250,000 pension fund which she had transferred into a self-invested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

Under the new rules introduced last year, 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<sup>th</sup> 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<sup>th</sup> 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. Her tax position is such that the income payments would 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

	2011/12	2012/13
	£	£
Personal allowance – standard	7,475	8,105
- Age 65 – 74	9,940	10,500
- Age 75 and over	10,090	10,660
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Married couple's allowance* – minimum amount	2,800	2,960
– maximum amount	7,295	7,705
Maintenance to former spouse *	2,800	2,960
Age-related allowances reduced if total income exceeds ¶	24,000	25,400
Employment termination lump sum limit	30,000	30,000

∞ For 2011/12 and 2012/13 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £116,210 (£114,950 for 2011/12).

\* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2011/12 and 2012/13 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:-

	2011/12	2012/13
	£	£
Taxpayer aged 65 - 74 [personal allowance]	28,930	30,190
Taxpayer aged 75 and over [personal allowance]	29,230	30,510
Taxpayer aged 75 and over [married couple's allowance]	38,220	40,000

### Income Tax Rates

	2011/12	2012/13
	£	£
Starting rate on savings income- 10%	1 – 2,560	1 – 2,710
Basic rate	20%	20%
Maximum tax at basic rate†	7,000	6,874
Higher rate - 40%	35,001-150,000	34,371-150,000
Tax on first £150,000†	53,000	53,125.60
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. £6,603 on first £34,370 (£6,744 on first £35,000 in 2011/12) and £52,854.60 (£52,744 in 2011/12) 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, ie. 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. Since 2011/12 no cap has applied to the list price.

**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<sub>2</sub> emissions.**

For petrol cars with an approved CO<sub>2</sub> emission figure.

CO <sub>2</sub> g/km	% of price subject to tax		CO <sub>2</sub> g/km	% of price subject to tax		CO <sub>2</sub> g/km	% of price subject to tax	
	11-12	12-13		11-12	12-13		11-12	12-13
75 or less	5	5	135-9	17	18	185-9	27	28
76-99	10	10	140-4	18	19	190-4	28	29
100-104	10	11	145-9	19	20	195-9	29	30
105-109	10	12	150-4	20	21	200-4	30	31
110-114	10	13	155-9	21	22	205-9	31	32
115-119	10	14	160-4	22	23	210-4	32	33
120	10	15	165-9	23	24	215-9	33	34
121-124	15	15	170-4	24	25	220-4	34	35
125-129	15	16	175-9	25	26	225-	35	35
130-134	16	17	180-4	26	27			

## Notes

1. The exact CO<sub>2</sub> emissions figure should be rounded down to the nearest 5 g/km for levels of 100g/km or more (125g/km or more in 2011/12).
2. For all diesels add 3%, subject to maximum charge of 35%.
3. There is no charge for any car which cannot produce CO<sub>2</sub>.

For cars with no approved CO<sub>2</sub> 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<sub>2</sub> emission figure, the benefit is based on a flat amount of £20,200 (£18,800 for 2011/12). 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 £20,200. The percentage figures allow for a diesel fuel surcharge. For example, in 2012/13 a petrol car emitting 152 g/km would give rise to a fuel benefit of 21% of £20,200 = £4,242.

## Value Added Tax

From	1 April 2011	1 April 2012
Standard rate	20.0%	20.0%
Reduced rate (eg domestic fuel)	5.0%	5.0%
Annual turnover limit for registration	£73,000	£77,000
Deregistration threshold	£71,000	£75,000
Flat rate scheme turnover limit	£150,000	£150,000
Cash accounting and annual accounting limits	£1,350,000	£1,350,000

## Inheritance Tax

	Cumulative chargeable transfers [gross]		tax rate on death %	tax rate in lifetime* %
	2011/12 £	2012/13 £		
Nil rate band†	325,000	325,000	0	0
Excess	No Limit	No Limit	40 <sup>∞</sup>	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).

<sup>∞</sup> 36% where at least 10% of net estate before deducting the charitable legacy is left to charity for deaths after 5 April 2012.

## Capital Gains Tax

### Main exemptions and reliefs

	2011/12 £	2012/13 £
Annual exemption	10,600*	10,600*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

\* Reduced by at least 50% for most trusts.

### Rates of tax

Individuals: 18% on gains within basic rate band, 28% for gains in higher and additional rate bands

Trustees and personal representatives: 28%

### Stamp Duty and Stamp Duty Land Tax from 25 March 2012

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%
Over £2,000,000	N/A	7%¶
*£150,000 for property in disadvantaged areas		
¶ 15% for residential property purchased by certain non-natural persons, eg offshore companies.		
<b>Stamp Duty (including SDRT):</b> stocks and marketable securities		0.5%
No charge unless the duty exceeds £5		

### Corporation Tax

	Year Ending 31 March	
	2012	2013
Main rate	26%	24%
Small profits rate *	20%	20%
Small profits limit *	£300,000	£300,000
Upper marginal level	£1,500,000	£1,500,000
Effective marginal rate	27.5%	25%

\* Formerly the small companies' rate/limit

## Tax Privileged Investments (Maximum Investment)

	2011/12 £	2012/13 £
<b>ISA</b>		
Overall per tax year:	10,680	11,280
Cash component:	5,340	5,640
Stocks and shares component:	Balance up to 10,680	Balance up to 11,280
Maximum in cash for 16 and 17 year olds	5,340	5,640
Junior ISA (from 1 November 2011)	3,600	3,600
<b>ENTERPRISE INVESTMENT SCHEME</b> (30% income tax relief)	500,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	500,000	1,000,000
<b>SEED ENTERPRISE INVESTMENT SCHEME</b> (50% income tax relief and CGT reinvestment exemption)	N/A	100,000
<b>VENTURE CAPITAL TRUST</b> (30% income tax relief)	200,000	200,000

\* No limit for CGT reinvestment relief.

## Pensions

	2011/12	2012/13
Lifetime allowance*	£1,800,000	£1,500,000
Lifetime allowance charge:		
Excess drawn as cash		55% of excess
Excess drawn as income		25% of excess
Annual allowance	£50,000	£50,000
Annual allowance charge	20%-50% of excess	20%-50% of excess
Max. relievable personal contribution	100% relevant UK earnings or £3,600 gross if greater	

\* May be increased under 2006 or 2012 transitional protection provisions

## 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 £2,690 per annum for each child.

- The disabled child element is £2,950 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) 24 hours for families with children and workers with a disability. The claimant can be aged 16 or over. One of the couple must work at least 16 hours.
  - 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 £2,790 per annum or more is available where the claimant, or his or her partner, has a disability.
- 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% (ie. 41p per £1 of income).

## National Insurance Contributions for Tax Year 2012/13

### 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 2012/13 the Lower Earnings Limit is £107 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 2012/13 (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 2012/13 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 via a final salary occupational scheme. This is based on the employee's earnings between the Lower Earnings Limit (LEL) and Upper Accrual Point (UAP). The rebate is 3.4% (employer) and 1.4% (employee) in respect of the employee's earnings between the LEL and UAP. For 2012/13 and subsequent years contracting out is not possible via a money purchase occupational scheme or a personal pension scheme.

Primary Threshold the level of earnings at which employees start to pay Class 1 National Insurance contributions.

For tax year 2012/13 this is £146 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 2012/13 this is £144 per week.

### **Employees - Class 1**

Contracted in Nil on first £146 per week (i.e. up to Primary Threshold)  
12% of £146.01 per week to £817 per week.

2% on earnings above £817 per week.

Contracted out via final salary occupational scheme Nil on first £146 per week (i.e. up to Primary Threshold)

10.6% of £146.01 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 £146.01 to £817 per week.

2% on earnings above £817 per week.

### **Employer - Class 1 Contributions**

<u>Weekly Earnings</u>	<u>Contracted In</u> %	<u>Contracted Out</u> %
On first £144	Nil	Nil
£144.01-£770	13.8	10.4
Over £770	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 (£144 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 (£107 per week) and the Secondary Threshold (£144 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 £107 per week and £144 per week.

### **Self-Employed**

Class 2 £2.65 per week flat rate.  
(lower profits limit) (applicable where profits are less than £5,595 per annum)

Class 4 9% of profits between £7,605 p.a. and £42,475 p.a.

2% on profits above £42,475 p.a.

### **Voluntary Contributions**

Class 3 £13.25 per week

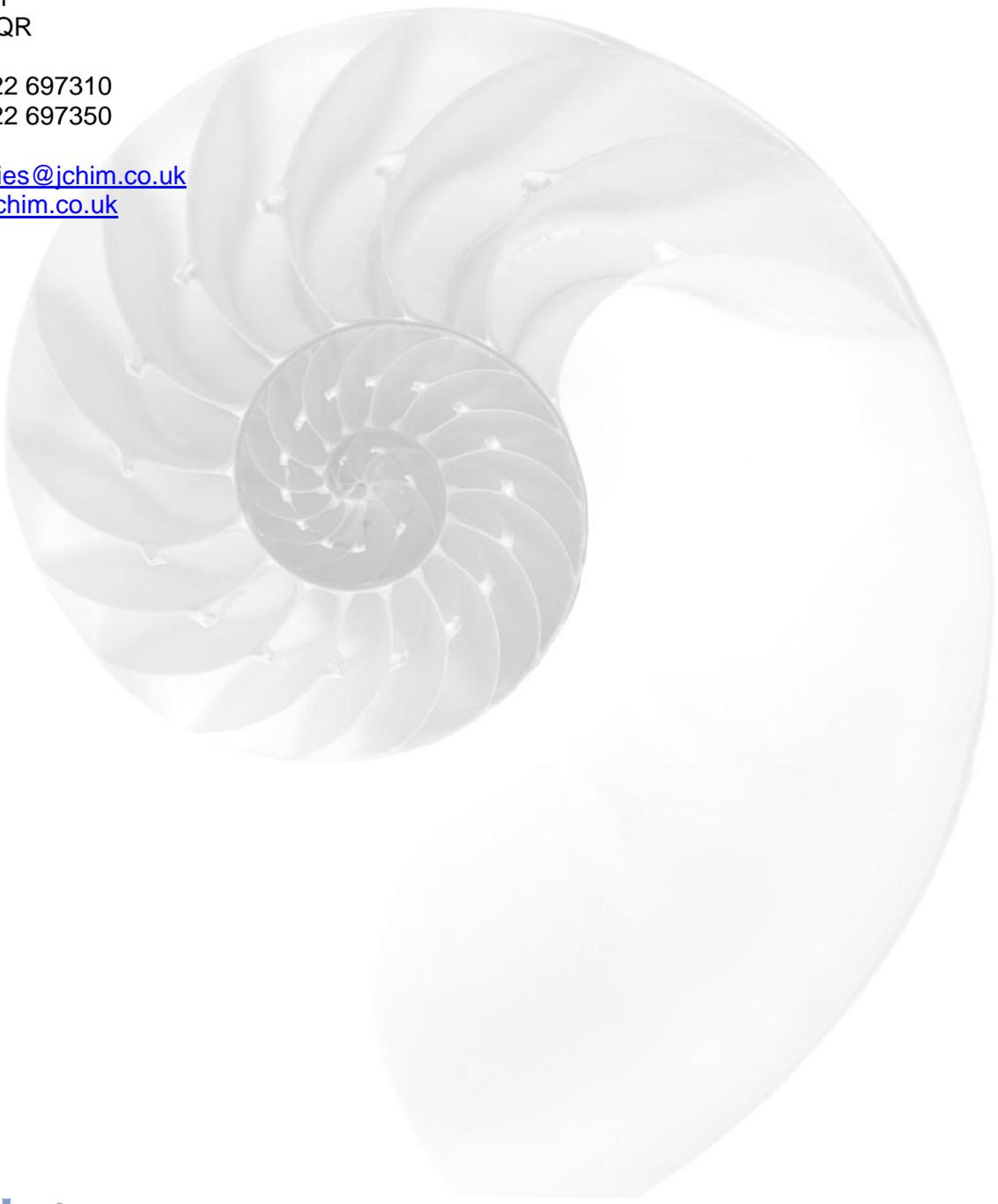
**Do not act on this information alone!**

For further information please contact:

jch investment management limited  
1 Henley Way  
Doddington Road  
Lincoln  
LN6 3QR

t. 01522 697310  
f. 01522 697350

[enquiries@jchim.co.uk](mailto:enquiries@jchim.co.uk)  
[www.jchim.co.uk](http://www.jchim.co.uk)



**jch**investmentmanagement

jch investment management limited is an Appointed Representative of Financial Limited which is authorised and regulated by the Financial Services Authority (FSA Registration No. 471396)