

Budget Summary

June 2010

Introduction

Described variously as "unavoidable", "progressive" and "tough but fair" by the new Chancellor, the coalition government's first Budget set out one of the biggest overhauls in tax and public spending in a generation. It also signalled a change of economic policy, ending Labour's attempts to spend us out of recession. The Chancellor appeared keen to abandon his predecessor's plans, relishing the opportunity of implementing a complete U-turn wherever possible!

Mr Osborne said he was following the 80/20 principle to reduce the deficit - 80% through spending cuts and 20% via taxes. A large part of the tax increases will come, as widely anticipated, from a rise in VAT from 17.5% to 20% in January 2011.

One of the most eagerly awaited announcements concerns capital gains tax. Despite Osborne's assertion that he would cover what needed to be said in his speech, rather than hide away changes in the press releases, the 'headline' that CGT remains at 18% for low and middle-income taxpayers needs closer inspection. Capital gains tax will now be 28% for those on the higher rate. Entrepreneurs' relief was unexpectedly increased to cover the first £5m of lifetime gains, confounding those who thought it might be abolished, but disappointing those who hoped to see it help buy to let investors.

For businesses there are some important tax changes to digest. From April 2011, the threshold at which employers start to pay National Insurance will rise by £21 per week above indexation, but the additional 1% employers contribution widely criticised by the business community in the run up to the election remains. The main corporation tax rate will be cut by 1% annually until it reaches 24%. The small companies tax rate will be reduced to 20%, rather than the previously proposed increase to 22%. There are also changes to the capital allowances rules.

I hope you find this summary useful. For a personal analysis of how the Budget will affect you or your business, and the opportunities it offers, please contact me or your usual Shipleys adviser.



Guy Fisher

Budget Highlights

VAT standard rate changed from 17.5% to 20% with effect from 4 January 2011.

Corporation tax main rate reduced to 27% from 1 April 2011. Further reductions planned to 24% by 2014.

Corporation tax for small profits reduced to 20% from 1 April 2011.

Personal allowance increased by £1,000 from 6 April 2011. Relief restricted to basic rate.

Research and development structural change to allow research and development tax relief where intellectual property is not owned by SME companies.

Annual investment allowance for capital expenditure on plant and machinery reduced from £100,000 to £25,000 with effect from April 2012 .

Tax relief for pension contributions. Annual allowance under discussion of between £30,000 to £45,000 from 6 April 2011.

Pension annuities. Transitional measures effective from 22 June 2010 defer effective requirement to buy annuity to age 77.

NIC rates from 6 April 2011 - the additional 1% on employer contributions remains but proposed increase to start rate for employers by £21.

Capital gains tax rates changed for disposals from 23 June 2010. Gains will be taxed as top slice of income giving tax rate(s) of either 18% or 28% or a mixture of both.

Capital gains tax entrepreneurs' relief increased from £2 million to £5 million for disposals from 23 June 2010.

Enterprise Management Incentives (EMIs) scheme to be extended to foreign companies with a permanent establishment in the UK.

Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) to be extended to foreign companies or groups with a permanent establishment in the UK.

Stamp Duty Land Tax at 5% on residential transactions over £1,000,000 from 6 April 2011.

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Personal Taxation

Income Tax

Rates and Bands

(2009/10 figures in brackets)

	Dividends	Interest	Other
The first £2,440 (£2,440)	10%* (10%)	10%* (10%)	20% (20%)
£2,441- £37,400 (£2,441 - £37,400)	10% (10%)	20% (20%)	20% (20%)
£37,401 - £150,000 (Over £37,400)	32.5% (32.5%)	40% (40%)	40% (40%)
Over £150,000 (n/a)	42.5% (n/a)	50% (n/a)	50% (n/a)

*Dividends are treated as the top slice of total income, interest as the next slice. The 10% rate band applies to savings (interest and dividends) income only. If non-savings income is in excess of £2,440 the 10% rate band does not apply.

Discretionary and Accumulation & Maintenance Trusts: 42.5% on dividends (32.5%), otherwise 50% (40%), save that the first £1,000 (£1,000) income is taxed at 10% or 20% according to its nature, and trusts for the most vulnerable may elect that the trust income is taxed as the beneficiary's.

Construction industry sub-contractors: tax deduction on account 20%, or 30% if the sub-contractor is unregistered.

Allowances

	2010/11 £	2009/10 £
Relief at individual's top tax rate		
Personal - aged under 65*	6,475	6,475
- aged 65 – 74**	9,490	9,490
- aged 75 or over**	9,640	9,640
Blind person's allowance	1,890	1,890
Relief at 10%		
Married couple** (only available to those born before 6 April 1935)	6,965	6,965

* From 6 April 2010 the basic personal allowance is reduced by £1 for every £2 of income in excess of £100,000 (regardless of age), until it is completely removed

** The additional allowances for those aged over 64 are reduced by £1 for every £2 of income in excess of £22,900 (£22,900), to a minimum allowance of £6,475 (£6,475) for the personal allowance and £2,670 (£2,670) for the married couple's allowance.

National Insurance Contributions

		2010/11	2009/10
Class 1	Employees' contributions (weekly)		
	On earnings up to £110 (2009/10 £110)	Nil	Nil
	On earnings between £110 and £844 (2009/10 £110 and £844)	11%	11%
	On earnings over £844 (2009/10 £844)	1%	1%
	Employees' contracted-out rebate (weekly)		
	On earnings between £97 and £844 (2009/10 £95 and £844)	1.6%	1.6%
	Married women's reduced rate (weekly)		
	On earnings between £110 and £844 (2009/10 £110 and £844)	4.85%	4.85%
	On earnings over £844 (2009/10 £844)	1%	1%
	Employers' contributions (weekly)		
	On earnings up to £110 (2009/10 £110)	Nil	Nil
	On earnings over £110 (2009/10 £110)	12.8%	12.8%
	Employers' contracted-out rebate (weekly)		
	On earnings between £97 and £844 (2009/10 £95 and £844)		
	Salary-related schemes	3.7%	3.7%
	Money purchase schemes	1.4%	1.4%
Class 1A	Employers' contributions on taxable benefits in kind	12.8%	12.8%
Class 2	Self employed contributions (weekly)	£2.40	£2.40
	Small earnings exception (annual)	£5,075	£5,075
Class 3	Voluntary contributions (weekly)	£12.05	£12.05
Class 4	Self-employed (annual profit related)		
	On profits between £5,715 and £43,875 (2009/10 £5,715 and £43,875)	8%	8%
	On profits over £43,875 (2009/10 £43,875)	1%	1%

Allowances, Rate Bands and Thresholds

With effect from 6 April 2011 the personal allowance for those aged under 65 will be increased to £7,475 (£6,475), however the basic rate band will be reduced so that higher rate taxpayers do not benefit from the increase in personal allowance.

The earnings threshold for national insurance contributions (NIC) will increase by £21 above the level indexation would reach. This is to help offset the increase of 1% in employees' NIC with effect from 6 April 2011.

The amended rates will be confirmed once September's retail price index is known.

The Government will shortly announce a three-year scheme to exempt new businesses which set up outside London, the South-East and the Eastern region from up to £5,000 of employers' class 1 national insurance contributions, for each of their first 10 employees hired in the first year of business. This will affect businesses set up from 22 June 2010 and the aim is for this scheme to be in place by September 2010.

Capital Gains Tax

	2010/11	2009/10
Annual exemption		
Individuals, personal representatives* and certain trusts**	£10,100	£10,100
Other trusts		
Divided by the number of trusts created after 6 June 1978 by the same settlor, with a minimum of £1,010 (2009/10 £1,010)	£5,050	£5,050

*for year of death and following two years

**for persons mentally disabled or in receipt of attendance allowance or disability living allowance. divided by the number of such trusts created after 9 March 1981 by the same settlor, with a minimum of £1,010 (2009/10 £1,010)

Changes to Rates of Capital Gains Tax

Disposals made on or after 23 June 2010 by individuals whose total income and chargeable gains after all allowable deductions, i.e. losses, personal allowances and the capital gains annual exemption allowance, exceeds the basic rate band (£37,400 for 2010/11) will be taxed at 28%. Those whose total income and chargeable gains are below the basic rate band will continue to be taxed at 18%, or 10% if entrepreneurs' relief is available. There is also no tapering of gains or any inflation allowance.

Chargeable gains arising for trustees and personal representatives of deceased persons will be taxed at 28% and where entrepreneurs' relief applies for individuals or trustees the rate remains at 10%.

If the chargeable gain arises before 23 June 2010 it will continue to be liable at 18% and these gains will be excluded when calculating the tax rate(s) applicable on disposals on or after 23 June 2010.

For any gains which have been deferred, e.g. a gain reinvested under the Enterprise Investment Scheme, the rate applicable will be the rate in force at the time the deferral ends and the gain becomes liable to capital gains tax.

The annual exemption allowance and any available losses may be used in such a way as to minimise the tax due.

Entrepreneurs' Relief

With effect from 23 June 2010 the lifetime total of entrepreneurs' relief will increase to **£5 million** (£2 million from 6 April 2010 to 22 June 2010, £1 million before 6 April 2010). Individuals or trustees who made a qualifying gain before 23 June 2010 will not be entitled to additional relief for the excess of the old limit used. But if further qualifying disposals are made after 23 June 2010 they will be able to claim relief up to a further £3 million (or £4 million if entrepreneurs' relief was claimed prior to 6 April 2010), which gives accumulated qualifying gains up to the new limit.

Inheritance Tax

Rates at Death	From 6 April 2010	From 6 April 2009
Nil	Up to £325,000	Up to £325,000
40%	Over £325,000	Over £325,000

Lifetime chargeable transfers are charged at 20%.

Transfers between spouses are exempt except when transferor is UK domiciled and transferee is not, when the exemption is the £55,000 "overall limit".

Business property relief is 100% for shares in most unquoted trading companies and for most unincorporated trading businesses.

Agricultural property relief is 100% for qualifying holdings of agricultural land.

Annual exemption for lifetime gifts is £3,000.

Small gifts annual exemption per donee is £250.

Regular gifts out of income are exempt provided that the donor can maintain his or her usual standard of living without resorting to capital.

Reduced tax charge on transfers within seven years of death

Years between gift and death	0-3	3-4	4-5	5-6	6-7
Percentage of tax chargeable on death	100%	80%	60%	40%	20%

Individual Savings Accounts

The annual subscription limits for Individual Savings Accounts (ISAs) (£10,200 for 2010/11) will be increased in line with the Retail Prices Index on an annual basis from 6 April 2011. Following indexation, the cash ISA limit will continue to be half of the value of the stocks and shares ISA limit.

Pensions

Pension Tax Relief

The Government announced that it will not introduce the complex high income excess relief charge which was due to come in to force on 6 April 2011, and instead is considering restricting pensions tax relief by reducing the existing pensions savings allowance. The Government will discuss the changes with interested parties but provisional analysis suggests that the level of the annual allowance will be in the region of £30,000 to £45,000.

Pension Annuities

The Government have announced interim measures to relax the requirements for pensioners to buy an annuity at age 75.

Under the interim measures, any individual who has not already attained age 75 at Budget Day will now be allowed to defer the decision to buy an annuity until age 77. The strict income limits imposed on those taking pension drawdown after age 75, will now be deferred until age 77. For funds where drawdown has not been activated, on attaining age 75 an individual will now immediately become entitled to a tax free lump sum as well as income withdrawal from those funds.

Specific interim changes to the tax regime affecting such individuals have also been enacted with immediate effect.

Inheritance Tax

The 70% tax charge imposed on the lump sum death benefits paid by money purchase schemes on death of a member after age 75 where no dependant's pension has become payable, is now reduced to 35%.

For individuals taking advantage of income drawdown after age 75 from a private scheme, tax at up to 82% which previously applied to the unused fund on death has now been reduced to nil.

National Employment Savings Trust (NEST)

With effect from Royal Assent, The National Employment Savings Trust (NEST) will be registered with HM Revenue & Customs for tax purposes.

The change will allow NEST to be treated as an occupational pension scheme, in turn allowing it to become registered. The benefit of this will be that NEST members and contributing employers will be able to benefit from the tax reliefs available to registered pension schemes on contributions and investment growth.

Carers and Guardians

A package of measures aimed at assisting carers and guardians was unveiled in the Budget. This includes:

- income tax changes for special guardianship orders and residence orders
- income tax changes for relief for shared lives carers
- capital gains tax changes for private residence relief and adult placement carers
- new capital allowance rules for qualifying carers.

Venture Capital Schemes

Current legislation requires that the ordinary share capital of a Venture Capital Trust (VCT) is included in the official UK list of quoted shares. This will be replaced with a requirement that the shares be admitted for trading on any EU regulated market, which includes countries in the European Economic Area.

The current legislation requires that at least 30% of a VCT's qualifying holdings are in eligible shares. The new legislation will increase the minimum holding to 70%, but will also widen the definition of eligible shares to include shares which may carry certain preferential dividend rights.

The new legislation will exclude shares in a company from qualifying for the purposes of the Enterprise Investment Scheme (EIS) or the VCT legislation if it is reasonable to assume that the issuing company would be treated as an 'enterprise in difficulty' under the European Commission's Rescue and Restructuring Guidelines.

It will no longer be a requirement that the issuing company carries on a qualifying trade wholly or mainly in the UK. The new requirement will be that the issuing company has a permanent establishment in the UK, as defined in Article 5 of the OECD's Model Double Tax Treaty.

These measures are required in order to comply with European Commission rules on approved State aid, and will take effect on or after a date to be appointed, with the exception of the changes to the rules on eligible shares for VCTs, which will not affect monies raised by a VCT before that date.

Settlor-Interested Trusts

As announced in the March Budget, the Finance Act is to amend the rules requiring settlors of trusts in which they are deemed to have an interest (known as settlor-interested trusts) to account to their trustees for any tax repayment they receive as a direct result of trust income attributed to them. Repayments of tax will not constitute additions to a trust for inheritance tax purposes.

Taxation of Non-Domiciled Individuals

The Government will review the taxation of non-domiciled individuals, as stated in the Coalition Agreement.

MPs' Expenses

Since 7 May 2010 the Independent Parliamentary Standards Authority (IPSA) has developed a new scheme under which MPs' expenses are paid. Legislation will be introduced which will consolidate the tax and national insurance treatment following the introduction of the Parliamentary Standards Act 2009.

Tax Deduction at Source

Individuals and other non-corporates making payments of interest, patent royalties and other annual payments requiring deduction of tax at source are currently required to deliver an account of that payment to HM Revenue & Customs without delay. HMRC may make an assessment of the tax due on the person making the payment. With effect from Royal Assent, HMRC will be provided with the power to make regulations to amend when and how a person should report income tax deducted from such payments.

Motor Car Benefits

The taxable benefit is a percentage of the car's list price or of £80,000 if that is less. If a car is at least 15 years old and worth £15,000 or more, market value is adopted for list price.

For cars registered after 1997 with approved CO2 emissions no higher than 130 g/km (2009/10 135 g/km) the benefit is 15% of list price (18% if diesel), increased by 1% for every 5 g/km over that level to a maximum of 35%. The taxable benefit for such cars with CO2 emissions not exceeding 120 g/km is 10% of list price (13% if diesel).

The 3% supplement for diesel cars is waived for cars meeting Euro IV standards. However, this waiver is withdrawn for all cars registered from 1 January 2006. For cars registered before 1998, or after 1997 without approved CO2 emissions, the benefit is as follows:

Engine Size	Registered after 1997	Registered before 1998
0 – 1400cc	15% (18% if diesel)	15%
1401cc – 2000cc	25% (28% if diesel)	22%
over 2000cc	35%	32%
Electric cars	0%	0%
Others with no cylinder capacity	35%	32%

The annual benefit charge will be 5% of the list price of cars with a CO₂ emissions no greater than 75g per km from 6 April 2010 to 5 April 2015.

Fuel Benefits (Cars & Vans)

Where the employer also provides fuel for private motoring in a car provided to an employee, a further benefit is taxable. For 2010/11, it is the 'car benefit percentage' of £18,000 (2009/10 £16,900). This figure is also subject to NIC for employers. Where fuel for private use of a van (not over 3,500kg) is provided, a benefit charge of £550 applies (2009/10 £500)

A 2% discount on the company car fuel multiplier for benefits in kind applies if the car is capable of being run on E85 fuel (unleaded petrol mixed with 85% bioethanol).

Tax-free Mileage Allowances

First 10,000 miles	40p per mile
Balance	25p per mile

Advisory fuel rates for company cars (per mile) from 1 June 2010 (from 1 December 2009 in brackets)

	LPG	Diesel	Petrol
1400cc or less	8p (7p)	11p (11p)	12p (11p)
1401 – 2000cc	10p (8p)	11p (11p)	15p (14p)
over 2000cc	14p (12p)	16p (14p)	21p (20p)

Business Taxation

Corporation Tax

Rates and Bands	Year to 31 March 2011	Year to 31 March 2010
Main rate	28%	28%
Small profits rate	21%	21%
Small profits limit*	£300,000	£300,000
Small profits marginal band*	£300,000 - £1.5m	£300,000 - £1.5m
Marginal rate	29.75%	29.75%

* Shared among active associated companies

The small profits rate is not available to a 'close-investment company'

For details of the announced changes to corporation tax rates from 1 April 2011, please see 'Changes to Main Corporation Tax Rates' and 'Small Profits Rate' below.

Main Corporation Tax Rates

The main rate of corporation tax will be reduced to 27% with effect from 1 April 2011, with the exception of tax on profits arising on oil extraction and oil rights in the UK and Continental Shelf ("ring fenced profits"), which will remain at 30%.

The rate will be reduced by 1% per annum until 2015 as follows:

1 April 2012 - 31 March 2013 26%

1 April 2013 - 31 March 2014 25%

1 April 2014 - 31 March 2015 24%

Small Profits Rate

Companies with profits below the lower limit of £300,000 pay tax at a small profits rate of corporation tax. This will be reduced to 20% with effect from 1 April 2011, with the exception of tax on profits arising on oil extraction and oil rights in the UK and Continental Shelf ("ring fenced profits"), which will remain at 19%.

Consortium Relief

Consortium relief is to be improved so that companies resident in the EEA may pass on their share of losses to a UK member of the group.

Currently the maximum amount of losses that may be claimed is determined by the lowest figure from three tests. A fourth test is to be introduced based on the proportion of voting rights and the extent of control the consortium member holds in the consortium.

Capital Allowances

Rate and Annual Investment Allowance Changes

With effect from 1 April 2012 (for corporation tax) or 6 April 2012 (for income tax) there will be a reduction in the rates of writing-down allowances (WDAs) for new and unrelieved expenditure on plant and machinery:

- The rate applicable to the main rate pool will be reduced from 20% to 18% per annum, and
- The rate applicable to the special rate pool will be reduced from 10% to 8% per annum.

From April 2012 the maximum amount of the annual investment allowance will be reduced from the current limit of £100,000 to a new lower limit of £25,000.

For a business whose chargeable period spans 1 April (corporation tax) or 6 April (income tax), a hybrid rate will have effect for unrelieved expenditure in any pool, including single asset pools calculated on a time apportionment basis.

Zero-Emission Goods Vehicles

A new 100% first year allowance will be introduced for expenditure on new and unused zero-emission goods vehicles. The vehicle will qualify if:

- the vehicle does not produce any CO₂ emissions when driven
- the design of the vehicle is primarily suited to the conveyance of goods or burden, and
- the expenditure is incurred on or after 1 April 2010 for corporation tax or 6 April 2010 for income tax purposes.

However, in order to comply with EC State aid rules the 100% first year allowance will not be available to a business in difficulty for the purposes of EU State aid rules and certain other businesses.

The expenditure that will qualify is limited to €85 million per undertaking over the five year life of the measure.

The measure will have effect for five years from either 1 April 2010 for corporation tax, or 6 April 2010 for income tax.

Enterprise Management Incentives (EMI)

The existing requirement is that a company granting EMI options to its employees must exist wholly for the purposes of carrying out one or more qualifying trades, which in turn must be wholly or mainly carried out in the UK. The activities of a group of companies are regarded as being carried out by the parent company of the group for these purposes.

The new requirement will be that the company granting the options has a permanent establishment in the UK. In the case of a parent of a group of companies, at least one company in the group that is carrying on a qualifying trade must have a permanent establishment in the UK as defined in Article 5 of the OECD Model Double Tax Treaty.

This measure will have effect in respect of EMI options granted on or after the date of Royal Assent.

R&D Tax Relief

Legislation will be introduced to abolish the condition requiring that any intellectual property deriving from the R&D to which the expenditure is attributable be owned by the company making the claim.

This will apply only to small and medium enterprises (SMEs) – ie, with 500 employees, annual turnover of €100 million and balance sheet total of €86 million.

This measure will be included in the Finance Bill but it is intended that the relief will have effect for any expenditure incurred by an SME on R&D in an accounting period ending on or after 9 December 2009.

Film Tax Credit: Multi Year Claims

An anomaly that currently restricts the amount of film tax credit claimable in the second period of producing a film is to be removed. This will affect accounting periods ending on or after 9 December 2009 and will be treated as though it has always had effect.

Capital Distributions

New legislation will be introduced that will clarify the corporation tax treatment of certain distributions received by UK companies. HM Revenue & Customs' long standing practice has been to treat UK distributions received by UK companies as being of an income nature (subject only to some specific exceptions) and exempt from corporation tax. The new measure will ensure that distributions of a capital nature will also be exempt, provided the distribution satisfies the definition within the legislation.

This change will have effect for all distributions made on or after 1 July 2009. Although the legislation will have retrospective effect, companies will be able to elect for the legislation not to apply retrospectively.

There will also be a change to make clear that distributions made out of reserves arising from a reduction in capital are also exempt from corporation tax. This will have full retrospective effect for distributions from UK-resident companies and from 1 July 2009 for distributions from non-UK resident companies.

Worldwide Debt Cap

Current legislation, which applies to accounting periods beginning on or after 1 January 2010, restricts relief for UK financing costs where these exceed the financing costs of the worldwide group of which UK companies are members.

Fourteen separate changes to the legislation will be introduced in the Finance Bill. The changes will adjust the UK measure of debt where otherwise a mismatch would occur where groups are filtered out from the main debt cap rules under the 'gateway test', or where borrowing is carried out by a partnership. There will be further minor changes, such as to the definition of loans to include long-term arrangements that have similar effect; an expansion in the definition of 'financial instrument' and the inclusion of guarantee fees in the financing income of a company.

Small Business Tax Review

The Government is intending to review IR35 and small business tax and further details will be issued in due course.

Controlled Foreign Companies

The Government has announced that it intends to reform the Controlled Foreign Companies (CFC) regime. Consultation will take place over the summer to consider how to make the current rules easier to operate and increase competitiveness. It is anticipated that legislation will be introduced in spring 2012.

Foreign Branches

With regard to foreign branches, the Government intends to move to a more territorial basis for taxing profits. There will be a consultation in the summer for retaining foreign branch loss relief, with legislation anticipated in 2011.

Furnished Holiday Lettings

The proposal to repeal the special tax rules enjoyed by furnished holiday lettings (FHLs) will no longer be implemented. A consultation process will be entered into over the summer to discuss the changes on eligibility thresholds and restricting the use of loss relief so that tax rules on FHLs meet EU legal requirements. The current rules will continue to apply for 2010/11 with any changes taking effect from April 2011.

Video Games Tax Relief

The Government will not introduce the planned tax relief for the UK video games industry.

UK Real Estate Investment Trusts

UK Real Estate Investment Trusts (REITs) are exempted from corporation tax on profits and gains arising on their rental income. To ensure fiscal neutrality, it is a condition that REITs distribute at least 90% of their net rental profits and gains to their shareholders. The distributions are subject to withholding tax, are included in an individual's taxable income and are taxed at the same rates as rental income.

The Finance Bill will allow REITs to pay stock dividends in order to minimise their cash outflows while maintaining fiscal neutrality. The tax treatment in the hands of the recipients will be the same as a distribution of property income for cash. This measure will take effect on or after the date of Royal Assent.

Anti-Avoidance

Overall Anti-Avoidance Strategy

The Government has announced that it will take a more strategic approach to the risk of avoidance. This will include:

- A general anti-avoidance rule (GAAR) - examining whether this should form one element of strengthened defences.
- The disclosure of tax avoidance schemes regime - consulting over the summer on bringing inheritance tax on trusts within the regime.
- Stamp duty land tax (SDLT) - examining further whether there should be changes to the rules on SDLT on high value properties.
- Use of trusts to reward employees - tackling the use of Employer Financed Retirement Benefit Schemes (EFRBs) to reward employees with the purpose of avoiding, deferring or reducing liabilities to income tax and national insurance contributions or to avoid the restrictions on pension tax relief. The intention is to introduce any necessary legislation to take effect from April 2011.

Loan Relationships

In certain circumstances, where accounting practice allows or requires a loan or derivative to be "derecognised", tax rules require the profits and losses to be fully recognised. From 22 June 2010, further measures extend the circumstances in which amounts are to be fully recognised for tax purposes.

Excise Duty Administration

The powers of HMRC, the record keeping rules and the time limits for assessments and claims in respect of excise duties will be aligned with the rest of the tax system.

The changes will be introduced in the Finance Bill and will come into effect as follows:

- The time limits for assessments and claims will be increased from three years to four years with effect from 1 April 2012 at the earliest.
- The record keeping changes are likely to take effect from 1 April 2011 and should only affect the high-level rules rather than affecting the information to be retained.
- The changes to the information and inspection powers are also expected to take effect from 1 April 2011. The main changes are:
 - A new inspection of records power for use in conjunction with the existing power of entry to premises.
 - An extension of the power of entry to premises to enable HMRC to enter premises used by a revenue trader even if those premises are not owned by the trader.
 - A new power to enable HMRC to seek information from third parties such as banks.

Corporation Tax: Authorised Investment Funds

A corporate investor in an Authorised Investment Fund (AIF) is entitled to a tax credit equivalent to basic rate income tax on interest distributions from the AIF. The tax credit will be reduced to the extent that the distribution is derived from dividends exempt from corporation tax at the level of the AIF.

Where foreign tax is suffered by an AIF, the deemed tax credit in the hands of the corporate investor (including another AIF) is treated as a foreign tax credit for all purposes, and a proportion of the income is treated as foreign income.

These measures take effect for distributions made by an AIF on or after 22 June 2010.

Other Taxation

Value Added Tax (VAT)

	From 4 January 2011	From 1 April 2010
Standard Rate	20%	17.5%*
Registration level	£70,000	£70,000
De-registration level	£68,000	£68,000

* Between 1 April 2009 and 1 January 2010, the standard rate was 15%

Change of Standard Rate

The standard rate of VAT will increase from 17.5% to 20% with effect from 4 January 2011.

This change affects goods or services subject to VAT at the standard rate, so supplies of goods or services subject to the zero rate (such as food, children's clothing, and books), subject to the reduced rate of 5% (such as domestic fuel and power) or that are exempt (such as education, health and welfare) are not affected.

The 20% rate applies to any supplies of goods or services or any intra-EU acquisitions or importations taking place on or after 4 January 2011.

HM Revenue & Customs has issued guidance on the subject and has confirmed that a "light touch" approach will be taken when VAT records for the period affected by the change of rate are inspected.

The guidance also includes the revised fuel scale charge rates and the revised rates for users of the Flat Rate Scheme for Small Businesses.

Change to Zero-Rating of "Qualifying" Aircraft

The March 2010 Budget included a proposal to change the definition of the types of aircraft that should qualify for zero rating. There was insufficient time to include this change in the first Finance Bill of 2010 but it is required by EU VAT rules. The second Finance Bill of 2010 will therefore include this change and will affect supplies made on or after 1 January 2011.

From that date the definition of "qualifying" aircraft, which is currently based on the weight of the aircraft, will change so that it is based on the status of the buyer. Zero rating will only be available where the aircraft are supplied for use by a commercial airline operating on mainly international routes.

Change of Standard Rate: Anti-Forestalling Rules

The increase in the VAT rate is accompanied by anti-forestalling legislation to prevent the use of artificial arrangements enabling VAT to apply at 17.5% even where goods or services are delivered after 4 January 2011.

The legislation will be included in the Finance Bill and will have effect for transactions made on or after 22 June 2010. The effect of the legislation will be to require additional VAT of 2½% to apply where one of the conditions noted below is met, but only if the recipient of the affected supply will not be able to fully recover the input VAT:

- the goods or services are supplied to a connected person, or
- the supplier or someone connected to the supplier provides or arranges funding of the customer's payment, or
- the VAT invoice issued to the customer does not have to be paid in full within 6 months (except hire purchase invoices issued in accordance with normal commercial practice), or
- the payment or VAT invoice is for more than £100,000 and this is not normal commercial practice.

This legislation can also apply to a supply of rights or options to receive goods or services after 4 January 2011 free of charge or at a discount.

The charge does not apply to prepaid or invoiced rentals of land, buildings or other assets for periods of less than a year where the prepayment or invoice is normal commercial practice.

Where this supplementary charge arises the recipient can treat it as input VAT and recover it in accordance with the normal partial exemption rules.

Lennartz Accounting

The March 2010 Budget included a proposal to change the UK legislation relating to Lennartz Accounting. There was insufficient time to include this change in the first Finance Bill of 2010 but it is required in order to bring the UK legislation in line with EC VAT law and a European Court Case. The second Finance Bill of 2010 will therefore include this change to take effect on or after 1 January 2011.

Lennartz accounting applies where a taxpayer buys land, property, boats and aircraft for the purpose of his or her business, but with the intention of using the goods for both business and private use (his or her own or that of employees). The taxpayer is currently allowed to fully recover VAT incurred when acquiring the asset and to account for VAT in subsequent years on the value of the private use.

Lennartz accounting will no longer apply to acquisitions of such assets. Instead the taxpayer will be obliged to apportion the input VAT and recover only the element that relates to business use. Existing users of Lennartz accounting will have a continuing obligation to pay VAT due on private use. The existing legislation relating to recovery of VAT on directors' accommodation will be repealed.

Penalties on Indirect Taxes

The proposed penalties for the late filing of returns and the payment of tax in respect of VAT and insurance premium tax (IPT) and various other indirect taxes and duties have been announced. These proposals are to encourage the filing of returns and payment of tax by the correct dates

and the penalties will be imposed separately.

The key elements are:

Penalties for Late Filing of Returns (Quarterly)

- £100 penalty after the due date for filing
- the failure starts a 12 month penalty period
- further failures within a penalty period increase the penalty by £100 for each subsequent failure, up to a maximum of £400 and extend the penalty period by a further 12 months
- prolonged failure will give rise to an additional 5% of tax on the relevant return and are charged at six and 12 months from the date of the failure, and
- if, by failing to make the return there is a deliberate withholding of information to prevent HM Revenue & Customs from correctly assessing the liability then penalties up to 100% of the tax on the return may be chargeable.

Penalties for Late Filing of Returns (Monthly)

The structure is similar to the quarterly model above except that the penalties are £100 for the first six failures, and then £200 for any subsequent failure.

Penalties for Late Payments (Quarterly)

- On the first late payment there is no penalty but it starts a 12 month penalty period
- a further failure within a penalty period will attract a penalty of 2% of the tax unpaid and extends the penalty period by a further 12 months
- a third failure within the penalty period will attract a penalty of 3%, with further failures attracting a maximum of 4%, and
- if, failures are prolonged then additional penalties of 5% of the unpaid tax are charged at six and 12 months from the date of failure.

Penalties for Late Payments (Monthly)

The structure is similar to the quarterly model above except that after the first failure, the tax geared penalties are 1% for the next three failures in any penalty period, 2% of the next three failures, etc up to a maximum of 4% per failure.

Stamp Duty and Stamp Duty Land Tax

Rates and Bands

Transfers for consideration*	Percentage of total consideration
Shares and marketable securities (not loan stocks)	0.5%
Interests in land and partnerships	
<i>Residential for first-time buyers:</i>	
£0 - £250,000 (from 25 March 2010)	Nil
<i>Other residential:</i>	
£0 - £125,000 (£175,000 to 31 December 2009)	Nil
£125,001 - £250,000	1%
<i>Non-residential:</i>	
£0 - £150,000	Nil
£150,001 - £250,000	1%
<i>Residential and non-residential:</i>	
£250,001 - £500,000	3%
Over £500,000	4%
Net present value of lease rentals**	1%

* and certain transfers of land to a connected company and in connection with partnerships, where market value is substituted if more than actual consideration

** to the extent it exceeds £150,000 (non-residential) or £125,000 (residential - £250,000 for first-time buyers)

Residential Transactions over £1m

The Government has confirmed that with effect from 6 April 2011 the stamp duty land tax for residential transactions worth over £1 million will increase to 5%.

Insurance Premium Tax

Increase in the Standard Rate and Higher Rate

Insurance Premiums Tax (IPT) applies to most insurance contracts with the standard rate applying to general insurance products and the higher rate applying to travel insurance and some types of insurance sold with motor vehicles and consumer goods.

Legislation will be introduced in the Finance Bill to increase the standard rate from 5% to 6% and the higher rate from 17.5% to 20%. The new rates will take effect from 4 January 2011.