

Budget 2011 - Key Points

Income Tax

Personal Allowances

The personal allowance for those under 65 will rise from £6,475 to £7,475.

The age related personal allowance for those aged 65 to 74 will rise from £9,490 to £9,940 and the age related personal allowance for those aged 75 and over will rise from £9,640 to £10,090.

The amount of the personal allowance will continue to be gradually withdrawn for all individuals (regardless of age) with 'adjusted net incomes' above £100,000 as provided for by section 35 of ITA. The rate of reduction will be £1 of personal allowance for every £2 of income above the £100,000 limit.

The Government has also confirmed that from 2012/13, the personal allowance for those under 65 will rise again to £8,105.

Rates

The main rates of income tax for the 2011/12 tax year will remain at 20% for basic rate taxpayers, 40% for higher rate taxpayers and 50% for additional rate tax payers.

The 20% basic rate applies to taxable income up to the basic rate limit of £35,000, the 40% higher rate applies to taxable income between £35,000 and £150,000 and 50% tax will apply to taxable income above £150,000.

The 10% starting rate for savings will rise from £2,440 to £2,560.

There will also continue to be three rates of tax for dividends – 10%, 32.5% and 42.5% for dividends otherwise taxable at the new 50% rate.

The Government has also confirmed that from 2012/13, the basic rate limit will reduce to £34,730.

National Insurance

For 2011/12, the lower earnings limit will increase from £5,044 a year to £5,304 a year.

The Upper Earnings Limit (UEL) for primary Class 1 National Insurance contributions (NICs) remains aligned with the higher rate income tax level, so for 2011/12 the threshold is now £42,475.

For 2011/12, it should also be noted that:-

- The main rate of Class 1 and Class 4 NICs will be increased by a further 1% to 12% and 9% respectively.
- The additional rate of Class 1 and Class 4 NICs will be increased by a further 1% to 2%.
- The Class 1 employer rate of NICs will be increased by a further 1% to 13.8%. This increased rate will also apply to Class 1A and Class 1B contributions.
- The primary threshold and lower profits limit will be increased from £5,715 to £7,225 to compensate the lowest earners.

The increase in rates of national insurance should therefore provide an added incentive for both employers and employees to take advantage of salary sacrifice arrangements and drawing dividend income.

Tax simplification

To dramatically simplify the tax system, the government will consult on options for merging the operation of National Insurance and Income Tax. Any change will be complex and will involve public consultation and take a number of years to complete.

The government will also abolish 43 tax reliefs as their rationale is no longer valid, following recommendations from the Office of Tax Simplification.

Capital Gains Tax

The Chancellor has announced that the Capital Gains Tax (CGT) rate of 18% (for basic rate tax payers) and 28% (for higher rate taxpayers) will remain, with the annual exempt amount increasing to £10,600.

From April 2012, the consumer price index (CPI) will be used as the default indexation assumption for the CGT annual exempt amount thereafter. However, Parliament will still be entitled to override automatic indexation and set a different figure.

There has also been another increase in the Entrepreneur's Relief lifetime limit from the first £5m to the first £10m of qualifying gains. Qualifying gains will continue to be taxed at a rate of 10% and any gains in excess of the limit will be taxed at 28%.

This change takes effect for disposals made on or after 6th April 2011.

There are no other changes to the rules or conditions relating to entrepreneurs' relief.

Inheritance Tax

The nil rate band will continue to be frozen at £325,000 until April 2015.

The rate of IHT during lifetime remains at 20% and the rate on death remains at 40%.

However, where death occurs after 5 April 2012, the rate on death will be reduced to 36% if an individual leaves at least 10% of their net estate (after deducting IHT

exemptions, reliefs and the nil rate band) to charity.

Corporation Tax

For 2011/12, the small companies' rate has been reduced to 20%, the main rate has been reduced to 26% and the marginal rate is now 27.5%.

There will then be further cuts in the main rate for the next three years: 25% in 2012/13, 24% in 2013/14, and 23% in 2014/15.

VAT

There will be no change to the current VAT rate of 20%.

Private and Occupational Pensions

The key changes which had already been announced prior to the Budget relate to the reduction of the normal annual allowance, the scrapping of the special annual allowance, changes to when and how retirement benefits can be taken, the tax treatment of lump sum death benefits and the tax treatment of Employer Financed Retirement Benefit Schemes (EFRBS).

Please see our separate analysis of the pension changes for further information.

State Pensions

The Chancellor has proposed to simplify the State Pension system into a new flat-rate pension based on national insurance contributions which is estimated to be worth around £140 per week – although the new system will not apply to current pensioners.

The government will also seek to create a new, more automatic mechanism for future increases in the State Pension Age based on regular, independent reviews.

The Budget announced no further changes to the State Pension Age, which is due to rise to 66 by April 2020.

Public Service Pensions

The Chancellor has accepted the findings of the Hutton Report into public sector payments, which will form the basis of a consultation with workers and unions.

Proposals will be set out in autumn 2011.

Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT)

The rate of income tax relief given under the Enterprise Investment Scheme (EIS) will be increased from 20 per cent to 30 per cent with effect from 6 April 2011, subject to State aid approval. Subject to State aid approval the following changes will be made from 6 April 2012:

- An increase in the thresholds for the size of qualifying company for both EIS and VCTs to fewer than 250 employees and to the company having no more than £15million of gross assets before the investment;
- An increase in the annual amount that can be invested through both EIS and VCTs in an individual company to £10million; and
- An increase in the annual amount that an individual can invest through under EIS to £1million.

The Government will consult on further changes to the schemes including proposals to give additional support through the EIS for seed investment.

Stamp Duty Land Tax

Stamp Duty Land Tax will be charged at 5% from 6 April 2011 where consideration for the transaction exceeds £1,000,000.

In addition, legislation will be introduced in Finance Bill 2011 to provide a relief for purchasers of residential property who acquire more than one dwelling. Where the relief is claimed, the rate of Stamp Duty Land Tax on the consideration attributable to the dwellings is determined by the mean consideration i.e. by the aggregate consideration divided by the number of dwellings (subject to a minimum rate of 1 per cent).

Gift Aid

A new scheme will be introduced where Gift Aid can be claimed on small donations, up to a total of £5,000 a year per charity, without the need for donors to fill in any forms at all. That means Gift Aid can be claimed on the contents of collecting tins and street buckets.

The administration of Gift Aid will also be simplified and the government will encourage wealthy people to give even more to charity by increasing the Gift Aid benefit limits from £500 to £2,500.

Individual Savings Accounts

Subscription Limits

The overall limit will rise from £10,200 to £10,680, of which a maximum of £5,340 can be invested in cash.

From 2012/13, the annual ISA subscription limit will then be increased on an annual basis by reference to the consumer prices index (CPI) instead of the retail prices index (RPI). The CPI for September in the preceding year will be used and the increased limit will be rounded to £120 to allow for regular monthly payments to be made.

If the CPI is negative the limit will be unchanged.

Following indexation the cash ISA limit will continue to be half the value of the stocks and shares ISA limit.

Indexing the ISA subscription limits on an annual basis retains the value of the limits in real terms.

Junior ISAs

On 26 October 2010 the Government announced that it would introduce a new tax-advantaged account for saving for children, to be known as a Junior ISA. Legislation to provide for the Junior ISA will be introduced in Finance Bill 2011 and draft secondary legislation for the establishment and operation of Junior ISAs to be published alongside Finance Bill 2011.

It is expected that Junior ISAs will be available from autumn 2011 for any UK-resident child who does not currently hold a Child Trust Fund.

The Government will be consulting informally with stakeholders on the draft legislation during the spring of 2011.

Non Domicile Taxation

The £30,000 annual charge for non-domiciles who have lived in the UK for at least seven of the past nine years will increase to £50,000 for non-domiciles who have been resident for 12 or more years.

In return, and to encourage investment in our country, the tax charge when non-domiciles remit foreign income or capital gains to the UK for the purpose of investing in a British business will be removed.

The government will also introduce a statutory residency test.

The Government will be consulting on the detail of this measure and will issue a consultation document in June. The Government intends to implement these reforms from April 2012, subject to the consultation, but there will be no other substantive changes to these rules for the remainder of this Parliament.

Tax avoidance measures

The government will close down three forms of Stamp Duty Land Tax avoidance, tighten capital gains rules for companies, and end the practice of disguised remuneration, which sees highly paid employees offered tax-free, lifetime loans that are never repaid.

The government will also tackle the exploitation of the Low Value Consignment Relief by reducing its value from £18 to £15. This relief means that many goods imported from the Channel Islands or countries outside the European Union are exempt from VAT.

Other Changes

Tax

Furnished Holiday Lettings

Legislation will be introduced in Finance Bill 2011 to revise the tax rules for furnished holiday lettings (FHL) and to extend the regime to the European Economic Area (EEA).

From April 2011, loss relief may only be offset against income from the same FHL business.

UK losses can relieve UK FHL income only and similarly with the EEA losses.

Then, from April 2012, to qualify in a year a property must be available to let for at least 210 days and actually let for 105 days.

However, businesses meeting the actually let threshold in one year may elect to be treated as having met it in the two following years (a "period of grace"), providing certain criteria are met.

Minor amendments will be made to the draft legislation to ensure that the period of grace provisions apply from 2010/11.

Fuel Benefit Charge 2011-12

Employees and directors who are provided with a company car and who also receive free fuel from their employers are subject to the fuel benefit charge. The cash equivalent of the taxable benefit is determined by multiplying a set figure (currently £18,000) by the appropriate percentage for the car, based on its CO2 emissions (grams per kilometre). The level of the set figure or multiplier will be increased to £18,800 with effect from 6 April 2011.

Approved Mileage Allowance Payments rates from 2011-12

Where employees use their own cars for business mileage they can claim reimbursement from their employers through the approved mileage allowance payments rates (AMAPs) which is not regarded as a taxable benefit. There is currently a higher rate of 40p per mile for the first 10,000 miles of business use and 25p per mile thereafter, but the higher rate will be increased to 45p per mile with effect from 6 April 2011.

The Economy

- Economic growth is forecast at 1.7 per cent this year
- 21 new Enterprise Zones will be created to focus growth in specific parts of the UK - the first ten of these will be in Birmingham and Solihull, Leeds, Liverpool, Greater Manchester, The Tees Valley, Tyneside, The Bristol area, The Black Country, Derbyshire and Nottinghamshire, and Sheffield
- The main rate of Corporation Tax will be cut by 2 per cent to 26 per cent from April 2011, with further yearly reductions of 1 per cent for the next three years
- Planning laws will be changed to prioritise growth and jobs

Benefits and Tax Credits

The Chancellor confirmed an increase in Child Tax Credit for low income families by an extra £255 commencing in April.

There are changes to tax credits that have already been announced that are due to come in from 6 April 2011 and these include the amount of income you can have before your tax credits are affected, the hours you can work if you're 60 or over and some payments being reduced or stopped.

Welfare payments will also rise in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI)

Alcohol

Alcohol duty rates will increase by 2 per cent above the Retail Price Index (RPI) on 28 March 2011. This will add 4 pence to the price of a pint of beer, 15 pence to the price of a bottle of wine, and 54 pence to the price of a bottle of spirits.

From 1 October 2011, the government will introduce a new additional duty on high-strength beers which will add 25 pence to the price of 'super strength' lager.

Tobacco

From 6pm on 23 March, tobacco duty rates will increase by 2 per cent above the RPI. Duty on hand rolling tobacco will increase by an additional 10 per cent.