



**CHARTERED ACCOUNTANTS  
AND  
REGISTERED AUDITORS**

*We take your  
business personally*

**BUDGET 2011**

# **CONTENTS**

## **PERSONAL TAXATION**

Income tax	4
Future Increases in NIC rates, limits and thresholds	4
NIC rate	5
Company car tax rates	5
Company Car Fuel Benefit Charge	6
Approved Mileage Allowance payment rates	6
Combination of Income Tax and National Insurance	7
Review of non domicile taxation	7

## **CAPITAL TAXATION**

Capital Gains Tax Annual Exempt Amount	8
Entrepreneurs' relief	8
Enterprise Investment Scheme and Venture Capital Trusts	8
Stamp Duty Land Tax (SDLT) reform	9
Inheritance Tax	9

## **BUSINESS TAXATION**

Corporation tax	10
Capital Allowances on plant and machinery	11
Capital Allowances—short life assets	11
Extended small business rate relief (SBRR) holiday	12
Time to pay	12
Research and Development tax credits	12
Business premises renovation allowance	13
Real estate investment trusts (REITs)	13

## **VALUE ADDED TAX**

Registration and deregistration limits 14

Fuel Scale Charges 14

Low Value consignment relief 14

**CHARITIES AND CHARITABLE GIVING** 15

**EXCISE DUTY** 15

How we can help 16

Keeping you up to date 16

Contact us 17

Full details of the tax rates and thresholds will be included in a document on our website downloads page in due course but the key announcements in the 2011 Budget on Wednesday 23 March were as follows:

## **PERSONAL TAXATION**

### **Income Tax**

From 6 April 2012, the personal allowance for those under 65 will be increased by £630 to £8,105.

*This will remove a reported 250,000 lowest income taxpayers out of income tax altogether from 2012. Since the proposal is to also reduce the basic rate limit by the same amount, the point at which higher rate tax is paid will remain at £42,475.*

All other income tax personal allowances and limits that are subject to indexation will be increased in line with the retail prices index in 2012.

For reference, from 6 April 2011, the personal allowance for those under 65 will be increased by £1,000 to £7,475 and the basic rate limit will be reduced to £35,000 making the level at which higher rate tax is payable £42,475 (reducing from £43,875 in 2010/11).

### **Future increases in National Insurance Contributions rates, limits and thresholds**

From 2012/13 the basis for indexation of the following National Insurance contributions rates, limits and thresholds will be in line with the Consumer Price Index (CPI) instead of the Retail Price Index (RPI):

- Class 1 lower earnings limit and primary threshold (the point at which employees pay NIC);

- Class 2 small earnings exception;
- Class 4 lower profits limit; and
- Rates of Class 2 and 3.

The secondary threshold (the point at which employers pay NIC on the employees salary) will be over-indexed when compared to CPI and will continue to rise by the equivalent of RPI from April 2012 until 2015/16.

The annual levels of the Class 1 Upper Earnings Limit and Class 4 Upper Profits Limit will continue to be aligned with the income tax higher rate threshold.

*CPI is currently lower than RPI which means in the long term any rate increases set by reference to CPI will increase at a lower rate than those which may still be set by RPI.*

### **NIC rate**

From 6 April 2011, the government previously announced that the NIC rate would be increased by 1% to 12% for employees earnings. The employer rate will be increasing by the same amount to 13.8%.

### **Company Car Tax rates 2013/14**

From April 2013, the appropriate percentages used to multiply against a car's list price when calculating the company car benefit for employees and directors will be increased by one per cent for all vehicles with carbon emissions between 95g and 220g from April 2013. Zero emissions cars will remain at zero per cent and ultra low emissions cars with emissions up to 75g will remain at five per cent.

## **Company Car 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). This will be increased to £18,800 with effect from 6 April 2011.

*For some employees, it is worth considering whether they are better off paying for their own private fuel rather than receiving free fuel from the employer.*

## **Approved Mileage Allowance Payments rates from 2011/12**

Employees who use their own cars for business mileage can claim reimbursement from their employers through the approved mileage allowance payments rates (AMAPs). Payments up to these rates are 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.

The higher rate will be increased to 45p per mile with effect from 6 April 2011.

*Employers are not obliged to pay this amount but this is the amount which they can pay free of any tax implications to staff. If you are an employee, if your employer pays you a lower amount, a Mileage Allowance Relief claim could be made to reduce your tax liability. It is worth noting that the lower 25p rate has not changed.*

## **Combination of Income Tax and National Insurance?**

The Government will consult on the options, stages and timing of reforms to integrate the operation of income tax and National Insurance contributions (NICs). In exploring potential reforms the Government aims to remove distortions created by the tax system, reduce burdens on business and improve fairness for individuals. Any change will be complex and involve a wide range of policy and implementation issues. A consultation document will be published later this year setting out the differences in the current income tax and National Insurance systems, and options to address these.

*The Government has stated that it will not extend NICs to individuals above State Pension age or to other forms of income such as pensions, savings and dividends.*

## **Review of non-domicile taxation**

To encourage inward investment into the UK, the Government intend to introduce the following reforms:

- removing the tax charge when non-domiciles remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses;
- simplifying some aspects of the current tax rules for non-domiciles to remove undue administrative burdens; and
- increasing the existing £30,000 annual charge to £50,000 for non-domiciles who have been UK resident for 12 or more years and who wish to retain access to the beneficial tax regime (the remittance basis). The £30,000 charge will be retained for those who have been resident for at least seven of the past nine years and fewer than 12 years.

The Government will be issuing a consultation document in June and subject to the consultation intends to implement these reforms from April 2012.

## **CAPITAL TAXATION**

### **Capital Gains Tax Annual Exempt Amount**

The annual exempt amount (AEA) for capital gains tax will be increased in line with statutory indexation to £10,600 with effect from 6 April 2011.

Legislation will be introduced in Finance Bill 2012 to uprate the CGT annual exempt amount in line with rises in the CPI instead of the retail prices index. The first year to be affected will be 2012-13. Parliament will still be entitled to override automatic indexation and set a different figure.

*Since the CPI based increase will lead to a lower annual increase in the AEA, this could lead to more taxpayers being subject to capital gains tax. However, this can be minimised by arranging your disposals so that gains in any one year are below the AEA.*

### **Entrepreneurs' relief**

From 6 April 2011, the lifetime limit on gains qualifying for entrepreneurs' relief will increase from £5 million to £10 million. There are no other changes to the rules or conditions relating to entrepreneurs' relief.

*Increasing the lifetime limit reduces a barrier to serial entrepreneurs who may wish grow their businesses and reinvest gains. Qualifying gains are subject to a capital gains tax rate of 10% rather than 18% or 28%.*

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

Subject to state aid approval, from 6 April 2011, the rate of income tax relief given under the Enterprise Investment Scheme (EIS) will be increased from 20 per cent to 30 per cent.



In addition (also 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 though both EIS and VCTs in an individual company to £10million; and
- an increase in the annual amount that an individual can invest under EIS to £1million.

*This measure is to assist smaller, riskier businesses to compete for finance by increasing the incentive for people to invest in qualifying smaller companies.*

### **Stamp duty land tax (SDLT) reform of rules for bulk purchases**

Legislation will be introduced in Finance Bill 2011 to provide a relief for purchasers of residential property who acquire interests in more than one dwelling. Where the relief is claimed the rate of SDLT is determined not by the aggregate consideration but instead is determined by the mean consideration (i.e. by the aggregate consideration divided by the number of dwellings) subject to a minimum rate of one per cent.

### **Inheritance tax**

In 2010 the Government announced that the inheritance tax nil rate band would be frozen at £315,000 until April 2015. It has now announced that from 2015/16, CPI will be used as the default indexation assumption (*see earlier comments on CPI*).

The Government has also announced that a reduced rate of inheritance tax (IHT) will apply where 10 per cent or more of a

deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases, the current 40 per cent rate will be reduced to 36 per cent. The new rate will apply where death occurs on or after 6 April 2012. The Government will be consulting on the detailed implementation of this measure and will issue a consultation document before the summer.

## **BUSINESS TAXATION**

### **Corporation tax**

The corporation tax rates for the financial year commencing 1 April 2011 will be reduced to the following rates:

	<b>Profits</b>	<b>Rate</b>
Main rate	In excess of £1,500,000	26%
Small Profits rate	Below £300,000	20%

An extra 1% reduction was made to the main rate of corporation tax that was previously stated in the post election Budget 2010.

A marginal rate will be effective between these limits.

The main rate will be further reduced by 1% each year until 2014/15, when it will be 23%.

***This is more likely to have an impact on the larger incorporated businesses with taxable profits of more than £300,000 but is a welcome reduction for those businesses. It also makes the UK more attractive for as a destination for foreign businesses to locate activity and profits.***

## Capital allowances on plant and machinery

Previously stated: The capital allowance rates will be reduced with effect from 1 April 2012 (for Corporation Tax) or 6 April 2012 (for Income Tax) to the following rates:

Writing down allowances:	Rate per annum
Main Rate Pool	18%
Special Rate Pool	8%
Annual Investment allowance (AIA)	£25,000

*For those businesses (unincorporated or incorporated) investing significant sums in plant and machinery, the timing of those investments will be important around the time of the reduction in the AIA - planning will be important to ensure that tax relief is maximised.*

## Capital allowances – short life assets

Legislation will be introduced to enable businesses incurring expenditure on an item of plant or machinery from April 2011 onwards to make a short life asset election in respect of that item if they expect to sell or scrap it within an eight-year cut-off period. This is an extension from the current four year period.

*If an election is made, capital allowances are calculated individually on the asset until a 'cut off' point. This ensures that if the asset is sold or scrapped before the cut off point, the total allowances given over the period of ownership equal the net cost of the asset.*

*An election would be beneficial if an asset depreciates faster than the rate at which capital allowances are given. Elections of this type cannot be made in respect of expenditure on cars and integral features.*

### **Extended small business rate relief (SBRR) holiday**

The SBRR holiday will be extended by one year from 1 October 2011.

### **Time to pay**

This will continue through HMRC's Business Payment Support Service to provide advice and time to pay to viable businesses experiencing temporary financial difficulty. The service is available for all HMRC taxes, including VAT, corporation tax, income tax and NIC's (PAYE).

### **Research and Development tax credits**

Subject to State aid approval, legislation will be introduced to increase the rate of the additional deduction for expenditure on research and development (R&D) for companies that are small or medium sized enterprises (SMEs) from 75 per cent to 100 per cent from 1 April 2011, giving a total deduction of 200 per cent. The rate of vaccine research relief for SMEs will be reduced to 20 per cent from the same date.

Following consultation from November 2010 to February 2011 on the support that the research and development (R&D) tax reliefs provide to innovation, and on the recommendations of the Dyson review, the Government will publish a response in May.

The response will include further consultation on the detail of proposed changes. Subject to State aid approval and to this consultation, legislation will be introduced in Finance Bill 2012 as follows:

- the rule limiting a company's payable R&D tax credit to the amount of PAYE and National Insurance contributions (NICs) it pays will be abolished;

- the £10,000 minimum expenditure condition will be abolished for all companies; and
- changes will be made to the rules governing the provision of relief for work done by subcontractors under the large company scheme.

Again, subject to State aid approval, the rate of the additional deduction for expenditure on research and development (R&D) for companies that are small or medium sized enterprises (SMEs) will be increased by a further 25 per cent to give a total deduction of 225 per cent from 1 April 2012. Vaccine Research Relief will not be available for SMEs from the same date.

### **Business premises renovation allowance**

The Government has confirmed it will extend the business premises renovation allowance for a further five years from 2012.

### **Real estate investment trusts (REITs)**

The Government will commence an informal consultation with the industry and the representative body on the REITs legislation shortly after the Budget. Subject to the responses the Government will make changes both to reduce the barriers to entry and investment and to reduce the regulatory burden for existing and future REITs. The proposed legislation will be included in Finance Bill 2012.

## **VALUE ADDED TAX**

### **Registration and deregistration limits**

From 1 April 2011, the taxable turnover threshold which determines whether a person or entity must be registered for VAT will increase to £73,000 (currently £70,000). The de-registration threshold will increase to £71,000 (currently £68,000).

The registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased to £73,000 (currently £70,000).

### **Fuel Scale charges**

The fuel scale charges have been revised. Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2011.

These will be published on our news feed shortly.

### **Low Value consignment relief**

The threshold at which low value items can be imported from outside the EU VAT-free will be reduced from £18 to £15 effective from 1 November 2011.

*This will reduce the competitive disadvantage faced by UK businesses supplying similar goods to those imported under this scheme for example media and electronic goods priced between these amounts but of course increase the cost to the consumer.*

## **CHARITIES AND CHARITABLE GIVING**

From April 2013 charities (and community amateur sports clubs) that are registered with HMRC for Gift Aid purposes will be able to apply for a gift aid style repayment on small donations of £10 or less without the need to obtain gift aid declarations from the donors, up to a maximum of £5,000 in donations per year, per charity.

In 2012/13 HMRC will introduce a new online system for charities to register their details for gift aid and to make gift aid claims.

## **EXCISE DUTY**

From 6pm on Wednesday 23 March 2011 the following changes will take effect:

### *Fuel duty*

- reduction of 1 pence per litre on unleaded petrol and diesel

### *Tobacco duty*

- 2% above the rate of inflation (hand rolling tobacco – additional 10%)

The following increases are effective from 28 March 2011:

### *Alcohol duty*

- 2% above inflation (an additional rate for high strength beers and reduced rate for low strength beers will also come into effect).

From 1 April 2011, Vehicle Excise Duty rates will increase in line with RPI inflation and Heavy Goods Vehicle rates will be frozen.

## **How we can help**

A document containing the tax rates applying for 2011/12 will be available for download from our [website downloads](#) page in due course.

Printed tax tables are also being produced and if you would like to receive a copy then please contact us.

Please contact us if you would like to discuss any of the measures announced in the 2011 Budget in more detail or would like assistance in applying any changes to your specific circumstances.

## **Keeping you up to date**

Useful updates on a variety of topics are provided in our news feed on our website. We also have a monthly newsletter which provides summaries of our regular news articles which are published on our website and also contains upcoming dates for your diary.

If you wish to [sign up](#) to the newsletter, please visit our website.

*This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this guide.*



We would be pleased to talk you through our services and suggest how we can meet your particular requirements and you can contact us as follows:

David Barnes FCA  
**0118 957 7445**  
**[davidbarnes@edwinsmith.co.uk](mailto:davidbarnes@edwinsmith.co.uk)**

Philip Nixon FCA  
**0118 957 7457**  
**[philipnixon@edwinsmith.co.uk](mailto:philipnixon@edwinsmith.co.uk)**

Or please visit our website for the contact details of our team at :

**[www.edwinsmith.co.uk](http://www.edwinsmith.co.uk)**

Edwin Smith  
32 Queens Road  
Reading, Berkshire  
RG1 4AU

Tel: 0118 958 1956  
Fax: 0118 950 9602  
**[info@edwinsmith.co.uk](mailto:info@edwinsmith.co.uk)**

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