

### Introduction

The Budget confirms that the Government will stick to its plan to reduce the deficit. The policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.

This document sets out the main changes to tax rates for individuals, companies and trustees.

### Income Tax

From 6 April 2011, the personal allowance will increase to £7,475. The age allowance for those in the 65-74 age band will rise to £9,940 with those 75 and over benefiting from an allowance of £10,090. The longer term intention is to gradually increase the personal allowance to £10,000. As a further step towards this aim the personal allowance will increase to £8,105 from 6 April 2012.

The basic rate limit reduces to £35,001 so that higher rate taxpayers only benefit from the increase in the personal allowance at the basic rate.

### Capital Gains Tax

For the 2011/12 tax year the annual exempt amount for CGT will increase in line with statutory indexation to £10,600.

The lifetime limit on gains that qualify for entrepreneurs' relief will be increased by £5 million to £10 million.

### Corporation Tax

The main rate of corporation tax will be reduced by 2% to 26%, rather than 1% as previously intended, from 6 April 2011. It will then fall by 1% in each of the next three years to reach 23% by 1 April 2014.

There will be a reduced 10 per cent rate of corporation tax for profits arising from patents, effective from 1 April 2013. A consultation document will be issued in May 2011.

As announced in the June Budget 2010:

- The small profits rate of corporation tax will fall from 21 per cent to 20 per cent from 1 April 2011.
- The annual investment allowance will be reduced to £25,000 from April 2012.
- The writing down allowance will be reduced to 18% from April 2012.

## Inheritance Tax

The rate of inheritance tax will be reduced by 4% to 36% for estates above the nil rate band leaving 10% or more to charity. The intention is for this to be introduced for deaths occurring on or after 6 April 2012.

The nil rate band is frozen until April 2015, after which point the CPI will be used as the default indexation assumption.

## Indexation of direct tax allowances

The default indexation assumption for direct taxes will be the CPI from April 2012.

The annual increases in the employer NICs threshold, and the age related allowance and other thresholds for older people, will be over-indexed compared to the CPI, and will increase by the equivalent of the RPI.

## Non-domiciles

Reforms will be introduced to the taxation of non-domiciled individuals, including:

- Increasing the £30,000 tax charge to £50,000 for those resident for 12 or more years.
- Removing the tax on income remitted for commercial investment in UK businesses.
- Introducing a statutory residence test.

## VAT

The main rate of VAT remains at 20%.

## Pensions

There were no additional changes to pensions legislation announced. The changes which will be introduced have been well publicised and draft legislation will be set out in the Finance Bill 2011, due to be published on 31 March 2011.

Reduction in the annual allowance to £50,000 from 6 April 2011.

Replacement of Unsecured and Alternatively Secured Pension with drawdown pension, including the option of flexible drawdown.

Introduction of "carry forward" of up to three years unused annual allowance from 6 April 2011.

Reduction in the lifetime allowance to £1,500,000 from 6 April 2012.

### **Basic State Pension:**

The Government has confirmed that it is moving towards a single tier state pension of £140 per week and will be publishing a Green Paper on this shortly.

The Government has already decided to bring forward the increase in State Pension Age to 66 to April 2020. Proposals to manage future changes in the state pension age more automatically will be brought forward.

### **ISAs**

From 6 April 2011, the annual ISA subscription limits will increase to £10,680, of which a maximum of £5,340 may be used to fund a cash ISA.

### **Enterprise Investment Schemes (EIS) & Venture Capital Trusts (VCT)**

The Government will reform the EIS and VCT, raising the rate of EIS income tax relief to 30 per cent from April 2011.

From April 2012 the Government will increase the annual EIS investment limit for individuals to £1 million, increase the qualifying company limits to 250 employees and gross assets of £15 million (EIS and VCT), and increase the annual investment limit for qualifying companies to £10 million (EIS and VCT).

### **Solvency II and the taxation of Insurance Companies**

Consultation document to be issued in April 2011 with legislation to be included in the Finance Bill 2012.

### **Anti-Avoidance**

Disguised Remuneration:

- As anticipated specific legislation will be introduced in the Finance Bill in relation to “trusts and other vehicles” which are used to avoid or defer income tax on rewards/payments made to employees.
- The legislation will be intended to ensure that income tax and national insurance is accounted for when an employer rewards an employee in recognition of the employment via a third party.
- Such schemes have long been under the microscope of HMRC and the announcement comes as no surprise.

### **Disclosure of Tax Avoidance Scheme (DOTAS)**

As previously announced the DOTAS regime will be extended to capture certain transfers of property into trust which occur from 6 April 2011. Disclosure will be required in relation to new and innovative schemes developed from that date; existing schemes will not be affected.

### **Listing of Specific Avoidance Schemes**

The Government is considering extending the DOTAS regime to allow “aggressive and artificial schemes” to be listed in order to deter the use of these schemes. It is also considering the introduction of specific penalties targeted at such schemes such as an additional surcharge to those already available, for the late payment of tax.

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