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Chancellor's Budget - 23 March 2011

To quote from George Osborne's second Budget speech, "Today's Budget is about reforming the Nation's economy, so that we have enduring growth and jobs in the future. ... This Budget sets for Britain these four economic ambitions. That Britain should:

- have the most competitive tax system in the G20
- be the best place in Europe to start, finance and grow a business
- be a more balanced economy, by encouraging exports and investment
- and have a more educated workforce that is the most flexible in Europe.

There were many announcements, some new, some recycled:

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|----------------------------------|--|--------------------------------|
| ▶ Personal taxes | ▶ Domicile and residence | ▶ Inheritance tax (IHT) |
| ▶ Capital Gains Tax (CGT) | ▶ Business taxes | ▶ VAT |
| ▶ Employees' vehicles | ▶ Pensions, savings and investments | ▶ Charitable Giving |
| ▶ Duties | ▶ Fuel and Vehicle Excise Duty | ▶ Air Passenger Duty |

Personal taxes

- As expected the Chancellor did not announce any further increases to personal tax rates.
- The personal tax allowance, for those under 65, increases by £630 to £8,105 from 6 April 2012 (£7,475 from 6 April 2011).
- The basic rate tax limit decreases to £34,370 from 6 April 2012 (£35,000 from 6 April 2011).
- As previously announced, all National Insurance Contributions will increase on 6 April 2011. Rates paid by employees and employers will increase by 1%.
- There is to be consultation on a long-term plan to merge the operation of income tax and National Insurance Contributions. The Chancellor stressed that it was not proposed to charge National Insurance on other types of income such as pensions, savings income or dividends. Neither would be charged on the earnings of those aged 65 and over.
- The 50% top rate of income tax is to remain, for now. The Chancellor said that he saw this as a temporary measure and HMRC are to review the revenue raised by this top rate of tax.
- From 2012 the Consumer Price Index (CPI) will be used to index.

- National Insurance Contribution rates, limits and thresholds.
- Capital Gains Tax Annual Exempt Amount (AEA).

Domicile and residence

- The Chancellor announced that there will be consultation on the introduction of a statutory definition of residence to provide greater certainty for taxpayers. These measures are intended to be implemented from April 2012.
- The Chancellor announced proposals to reform the taxation of foreign domiciled individuals to prevent the current rules, which tax foreign income and gains brought into the UK, from acting as a disincentive to inward investment.
- The proposals would take effect from April 2012 and remove the tax charge when non-domiciles remit foreign income or capital gains to the UK for commercial investment in UK businesses.
- It is also proposed to increase the existing annual charge for non-domiciles who have been resident in the UK for twelve or more years to £50,000.
- The current £30,000 annual charge will be retained for those who have been resident for seven years, but fewer than twelve.
- The Government proposes to simplify some aspects of the current tax rules for non-domiciles and will be consulting on these proposed changes.
- The Chancellor announced that there will be no other substantive changes to these rules for the remainder of this Parliament.

Inheritance tax (IHT)

- The inheritance tax nil rate band (currently £325,000) is frozen until April 2015. From 2015 the CPI will also be used to index the Inheritance tax nil rate band which is currently frozen at £325,000 until 2015.
- The Government has announced that a 10% IHT discount will apply for those leaving at least 10% of their estate to charity. An IHT rate of 36% will apply in these cases. The new rate will apply where death occurs on or after 6 April 2012.

Capital Gains Tax (CGT)

- Capital Gains Tax rates are unchanged.
- The Annual Exempt Amount (AEA) increases in line with statutory indexation to £10,600 from 6 April 2011.
- From 6 April 2011 the lifetime limit on gains qualifying for Entrepreneurs' Relief is to be increased to £10 million (currently £5 million).

Business taxes

- The main rate of corporate tax will be cut by 2% on 1 April 2011 (to 26%), rather than a 1% reduction as previously planned. In each of the next three years it will be further cut by 1% a year, reducing to a rate of 23% on 1 April 2015. Banks will not benefit from this due to a compensating adjustment in the bank levy.
- As previously announced, the small companies rate of corporation tax goes down from 21% to 20% on 1 April 2011.
- The period over which plant and machinery can be treated as 'short life assets' which allows for a full tax write-off over the life of the asset will be increased from four to eight years from April 2011.

Previously announced business tax changes include:

- the annual investment allowance (currently £100,000) reduces to £25,000 from April 2012, with a reduction in writing down allowances occurring at the same time.
 - corporate capital gains – simplification of the value shifting rules.
 - reform of associated company rules as they apply to the small profits rate of corporation tax.
 - the additional deduction which an SME can claim for qualifying research and development expenditure will increase to 100% from April 2011 and 125% per cent from April 2012.
 - 'patent box' — the government will continue to consult on this measure, which will provide for a low rate of corporation tax on certain intellectual property profits. Legislation is proposed for Finance Bill 2012.
 - 'time to pay' - HMRC will continue through its Business Payment Support Service to provide advice and time to pay to viable businesses experiencing temporary financial difficulty
 - Controlled Foreign Companies (CFCs) - a package of interim improvements to the CFC rules effect for accounting periods beginning on or after 1 January 2011, is the first step in making the rules easier to apply ahead of full reform in 2012.
 - an opt-in exemption from corporation tax on the profits of foreign branches of UK companies will be introduced. There will be temporary restrictions where branch losses have previously reduced UK corporation tax as well as anti-avoidance measures.
 - the rules for the calculation of chargeable gains degrouping charges for companies will be simplified.
 - as part of the reduction in regulation, forty-three tax reliefs will be scrapped as part of simplification of the tax code. Amongst the forty-three are land remediation tax credits, employees' 15p a day tax-free luncheon vouchers and late night taxis for employees who occasionally work late.
 - the business rate relief holiday for small firms is to be extended for another year to 30 September 2012;
 - 21 'enterprise zones' will be created in England. Businesses will get up to 100% discount on rates, new superfast broadband and the potential to use enhanced capital allowances in zones where there is a strong focus on manufacturing;
 - disguised remuneration - legislation will be introduced in Finance Bill 2011 to tackle third party arrangements which seek to avoid or defer the payment of income tax or National Insurance contributions due on employment income or avoid restrictions on pensions tax relief. Following consultations the Government has amended the draft legislation to limit impacts on employers and individuals where it is possible to identify arrangements that cannot be used for tax avoidance purposes. These changes include exclusions for group company transactions and certain short-term loans, as well as arrangements relating to deferred remuneration, defined employee car ownership schemes, further employment-related securities schemes and protecting legacy pension savings within these arrangements;
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- Furnished Holiday Lettings (FHL) - a new scheme is to be introduced, which will also cover the EU and EEA areas and so be compliant with the EC Treaty. In order to qualify, properties must be available for letting to the general public for 210 days and be let for 105 days, and losses will only be relievable against FHL profits.

VAT

- VAT – the registration threshold is increased from £70,000 to £73,000; and the deregistration threshold is increased from £68,000 to £71,000, both with effect from 1 April 2011.
- VAT - the level at which the low value consignment relief applies will reduce from £18 to £15 from 1 November 2011.

Employees' vehicles

- Company car benefits - from April 2013 the appropriate percentages will be increased by 1% for all vehicles with CO₂ emissions between 95g and 220g. Zero emissions cars will remain at 0% and ultra low emissions cars with emissions up to 75g will remain at 5%.
- Car fuel benefit – those who receive free private fuel for their company cars, will see an increase in their taxable benefit from 6 April 2011, when the multiplier applied to the appropriate percentage will increase from £18,000 to £18,800.
- Employees who use their own cars for business purposes will welcome a long overdue increase in the approved mileage allowance higher rate from 6 April 2011. The rate applicable to the first 10,000 business miles will increase to 45p per mile (previously 40p per mile); the 25p rate for miles in excess of 10,000 remains at 25p per mile.

Pensions, savings and investments

- Pension contributions - from 6 April 2011 the maximum annual contribution will be £50,000. However, taxpayers will be able to carry forward unused contribution limits for up to three years; and despite restrictions on 'high earners' for 2009/10 and 2010/11 the limits for the three tax years immediately prior to 6 April 2011 will be deemed to have been £50,000 per year (with any amounts already paid in excess of these amounts ignored), provided the taxpayer was a member of a registered pension scheme in the relevant year.
 - From 6 April 2011 the limit is increased to £10,680 (£5,340 for the cash element); previously £10,200 (£5,100). From 2012 the Consumer Price Index (CPI) will be used to index ISA investment limits.
 - Junior ISAs will be available from autumn 2011 for any UK-resident child who does not currently hold a Child Trust Fund.
 - The rate of income tax relief given under the Enterprise Investment Scheme (EIS) is to increase from 20% to 30% from 6 April 2011, subject to State aid approval.
 - The Government also proposes changes to the EIS and Venture Capital Trust (VCT) regulations from 6 April 2012. These would increase the size of companies qualifying for EIS and VCT and the annual amount which can be invested in these companies. It is also proposed to increase the annual amount that an individual can
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invest through EIS to £1million (currently £500,000).

Charitable Giving

- Charitable giving – there are a number of measures designed to make it easier for charities to claim income tax on Gift Aid donations and to encourage donors to increase their generosity, as well as welcome changes to provide more focussed, more commercial ‘substantial donor’ rules.

Duties

- Alcoholic drinks – from 28 March 2011 prices will increase by 4p on a pint of beer, 15p on a bottle of wine and 54p on a bottle of spirits (an increase for all alcoholic drinks of 2% above the rate of inflation).
- Tobacco – duty rates will increase by 2 % above the rate of inflation from 23 March 2011.
- Stamp Duty Land Tax (SDLT) – as previously announced, the rate applicable to residential properties costing in excess of £1 million will increase to 5% (previously 4%) on April 2011. For bulk purchases of residential property, effective from the 2011 Finance Bill receiving Royal Assent, SDLT will be calculated on the mean price of the units and be subject to a minimum rate of 1%. New anti-avoidance measures apply from 23 March 2011.

Fuel and Vehicle Excise Duty

- Fuel duty is to be cut by 1p per litre from 6pm on 23 March 2011. The planned inflation rise in fuel duty due in April 2011 is delayed until January 2012. The planned 2012/13 fuel duty increase will be applied on 1 August 2012.
- The Government has scrapped the annual “fuel escalator” rise of 1p above inflation until 2015. This will be replaced by a “fair fuel stabiliser”. This is proposed to increase fuel duty by the Retail Price Index (RPI) when oil prices are high and by RPI plus 1p per litre if the oil price falls below a set trigger price. The current proposed trigger price is \$75 per barrel. The Chancellor said that a reduction in VAT on fuel would be illegal.
- Vehicle Excise Duty (VED) rates will increase by indexation only from 1 April 2011, except VED rates for heavy goods vehicles which will be frozen in 2011/12.

Air Passenger Duty

- The Government has published a consultation with proposals for the reform of Air Passenger Duty from April 2012. The Chancellor also announced the Government’s intention to tax business jets.
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