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BULLETIN

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Budget Report 21 March 2012

George Osborne continued his fiscal campaigning by attempting to juggle tax take, Government borrowing and economic growth. Only time will tell how many balls he will continue to keep in the air and for how long.

There are no dramatic tax changes announced in his Budget Statement. Many of the key items such as reduction of the 50% income tax rate, increases in stamp duty for higher value homes and increases in the personal income tax allowances, were “leaked” in advance. However, there were a few surprises.

Details of the tax changes announced are set out below.

Personal Tax Allowances

The income tax allowances and rates for 2012-13 have already been announced. They are:

- Personal Allowance - £8,105.
- Age Related Allowance for persons aged 65-74 - £10,500.
- Age Related Allowance for persons aged 75 and over - £10,660.
- Married Couples Allowance for those born before 6 April 1935 - £7,705.
- Blind person’s allowance - £2,100.

Age related allowances will continue to be reduced if earnings exceed £25,400.
Personal Allowances will be reduced by £1 for every £2 of income exceeding £100,000.
Tax relief for the Married Couples Allowance is restricted to 10%.

The expected increase in the basic personal allowance to £9,205 from April 2013 was confirmed. This means that individuals earning less than £177 per week will pay no tax at all. This takes the Government within striking distance of their goal to set a basic personal tax allowance of £10,000 before the end of the current parliament.

Age Related Allowances

In an attempt to simplify allowances Aged Related Allowances are to be frozen at 2012-13 levels until they match the basic personal allowance. From 6 April 2013 these allowances will no longer be available to individuals born after 5 April 1948. The higher Aged Related Allowance will only be available to individuals born before 6 April 1938.

State Pension

The current weekly basic State Pension is due to rise to £107.45 from April 2012. This is a weekly increase of £5.30.

George Osborne has also reaffirmed his pledge to simplify the current, over-complex State Pension schemes by merging the basic and second state pension into a single scheme. It is estimated that this single tier State Pension will be about £140 per week.

Income Tax Rates

As expected the 50% rate is to be cut from April 2013 to 45%. Detailed rates are:

2012-13

- 20% basic rate on first £34,370 of taxable income.
- 40% higher rate on income between £34,371 and £150,000.
- 50% additional rate on income over £150,000.

2013-14 (subject to confirmation in the Finance Bill 2013)

- 20% basic rate on first £32,245 of taxable income.
- 40% higher rate on income between £32,246 and £150,000.
- 45% additional rate on income over £150,000.

Cap on unlimited tax reliefs

Legislation is to be introduced in Finance Bill 2013 that will seek to apply a limit to income tax reliefs claimed by individuals from 6 April 2013. It would seem that the Chancellor is keen that everyone pays their fair share of tax. Effectively this will set a line in the sand such that tax relief will be denied if:

- Anyone seeks to claim reliefs in excess of 25% of their income or £50,000, whichever is the greater, and
- Such reliefs are currently not subject to any restriction.

Draft legislation will be published later this year for consultation.

Child Benefit income tax charge

In an attempt to deny Child Benefits to higher income families the following new income tax charge will apply from 7 January 2013. The tax charge will be at the rate of 1% of the full Child Benefit award for every £100 of income between £50,000 and £60,000. Therefore if income reaches or exceeds £60,000 the tax charge will equal the Child Benefit received.

The aim is to gradually reduce the cash benefit if the following conditions apply:

- Where a partner has adjusted net income over £50,000 in a tax year and where either they or their partner receives Child Benefit the new tax charge will apply.
- If both partners have net income over £50,000 the partner with the highest income will suffer the tax charge.

A partnership is defined as:

- A married couple living together.
- Civil partners living together.
- A man and a woman who are not married to each other but who are living together; or
- Same sex couples who are living together as if they were civil partners.

Tax payers who do not want to pay the new charge can elect to refuse Child Benefit.

Tax and vehicles

The following changes are announced:

1. The car fuel benefit charge multiplier will increase from £18,800 to £20,200 from 6 April 2012. (There will be a further increase, 2% over rate of inflation, from 6 April 2013).
2. The van fuel benefit charge multiplier is frozen at £550. (This charge will be increased by the rate of inflation from 6 April 2013).
3. Legislation will be introduced in Finance Bill 2012 to increase the appropriate percentage for company cars emitting more than 75g of carbon dioxide per kilometre by 1% to a maximum of 35% in 2014-15.

4. In both 2015-16 and 2016-17, the appropriate percentages of the list price subject to tax will increase by two percentage points, to a maximum of 37%.
5. From April 2016 the 3% diesel supplement will be removed. From this date diesel cars will be subject to the same level of tax as petrol cars.
6. From April 2015 the five year exemption for zero carbon cars and the lower rate for ultra low emission cars will come to an end.
7. The appropriate percentage for zero emission and all low carbon cars emitting less than 95g of carbon dioxide per kilometre will be 13% in 2015-16, and will increase by two percentage points in 2016-17.

Employer asset-backed pension contributions

Further legislation has been announced, effective from 21 March 2012, that will ensure unintended excess tax relief should not arise on these contributions.

Qualifying Recognised Overseas Pension Schemes (QROPS)

Changes in legislation will be introduced in Finance Bill 2013 to strengthen reporting requirements and powers of exclusion relating to the QROPS regime. They will support the changes published for consultation on 6 December 2011. The Government also announced that when the country or territory in which a QROPS is established makes legislation or otherwise creates or uses a pension scheme to provide tax advantages that are not intended or available under the QROPS rules, the Government will act so that the relevant types of pension scheme in those countries or territories will be excluded from being QROPS.

Corporation Tax Rates

From 1 April 2012 the small company rate is set at 20%, the main standard rate at 24%, down 1% from the previous expected rate of 25%.
From 1 April 2013 there will be a further reduction in main standard rate to 23%.
From 1 April 2014 there will be a further reduction in main standard rate to 22%.

Tax simplification for small businesses

In a welcome move the Chancellor committed to a process of consultation on a number of tax simplification proposals for smaller businesses. These will include:

1. Unincorporated businesses with a turnover below the VAT registration limit, will be able to adopt a voluntary cash basis for business tax purposes.
2. A simplified system for claiming expenses for use of cars, motorcycles and business use of the home.
3. Finally the consultation will look at the need for a simple way to disincorporate a small limited company so it can revert to a self-employed status.

Seed Enterprise Investment Scheme (SEIS)

As previously announced, legislation will be included in Finance Bill 2012 to introduce a new Seed Enterprise Investment Scheme from April 2012. Following consultation, changes have been made to the legislation to allow companies:

- to qualify if they have subsidiaries;
- to determine eligibility by reference to the age of any trade rather than to the age of the company;
- to remove reference to the holdings of other entities in calculating asset and employee tests;
- to allow previous (but not current) employees to qualify; and
- to allow directors who have qualified under SEIS to continue to qualify under EIS, subject to time limits.

Patent Box

Legislation will be introduced in Finance Bill 2012 to allow companies to apply a 10 per cent corporation tax rate to a proportion of profits. This would be attributable to patent and certain other qualifying intellectual property from 1 April 2013. In the first year this proportion will be 60 per cent and increase annually to 100 per cent from April 2017.

Wallace & Gromit Relief

George Osborne raised a laugh in Parliament when he referred to his intended corporation tax reliefs for the British video games, animation programs and high end TV productions as "keeping Wallace & Gromit in the UK".

The industry has lobbied hard for tax concessions so that it can remain competitive with companies based in other non-UK locations. Consultation on the detail will take place during the summer 2012 with a view to legislation being included in the Finance Bill 2013, effective from April 2013.

Stamp Duty Land Tax (SDLT)

The Government seems to have selected SDLT as its tax of choice to target the wealthy in the UK. There are two changes announced today:

1. Residential property sold with a consideration in excess of £2m will be subject to SDLT at the rate of 7%. This will affect transactions completed on or after 22 March 2012.
2. Residential property that is purchased by a non-natural person (HMRC's definition) will be subject to a 15% SDLT charge if the value of the property acquired exceeds £2m. The process of purchasing in this way is sometimes described as "corporate enveloping". This will apply to appropriate transactions completed 21 March 2012 or later.

Alcohol and tobacco duties

With effect from 26 March 2012 increases in duty on alcoholic drinks will add:

- 3p to a pint of beer
- 2p to a litre of cider
- 11p to a bottle of wine, and
- 41p to a bottle of spirits

With effect from 6pm on 21 March 2012 increases in duty will add:

- 37p to a pack of 20 cigarettes
- 12p to a pack of 5 small cigars
- 37p to a 25g pouch of hand rolling tobacco, and
- 20p to a 25g pouch of pipe tobacco.

VAT registration limits

From 1 April 2012:

- The taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £73,000 to £77,000;
- The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £71,000 to £75,000; and
- The registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £73,000 to £77,000.

Other tax simplification matters

1. In April 2012 HMRC will provide taxpayers with a "Dashboard" giving access to information on the taxes they pay and how much.

2. From April 2014 HMRC will provide Personal Tax Statements to individuals who file their returns online and to some PAYE tax payers. The statement will include: details of the amount of tax and National Insurance they have paid, average tax rates and show them how their payments have contributed to public expenditure.
3. The old chestnut of integrating income tax and National Insurance is still on the cards. Consultations are to continue and detailed conclusions will be published in due course.

Anti Avoidance announcements

The Government seems set on legislating to create a general anti avoidance rule – an all-encompassing, catch-all that will aim to block any attempt at reducing tax payments using artificial arrangements. It is unlikely that this will apply before April 2013. The announcements in the Budget to deal with specific schemes include the following topics:

- Inheritance tax: offshore trusts
- Inheritance tax: settlor-interested trusts
- Sale of lessor companies
- Capital allowances: changes to anti-avoidance rules for plant and machinery
- Plant or machinery leasing
- Life insurance: income tax avoidance
- Post-cessation trade relief and post-cessation property relief
- Loan relationships avoidance: debt buybacks
- Property business loss relief
- Stamp duty land tax (SDLT): enveloping
- Stamp duty land tax: sub-sales rules
- Site restoration payments
- Disclosure of tax avoidance schemes (DOTAS)
- Stamp duty land tax: disclosure of tax avoidance schemes
- Manufactured overseas dividends
- General anti avoidance rule (GAAR)
- Manufactured payments
- Tax mitigation and IR35

Super connected cities

The Chancellor announced that a £100m budget has been made available to create 100Mbps citywide broadband networks in 10 urban areas. Four we knew already: Belfast, Cardiff, London and Edinburgh. The other six declared by the Chancellor today are: Birmingham, Bradford, Bristol, Leeds, Manchester and Newcastle. A further £50m of funding was also announced to be shared amongst ten unnamed smaller cities.

By 2015 it is hoped this investment in cities will provide ultra-fast broadband coverage to 1.7m households and high speed wireless to 3m residents.

Sunday trading

It was confirmed that Sunday Trading regulations would be lifted for 8 Sundays during the Olympics and Paralympics starting 22 July.

Enterprise loans for young people

Budding entrepreneurs will be able to bid for a Government loan to help them start their business under a new £10m pilot scheme. The enterprise loan will operate in a similar way to the current student loans system. It will provide young people aged between 18 and 24 the chance to borrow cash to help them start up their own business. Applicants will need a "viable" business idea to secure a loan. Loans are expected to be worth between £5,000 and £10,000 per individual.

National Guarantee Loan Scheme

The published details of the scheme are:

- The scheme allows banks to raise up to £20bn of funding guaranteed by the Government, to lend directly to smaller businesses (who are more reliant on bank finance) at a lower cost than would otherwise be the case.
- UK businesses with a turnover of up to £50m will be eligible to benefit from the scheme.
- Banks apply for Government guarantees against the borrowing and they can use the guarantee to raise funds at a lower cost.
- In order to qualify for the guarantees, banks will demonstrate that they can pass the benefits of the guarantee on to businesses through cheaper loans (as in the European Investment Bank's (EIB) well-established 'Loans for SMEs' scheme).
- Participating banks retain the full credit risk of the loans they make under the scheme.
- Banks participating in the scheme will have to offer interest rates at 1 percentage point lower than loans outside the scheme.
- A range of banks will provide access to the scheme.