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TAX ADVISERS

2012

George Osborne presented his third Budget on Wednesday 21 March 2012.

The Chancellor started by reaffirming the need for stability in the UK economy and finished in Churchillian style with phrases such as:

'No people will strive as the British will strive.'
'No country will adapt as the British will adapt.'
'This country borrowed its way into trouble.
Now we're going to earn our way out.'

Towards the end of last year the Government issued the majority of the clauses, in draft, of Finance Bill 2012 together with updates on consultations. The publication of the draft Finance Bill clauses is part of the Government's improvements in the way tax policy is developed, communicated and legislated. The Budget updates some of these previous announcements and also proposes further measures. Some of these changes apply from April 2012 and some take effect at a later date, so the timing needs to be carefully considered.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments.

If you have any questions please do not hesitate to contact us for advice.

Contents

Main Budget proposals

- A further increase in the personal allowance but with a reduction in the basic rate band from April 2013.
- An additional 1% cut in the main rate of corporation tax to 24% from April 2012.
- A reduction in the additional rate of income tax from 50% to 45% from April 2013.
- Details of how Child Benefit will be taxed on those with income in excess of £50,000.
- Proposals for tax simplification for smaller businesses.
- Consultation on the introduction of a general anti-abuse rule.
- Increased Stamp Duty Land Tax on high value residential properties.

Previous announcements

Some of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- The introduction of a Statutory Residence Test
- Changes for non-domiciled individuals
- Reduced rates of inheritance tax for charitable individuals
- Introduction of the Seed Enterprise Investment Scheme
- Reduction of the Annual Investment Allowance from April 2012
- Changes to the relief available for Research and Development expenditure.

The Budget proposals may be subject to amendment in a Finance Act. You should contact us before taking any action as a result of the contents of this summary.

PERSONAL TAX

The personal allowance for 2012/13

For those aged under 65 the personal allowance will be increased by £630 to £8,105. This increase is greater than the minimum required and is part of the plan of the Coalition Government to ultimately raise the allowance to £10,000.

The personal allowance is reduced by £1 for every £2 of adjusted net income over £100,000. So for 2012/13, the allowance ceases at adjusted net income in excess of £116,210.

Comment

Planning should be considered where adjusted net income is expected to exceed £100,000. This figure is calculated after giving a deduction against income for pension contributions and Gift Aid payments. Consider whether these could be made to protect some or all of the personal allowance.

Tax band and rates 2012/13

The basic rate of tax is currently 20%. The band of income taxable at this rate is being reduced to £34,370 so that the threshold at which the 40% higher rate of tax applies will remain at £42,475.

The 50% additional rate of tax currently applies where taxable income exceeds £150,000.

If dividend income is part of total income this is taxed at 10% where it falls within the basic rate band, 32.5% where liable at the higher rate of tax and 42.5% where liable to the additional rate of tax.

Changes for 2013/14

The personal allowance is to increase to £9,205. The band of income taxable at this rate is being reduced to £32,245 so that the threshold at which the 40% band applies will reduce to £41,450.

For 2013/14 the 20% basic rate and 40% higher tax rates remain unchanged. However the 50% additional rate tax will be reduced to 45%. A rate of 37.5% will be payable on dividends liable to the additional rate of tax.

Similar changes will be made to the rates which apply to trusts.

Comment

There had been widespread speculation that the 50% top rate of tax would be abolished.

Age allowances

From 2013/14 the higher age related personal allowances will not be increased and their availability will be restricted to people born on or before:

- 5 April 1948 for the £10,500 allowance
- 5 April 1938 for the £10,660 allowance.

Child Benefit

Legislation will be introduced to impose a new charge on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £50,000 the charge will apply to the partner with the higher income.

The income tax charge will apply at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid.

Child Benefit claimants will be able to decide not to receive Child Benefit if they or their partner do not wish to pay the new charge.

This charge will have effect from 7 January 2013 and for 2012/13 will apply to the Child Benefit paid from that date to the end of the tax year. The income taken into account will be the full income for 2012/13.

Comment

The removal of Child Benefit from households containing a higher rate taxpayer had been announced previously. However the detail of the way in which the restriction would apply had been subject to speculation. The following example shows how the charge will be calculated.

Example

The Child Benefit for two children amounts to £1,752.

The taxpayer's adjusted net income is £54,000.

The income tax charge will be £700.80.

This is calculated as £17.52 for every £100 above £50,000.

For a taxpayer with adjusted net income of £60,000 or above the income tax charge will equal the Child Benefit.

Cap on unlimited tax reliefs

Legislation will be introduced to apply a cap on income tax reliefs claimed by individuals from 6 April 2013. The cap will only apply to reliefs which are currently unlimited. For anyone seeking to claim more than £50,000 in reliefs, a cap will be set at 25% of income (or £50,000 if greater).

Statutory Residence Test

The Government is proposing to introduce a Statutory Residence Test (SRT) which will come into effect in April 2013. Detailed proposals have already been the subject of consultation and further consultation will take place before the rules are finalised. It is likely that a series of tests will be introduced which will enable an individual to arrive at a definitive answer to the question 'Am I resident in the UK?'.

Comment

There is currently no definition of 'residence' in UK tax law and yet the liability to income tax and capital gains tax (CGT) rests on knowing an individual's UK residence status for a tax year. Currently the determination of residence is based on old case law and, as a recent Supreme Court decision has shown, it can lead to significant uncertainty and large tax liabilities.

Ordinary Residence

The Government is also proposing to remove the concept of 'ordinary residence' for tax purposes from 6 April 2013. Certain employees who work abroad may be treated as not ordinarily resident. As such they are liable to UK tax only on employment income derived from time in the UK. Someone with duties which are carried out both inside and outside the UK is entitled to deduct a proportion of their earnings which relate to time spent outside the UK. This is referred to as 'overseas workday relief' but currently has no statutory basis. This relief will be brought into legislation.

Comment

The new SRT will make the concept of ordinary residence effectively redundant. The main tax areas likely to be affected by the change will be CGT and the remittance basis.

Changes for non-domiciled individuals

Individuals who are not domiciled in the UK or who are not ordinarily resident may be able to benefit from the remittance basis of taxation in respect of overseas income and gains. Two significant changes are made to these rules from 6 April 2012:

- the remittance basis charge (currently £30,000 for those resident for seven out of the nine preceding years) will be increased to £50,000 where an individual has been resident in the UK for 12 out of the preceding 14 tax years

- if an individual remits funds to invest directly or indirectly in a UK trading company then that remittance will be tax free if the remittance basis is claimed (although the remittance basis charge will still be payable). The investment must be in a company but can be in the form of shares or loans. Certain activities will not constitute trading, for example, letting residential property. When the investment is realised, it will be necessary for the individual to either reinvest the funds in another qualifying venture or remove the funds from the UK. The reinvestment or removal of the funds needs to be within 45 days of the date on which funds are received.

Some administrative changes in the remittance basis rules will also be introduced.

BUSINESS TAX

Corporation tax rates

A further reduction in the main rate of corporation tax has been announced. The planned 1% decrease announced to take effect from 1 April 2012 is now to be a 2% decrease with the rate moving from 26% to 24%. Further 1% reductions to 23% and 22% are to take place from 1 April 2013 and 1 April 2014 respectively. The small company rate will remain at 20%.

Enterprise Investment Scheme (EIS)

Changes announced in 2011 are due to come into effect on 6 April 2012. These are:

- the maximum amount that an individual can invest in total in a tax year rises from £500,000 to £1m
- the size of a company that can benefit from EIS (subject to meeting all the qualifications) is increased to £15m gross assets and fewer than 250 employees.

Other changes announced include:

- the maximum annual amount that can be invested in an individual company under either EIS or the Venture Capital Trust is to be increased from the current £2 million limit to £5 million
- to receive EIS relief the individual cannot be 'connected' to the company. The rules are to be relaxed by removing limits on loan capital that is provided by an EIS investor to the company.

Comment

The income tax relief given to an EIS investor is 30% of their investment. The new SEIS relief below will give an increased rate of tax relief but with a significant reduction in the maximum amount of the total annual investments that will qualify.

Seed Enterprise Investment Scheme (SEIS)

This is a new relief to start from 6 April 2012. The tax breaks for the investor are:

- income tax relief at 50% in respect of qualifying SEIS shares up to an annual maximum investment (in all SEIS companies) of £100,000
- a capital gains tax (CGT) exemption where SEIS shares are sold more than three years after they are issued (as for EIS)
- a further CGT exemption where an individual makes a capital gain in 2012/13 and reinvests the proceeds in qualifying SEIS shares before 6 April 2013.

The investor can be a director of the company (if the investor is not a director, they cannot be a current employee but can previously have been an employee).

However, like EIS, the investor must not be connected to the company (broadly, this means they must not directly or indirectly control more than 30% of the share capital).

There are significant restrictions on the company including:

- the maximum amount which can be raised by a company through SEIS is £150,000 and this is an overall total not an annual limit
- the gross assets of the company must not exceed £200,000 immediately before the shares are issued
- the issuing company must have less than the equivalent of 25 full time employees immediately before the shares are issued
- the company must exist to carry on a new qualifying trade.

The original proposals also specified that the company must have been incorporated within two years of the date on which the qualifying shares are issued. Following consultation, one key change is that a company will be eligible by reference to the age of any trade rather than to the age of the company. A company with subsidiaries can also now qualify.

In addition, there are copious anti-avoidance rules which are largely drawn from the EIS regime.

Comment

The aim of the relief is to encourage business angels to invest in small enterprises and obtain a tax refund of half their investment. It remains to be seen whether the mountain of restrictions on the company will inhibit the use of the regime.

Annual Investment Allowance (AIA)

The AIA is a capital allowance available for many businesses on most purchases of plant and machinery, long-life assets and integral features. Relief is given on the full cost up to an annual maximum allowance. As previously announced, the allowance is to be reduced to £25,000 from £100,000 with effect from 1 April 2012 for companies and 6 April 2012 for unincorporated businesses.

Where a business has an accounting period that straddles the date of change the allowances have to be apportioned on a time basis. For example a company with an accounting period ending on 30 September 2012 will have an allowance of £62,500 (£100,000 x ½ + £25,000 x ½). However it should be noted that for expenditure incurred after the 1/6 April, the maximum allowance that can be attributed to that expenditure is a fraction of £25,000. The fraction will be the amount of the £25,000 that is included in the calculation of the overall AIA for the accounting period.

Comment

Planning the timing of purchases of significant items of plant becomes very important to ensure that the maximum available AIA can be secured.

Suppose the company with the 30 September year end wishes to buy new plant costing £35,000. If they had bought it in February 2012 they will be able to claim an AIA on the full £35,000 but if they buy it in June 2012 they will only be able to claim an AIA of £12,500 (£25,000 x 6/12). They would actually then be better off if they waited until October when they will have a full £25,000 available.

Writing Down Allowances (WDA)

As previously announced, WDA rates reduce from 1/6 April. The main rate of 20% will be reduced to 18% and the lower rate of 10% which applies to integral features and long-life assets will reduce to 8%. It will be necessary to calculate hybrid rates where the accounting period straddles 1/6 April which will give a rate between 20% and 18% (or between 10% and 8%) for that period.

Capital allowances on cars

The 100% first year allowance (FYA) available on new low emission cars purchased (not leased) by a business is revised and extended with effect from 1 April 2013. The current rule is that a 100% FYA is generally available where a car's emissions do not exceed 110 grams per kilometre (gm/km) until 31 March 2013. The availability of a 100% FYA is to continue for a further two years for purchases from 1 April 2013 but only where emissions do not exceed 95gm/km.

Cars with emissions between 111-160gm/km inclusive currently qualify for main rate WDA (18% from April 2012).The threshold is to be revised down to 130gm/km for additions from 1 April 2013 for businesses within the charge to corporation tax and 6 April 2013 for businesses in the charge to income tax.

Capital allowances in Enterprise Zones

Over the past year the Government has designated a number of very specific areas as Enterprise Zones. Businesses in these areas enjoy certain reliefs, for example, a relief from business rates. From 1 April 2012, 100% capital allowances will be available for parts of some of the Enterprise Zones known as 'designated assisted areas'. Some of these areas have already been announced and the Chancellor announced further designated sites in his Report.

The relief is only available to companies and is subject to a number of detailed conditions including:

- the plant must be new
- the plant must not represent a replacement of existing plant.

Capital allowances: fixtures

As announced in Budget 2011, legislation will be introduced in Finance Bill 2012 to make the availability of capital allowances to a purchaser of a fixture subject to certain conditions. Following consultation, changes have been made to help ensure fair application of the legislation.

Enhanced capital allowances: energy saving technologies

100% FYAs are given on certain energy saving capital expenditure. The categories of qualifying expenditure will be updated by Treasury Order in summer 2012, subject to State aid approval. The main change will be the inclusion of a new technology category: heat pump driven air curtains.

Tax credits for expenditure on environmentally beneficial plant or machinery

Legislation will be introduced in Finance Bill 2013 to extend the availability of first year tax credits, for a further five years from 1 April 2013. These credits are available for companies surrendering losses attributable to their expenditure on designated energy-saving or environmentally beneficial plant or machinery.

Research and development expenditure (R&D)

There are currently a number of restrictions which effectively limit the scope of this relief and it is planned to remove these broadly from 1 April 2012. The proposals include:

- removing the rule limiting a company's payable R&D credit to the amount of PAYE and NIC it pays
- removing the £10,000 minimum expenditure condition
- increasing the additional deduction for R&D expenditure by SMEs by a further 25% making the total deduction 225% of actual expenditure.

It has also been announced that there will be an 'above the line' R&D tax credit to encourage R&D activity with a minimum rate of 9.1% before tax. It is planned for inclusion in Finance Bill 2013 following consultation.

Patent Box

The concept of a Patent Box has been the subject of consultation by HMRC for the past couple of years and legislation is now being brought forward to apply from 1 April 2013.

The essence of the legislation will be to allow companies to elect to have a 10% rate of corporation tax on all profits attributable to qualifying intellectual property (IP). This will cover patents granted by the UK or the European Patent Office. Some other rights will be included by Treasury Order.

The reduced rate applies to a proportion of the profits derived from:

- the licensing or sale of the patent rights, or
- the sale of the patented invention or products which incorporate the patented invention.

Profits derived from routine manufacturing, development or exploitation of brands and marketing intangible assets are excluded.

A company qualifies for the Patent Box if the company satisfies the 'development condition'. This means it has made a significant contribution to:

- the creation or development of the item protected by the patent, or
- a product incorporating this item.

A company which does not own the patent rights but has been given exclusive rights throughout an entire national territory will qualify for the Patent Box as long as it satisfies the 'development condition' in relation to those rights.

The full benefit of the regime will be phased in over the first four financial years following commencement on 1 April 2013. In the first year the proportion of relevant profits to which the 10% rate will apply is 60% and this will then increase annually to 100% from April 2017.

Corporation tax reliefs for the creative sector

The Government will introduce corporation tax reliefs for the production of culturally British video games, television animation programmes and high end television productions. Consultation will take place over the summer. Legislation will be in Finance Bill 2013 and will take effect from 1 April 2013, subject to State aid approval.

Comment

The Chancellor made the comment in his speech that he wanted to ensure that Wallace and Gromit stay in this country.

Controlled Foreign Companies (CFCs)

The CFC regime can apply to a UK company which has a subsidiary operating in a country with a low rate of corporation tax. Under the regime a UK company may be charged to corporation tax on relevant profits of the subsidiary. As the rules have been in place for 25 years they needed an overhaul to better fit with more recent developments in both UK and global corporate tax.

The aim of the proposed new regime is to target only those circumstances that result in the artificial diversion of UK profits.

Under the proposals a CFC charge can arise only if:

- a foreign company is controlled from the UK (ie a CFC), and
- the CFC passes through an initial 'gateway' and has 'chargeable profits' as defined by detailed tests, or
- none of the entity level exemptions apply.

The initial gateway consists of qualitative tests to ensure the rules only apply to profits that have been artificially diverted from the UK. So, for example, trading profits will not be chargeable profits if the control or management of a CFC is not carried on to a significant extent in the UK.

Even if the initial gateway is passed, the CFC may not have chargeable profits as detailed in various quantitative tests.

Alternatively a charge can be removed by using the entity level exemptions. These include for example:

- the low profits exemption (broadly, the accounting (pre-tax) profits are not more than £50,000 or not more than £500,000 and non-trading income is not more than £50,000 per 12 month period)
- where the tax paid under the law of the CFC's territory of residence in respect of its profits is at least 75% of the corresponding UK tax.

The new rules are to apply to CFCs with accounting periods which begin on or after 1 January 2013.

Comment

A company does not have to consider the gateway test first. If a specific entity level exemption applies, a CFC charge will not arise in the relevant accounting period.

Tax simplification for the small business

A voluntary cash accounting basis for calculating tax for small unincorporated businesses (up to the VAT registration threshold) is to be consulted on with a view to introducing legislation in Finance Bill 2013. The aim is to assist the small business by making it easier to calculate their tax.

Other plans include considering a simplified expenses system and a disincorporation relief.

EMPLOYMENT ISSUES

Company car tax rates

Legislation will be introduced in Finance Bill 2012 to increase the appropriate percentage of the list price subject to tax for cars with CO_2 emissions of more than 75gm/km by 1% up to a maximum of 35% in 2014/15.

Further changes are proposed in 2015/16 and 2016/17 whereby the appropriate percentages of the list price subject to tax will increase by 2% per annum up to a maximum of 37% in both years.

Other changes

- From April 2015 the five year exemption for zero emission cars and the lower rate of 5% for ultra low emission (1-75gm/km) cars will come to an end.
- The percentage for zero emission and all low emission petrol cars emitting less than 95gm/km of CO_2 will be 13% in 2015/16, rising to 15% in 2016/17.
- The percentage for low emission (95gm/km) diesel cars in 2015/16 will be 16% as it will include the 3% diesel supplement.
- From April 2016 the Government will remove the 3% diesel supplement so that diesel cars will be subject to the same level of tax as petrol cars.

Car and van fuel benefit charges

Employees and directors who are provided with a company car and who also receive free private fuel from their employers are subject to the fuel benefit charge. The benefit charge is determined by multiplying a set figure by the appropriate percentage for the car based on its CO_2 emissions.

The car fuel benefit charge multiplier will be increased from £18,800 to £20,200 with effect from 6 April 2012. The multiplier will increase by 2% above the rate of inflation (based on RPI) in 2013/14.

The van fuel benefit charge multiplier will remain frozen at £550 for 2012/13 and will increase by inflation in 2013/14.

Real Time Information (RTI)

HMRC have produced draft legislation to introduce probably the most significant change in the PAYE system since its introduction in 1944. Under the RTI scheme, employers will electronically provide monthly information to HMRC related to wages and salaries paid to employees. Once the scheme is ‘bedded in’ employers will no longer have to complete year end returns such as the P35 and P14.

Volunteer employers are to pilot the new scheme from 6 April 2012. The intention is that it will apply to employers on a phased basis from 6 April 2013 so that all employers are operating the system by October 2013.

It was announced in Budget 2012 that HMRC will consult before the summer on new models for late payment and late filing penalties under RTI. Legislation will be included in Finance Bill 2013.

Comment

This really is a major change but the success or otherwise of the scheme will depend on the ability of the HMRC computer system to cope. History suggests that this could be the problem.

Income tax and NICs reform

The Government announced in Budget 2011 that it would consult on the options, stages and timing of reforms to integrate the operation of income tax and NICs. Since then, the Government has issued a call for evidence, published a response and set out an indicative timetable for reform. Following work with interested parties over recent months, the Government will consult shortly after Budget 2012 on a broad range of options for employee, employer and self-employed NICs.

Personal service companies and IR35

The Government is bringing forward a package of measures to tighten up on avoidance through the use of personal service companies and to make the existing IR35 legislation easier to understand. HMRC will strengthen specialist compliance teams and simplify the way IR35 is administered. HMRC will consult on proposals which would require office holders/controlling persons who are integral to the running of an organisation to have PAYE and NICs deducted at source.

Enterprise Management Incentives (EMI)

EMI are share option schemes which allow small and medium-sized businesses to grant tax-advantaged share options to employees. The limit on the value of shares over which options may be held by an employee under the scheme will be increased from £120,000 to £250,000. This will have effect in respect of options granted on or after the date set out in a Statutory Instrument, which subject to State aid approval, the Government intend to implement as soon as possible.

Additionally the Government will make reforms to the EMI scheme in Finance Bill 2013, subject to State aid approval, to ensure that gains made on shares acquired through exercising EMI options on or after 6 April 2012 will be eligible for capital gains tax Entrepreneurs' Relief.

The Government will consult on ways to extend access to EMI for academics who are employed by a qualifying company.

Tax advantaged employee share schemes

The Government will consider the recommendations of the Office of Tax Simplification's review of tax advantaged share schemes and will consult shortly on how to take a number of these proposals forward. Legislation will be included in future Finance Bills.

Pensions tax relief

Legislation will be introduced in Finance Bill 2013 to amend the rules which currently allow employers to pay pension contributions into their employees' family members' pensions as part of their employees' remuneration package to remove the tax and NICs advantages from these arrangements.

A regulation making power will also be introduced to allow changes to be made to the lifetime allowance fixed protection legislation. Technical improvements will also be made to the annual allowance rules through secondary legislation.

CAPITAL TAXES

CGT rates

The rates of CGT remain at 18% to the extent that any income tax basic rate band is available and 28% thereafter. The rate for disposals qualifying for Entrepreneurs' Relief (ER) is 10% with a lifetime limit of £10m for each individual.

Comment

The ER limit is very generous and owners of businesses should ensure that they meet all the conditions necessary to secure the relief throughout the twelve months up to the date of a disposal.

CGT annual exemption

The CGT annual exemption has been frozen at £10,600 for 2012/13.

Foreign currency bank accounts

Bank accounts denominated in a currency other than sterling are chargeable assets for CGT. There is an exemption where the account is held by an individual and is used to meet personal expenditure abroad. This means that every withdrawal technically constitutes a disposal for CGT purposes and a gain or loss can arise by reference to movements of exchange rates.

It is now proposed that the exemption from CGT will apply to all foreign currency bank accounts held by individuals, trustees of settled property and personal representatives of deceased persons. This exemption will apply for all withdrawals made on or after 6 April 2012.

Inheritance tax (IHT) nil rate band

The IHT nil rate band remains frozen at £325,000 until 6 April 2015.

Reduced rate of IHT for the charitable

The Government will introduce a reduced rate of IHT for an estate where a minimum level of legacy has been left by the deceased to charity. The actual legacy to charity remains exempt from IHT and it is the rate of tax on the balance of the estate that would be reduced to 36% from 40%.

The reduced rate will apply where charitable bequests satisfy a 10% test. A comparison will be made between:

- the total value of charitable legacies for IHT purposes and
- the value of the net estate as reduced by:
  - any available nil rate band
  - the value of assets passing to the surviving spouse or civil partner and
  - other IHT reliefs and exemptions for example Business Property Relief but excluding relief for the charitable donations.

If the first figure is at least 10% of the second then the balance of the estate will qualify for the reduced IHT rate of 36%.

Special rules apply if the estate includes either:

- property which is jointly owned which passes automatically on death to the other joint owner(s) under survivorship rules (in England Wales and Northern Ireland) or their local equivalent
- settled property which forms part of the estate because the deceased held a qualifying interest in possession in the assets.

The changes will apply to estates where the individual dies on or after 6 April 2012.

Comment

Because the benefit of the reduced IHT rate will be dependent on whether or not the amount of the charitable legacy is sufficient for the estate to pass the 10% test, there will be a 'cliff edge' effect.

Where the amount of the charitable legacy is close to the critical 10% point, a small difference to the amount of the legacy could have a much larger impact on the estate's IHT liability. There are no plans to apply any taper or other mechanism to mitigate this.

IHT – other matters

The Government will consult on two areas for inclusion in Finance Bill 2013:

- simplifying the calculation of IHT ten year charges and exit charges for trusts
- increasing the IHT exempt amount that a UK domiciled individual can transfer to their non UK domiciled spouse or civil partner.

OTHER MATTERS

VAT - anomalies and loopholes

Legislation will be introduced to address long-standing VAT anomalies and loopholes, with effect from 1 October 2012. The changes are:

- applying VAT to approved alterations to listed buildings to bring them into line with the VAT treatment of alterations to non-listed buildings, and repairs and maintenance for all buildings
- providing consistency of treatment between self-storage and other forms of storage
- applying VAT, in the minority of cases where it does not already apply, to hot food and to sports drinks
- putting beyond doubt the fact that VAT applies to the rental of hairdressers' chairs
- ensuring that the purchase of holiday caravans is taxed consistently at the standard rate.

Stamp duty land tax (SDLT)

A new rate of 7% will be introduced where the chargeable consideration for a residential property is more than £2 million. This will have effect where the effective date (normally the date of completion) is on or after 22 March 2012, unless the contract was entered into before that date.

An even higher rate of 15% will apply to such residential properties if the purchaser is a 'non natural person', for example a company. This will have effect where the effective date of the transaction is on or after 21 March 2012.

In addition the Government will consult on the introduction of:

- an SDLT annual charge where properties over £2 million are owned by non natural persons
- a CGT charge on residential property owned by non resident, non natural persons.

Both these measures will apply from April 2013.

Comment

The intention of the 15% charge is to stop or reduce the number of schemes which claim to allow a property to be transferred without SDLT. The charges to be introduced in 2013 are aimed at charging properties already in companies which are used as residential accommodation.

General anti-abuse rule (GAAR)

The Government commissioned an independent report from a leading tax lawyer on whether or not it would be appropriate to introduce a GAAR into the UK tax system.

The reviewer recommended that a moderate rule targeted at abusive arrangements would be beneficial to the UK tax system. Such a GAAR would apply for income tax, CGT, corporation tax and NIC. It would not apply to 'responsible tax planning'.

The Government accepts the recommendation and will consult this year with a view to legislation being introduced in Finance Bill 2013. It will extend the GAAR to SDLT.

Comment

This is a route that has been used in a number of other countries.

RATES AND ALLOWANCES 2012/13

INCOME TAX RATES

2012/13 Band £	Rate %	2011/12 Band £	Rate %
0 - 2,710	10*	0 - 2,560	10*
0 - 34,370	20**	0 - 35,000	20**
34,371 - 150,000	40♦	35,001 - 150,000	40♦
Over 150,000	50●	Over 150,000	50●

*Only applicable to dividends and savings income. The 10% rate is not available if taxable non-savings income exceeds £2,710 (£2,560).
**Except dividends (10%).
♦ Except dividends (32.5%).
● Except dividends (42.5%).
Other income taxed first, then savings income and finally dividends.

INCOME TAX RELIEFS

		2012/13 £	2011/12 £
Personal allowance	- under 65	8,105	7,475
	- 65 - 74*	10,500	9,940
	- 75 and over*	10,660	10,090
(Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.)			
Married couple's allowance (relief at 10%)*		7,705	7,295
(Either partner 75 or over and born before 6 April 1935.)			
	- min. amount	2,960	2,800
*Age allowance income limit		25,400	24,000
(Reduce age allowance by £1 for every £2 of adjusted net income over £25,400 (£24,000).)			
Blind person's allowance		2,100	1,980

TAX CREDITS

	2012/13 £	2011/12 £
Working Tax Credit		
Basic element		
- max.	1,920	1,920
Childcare element		
70% of eligible costs up to £175 per week (£300 if two or more children).		
Child Tax Credit (CTC)		
Child element		
per child - max.	2,690	2,555
Family element	545	545

Reductions in maximum rates
41% of income above £6,420* p.a.

*If only CTC is claimed, the threshold is £15,860 p.a. The family element of CTC tapers immediately after the child element from April 2012. The withdrawal rate is 41%.

PENSION PREMIUMS

2012/13 and 2011/12

- Tax relief available for personal contributions: higher of £3,600 (gross) or 100% of relevant earnings.
- Any contributions in excess of £50,000, whether personal or by the employer, may be subject to income tax on the individual.
- Where the £50,000 limit is not fully used it may be possible to carry the unused amount forward for three years.
- Employers will obtain tax relief on employer contributions if they are paid and made 'wholly and exclusively'. Tax relief for large contributions may be spread over several years.

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

	2012/13 £	2011/12 £
Overall annual investment limit	11,280	10,680
Comprising - cash up to	5,640 max.	5,340 max.
- balance in stocks and shares	11,280 max.	10,680 max.

CAR, VAN AND FUEL BENEFITS

2012/13

CO_2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed
up to 99	10
100	11
105	12
110	13
115	14
120	15
125	16
130	17
135	18
140	19
145	20
150	21
155	22
160	23
165	24
170	25
175	26
180	27
185	28
190	29
195	30
200	31
205	32
210	33
215	34
220 and above	35

Company cars

- For diesel cars add a 3% supplement but maximum still 35%.
- A 0% rate applies to cars which cannot emit CO_2 when driven.
- A 5% rate applies to cars with emissions which do not exceed 75gm/km when driven. The diesel supplement can apply to 75gm/km cars.
- For cars registered before 1 January 1998 the charge is based on engine size.
- The list price includes accessories and is not subject to an upper limit.
- The list price is reduced for capital contributions made by the employee up to £5,000.
- Special rules may apply to cars provided for disabled employees.

Car fuel benefit 2012/13

£20,200 x 'appropriate percentage'*

*Percentage used to calculate the taxable benefit of the car for which the fuel is provided.

The charge does not apply to certain environmentally friendly cars.

The charge is proportionately reduced if provision of private fuel ceases part way through the year. The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle 2012/13 and 2011/12

Van benefit £3,000 Fuel benefit £550

The charges do not apply to vans which cannot emit CO_2 when driven or if a 'restricted private use condition' is met throughout the year.

MILEAGE ALLOWANCE PAYMENTS

2012/13 and 2011/12

Cars and vans	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

CAPITAL GAINS TAX

	2012/13 and 2011/12 £
Individuals	
Exemption	10,600
Standard rate	18%
Higher rate*	28%
Trusts	
Exemption	5,300
Rate	28%

*For higher and additional rate taxpayers.

Entrepreneurs' Relief
For disposals on or after 6 April 2011 the first £10m (£5m for disposals on or after 23 June 2010 and before 6 April 2011) of qualifying gains are charged at 10%. Gains in excess of the limit are charged at the rates detailed above.

CORPORATION TAX

	Year to 31.3.13		Year to 31.3.12	
	Profits band £	Rate %	Profits band £	Rate %
Small profits rate	0 - 300,000	20*	0 - 300,000	20*
Marginal (small profits) rate	300,001 - 1,500,000	25*	300,001 - 1,500,000	27.5*
Main rate	Over 1,500,000	24*	Over 1,500,000	26*
Standard fraction		1/100*		3/200*

The profits limits are reduced for accounting periods of less than 12 months and for a company with associated companies.
*Different rates apply for ring-fenced (broadly oil industry) profit.

INHERITANCE TAX

Death rate %	Lifetime rate %	Chargeable transfers 2012/13 and 2011/12 £'000
Nil	Nil	0 - 325*
40	20	Over 325*

*Potentially increased for surviving spouses or civil partners who die on or after 9 October 2007.

Reliefs

Annual exemption	£3,000	Marriage	- parent	£5,000
Small gifts	£250		- grandparent	£2,500
			- bride/groom	£2,500
			- other	£1,000

Reduced charge on gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

STAMP DUTY AND STAMP DUTY LAND TAX

Land and buildings (on full consideration paid)

Rate	Residential property*		Non-residential
	Disadvantaged areas♦	Other	
	£	£	£
Nil	0 - 150,000	0 - 125,000	0 - 150,000
1%*	150,001 - 250,000*	125,001 - 250,000*	150,001 - 250,000
3%	250,001 - 500,000	250,001 - 500,000	250,001 - 500,000
4%	500,001 - 1,000,000	500,001 - 1,000,000	Over 500,000
5%**	1,000,001 - 2,000,000	1,000,001 - 2,000,000	-
7%•	Over 2,000,000•	Over 2,000,000•	-

* Relief available for first time buyers for transactions with an effective date on or after 25 March 2010 and before 25 March 2012.
**For transactions with an effective date on or after 6 April 2011 over £1m.
• For transactions with an effective date on or after 22 March 2012.
♦ The rules for disadvantaged areas are withdrawn for transactions with an effective date on or after 6 April 2013.

Shares and securities - rate 0.5%.

NATIONAL INSURANCE

2012/13 Class 1 (employed) contracted in rates

Employee		Employer	
Earnings per week	**%**	**Earnings per week**	**%**
Up to £146	Nil*	Up to £144	Nil
£146.01 - £817	12	Over £144	13.8
Over £817	2		

*Entitlement to contribution-based benefits retained for earnings between £107 and £146 per week.

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.65 small earnings exception £5,595 p.a.
Class 3 (voluntary)	flat rate per week £13.25
Class 4 (self-employed)	9% on profits between £7,605 and £42,475 plus 2% on profits over £42,475

MAIN SOCIAL SECURITY BENEFITS

Weekly benefit		2012/13	2011/12
Basic retirement pension	- single person	£107.45	£102.15
	- married couple	£171.85	£163.35
Statutory pay rates - average weekly earnings £107 (£102) or over			
Statutory Sick Pay		£85.85	£81.60
Statutory Maternity Pay			
First six weeks		90% of weekly earnings	
Next 33 weeks		£135.45*	£128.73*
Statutory Paternity Pay - two weeks		£135.45*	£128.73*
Statutory Adoption Pay - 39 weeks		£135.45*	£128.73*

*Or 90% of weekly earnings if lower.

Additional Paternity Pay and Leave may be available for a child due or adoptions matched on or after 3 April 2011.

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Annual Registration Limit - from 1.4.12 (1.4.11 - 31.3.12 £73,000)	£77,000
Annual Deregistration Limit - from 1.4.12 (1.4.11 - 31.3.12 £71,000)	£75,000

CAPITAL ALLOWANCES

Plant and machinery - Annual Investment Allowance (AIA)

The AIA gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £25,000 p.a. (£100,000 for expenditure incurred before 6 April 2012 (1 April 2012 for companies). Special rules apply for accounting periods straddling these dates.)

Any costs over the AIA fall into the normal capital allowance pools below. The AIA may need to be shared between certain businesses under common ownership.

Other plant and machinery allowances

The annual rate of allowance is 18% (20%) from 6 April 2012 (1 April 2012 for companies). An 8% (10%) rate applies from 6 April 2012 (1 April 2012 for companies) to expenditure incurred on integral features and on long life assets. Special rules apply to accounting periods straddling these dates.

A 100% first year allowance may be available on certain energy efficient plant and cars, including expenditure incurred on new and unused zero emission goods vehicles on or after 6 April 2010 (1 April 2010 for companies).

Cars

For expenditure incurred on cars on or after 6 April 2009 (1 April 2009 for companies), costs are generally allocated to one of the two plant and machinery pools. Cars with CO_2 emissions not exceeding 160gm/km receive an 18% (20%) allowance p.a. Cars with CO_2 emissions over 160gm/km receive an 8% (10%) allowance p.a. Special rules apply to accounting periods straddling 6 April 2012 (1 April 2012 for companies).

SELF ASSESSMENT: KEY DATES 2012/13

31 July 2012 - Second payment on account for 2011/12.

5 October 2012 - Deadline for notifying HMRC of new sources of income if no tax return has been issued for 2011/12.

31 October 2012 - Deadline for submission of 2011/12 non-electronic returns.

31 January 2013 - Deadline for filing electronic tax returns for 2011/12. Balancing payment due for 2011/12. First payment on account due for 2012/13.

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