Emergency Budget summary

22 June 2010

Note: *It must be remembered that these proposals are subject to amendment.*

PERSONAL TAXATION	2010/11	2009/10
Personal allowance		
general	£6,475*	£6,475
aged 65 or over in year of assessment	£9,490	£9,490
aged 75 or over in year of assessment	£9,640	£9,640
age allowance income limit	£22,900	£22,900
minimum where income exceeds limit	£6,475	£6,475
Married couple's allowance (10% relief)		
either partner born before 6 April 1935	N/A	N/A
either partner aged 75 or over in year of assessment	£6,965	£6,965
age allowance income limit	£22,900	£22,900
minimum where income exceeds limit	£2,670	£2,670
Blind person's allowance	£1,890	£1,890
Income tax rates		
Starting savings rate	10%	10%
on income up to	£2,440**	£2,440**
Basic rate	20%	20%
on taxable income up to	£37,400	£37,400
Higher rate	40%	40%
on taxable income over	£37,400	£37,400
Additional rate	50%	N/A
on taxable income over	£150,000	N/A
Lower rate on dividend income	10%	10%
Higher rate on dividend income	32.5%	32.5%
Additional rate on dividend income	42.5%	N/A
Pension schemes allowances		
Annual allowance	£255,000	£245,000
Lifetime allowance	£1,800,000	£1,750,000

*For 2010/11 the personal allowance is withdrawn at a rate of £1 for every £2 of income above £100,000.
**Starting rate applies only to savings income. If taxable non-savings income is above this limit, the starting rate is not applicable.

COMPANY TAXATION	FY2010	FY2009
Corporation tax rates		
All companies (except below)	28%	28%
Companies with small profits	21%	21%
— 21% rate limit	£300,000	£300,000
— marginal relief limit	£1,500,000	£1,500,000
— marginal relief fraction	7/400	7/400
— marginal rate	29.75%	29.75%

CAPITAL GAINS TAX	Before 23.6.10	After 22.6.10
Rate — standard rate	18%*	18%*
— higher rate	18%*	28%*
— trustees and personal representatives	18%*	28%*
General exemption limit	£10,100	£10,100

*subject to available reliefs

INHERITANCE TAX	Transfers after 5/4/2009
Threshold	£325,000
Death rate	40%

VAT	
Standard rate after 3 January 2011	20%
Standard rate 1 Jan 2010 to 3 Jan 2011	17.5%
Registration threshold after 31 March 2010 (previously £68,000 after 30 April 2009)	£70,000

NATIONAL INSURANCE 2010/11

(2009/10 in brackets where different)

Class 1 contributions

Not contracted out

The employee contribution is 11% of earnings between £110 and £844 p.w. plus 1% of all earnings above £844 p.w. The employer contribution is 12.8% of all earnings in excess of the first £110 p.w.

Contracted out

The 'not contracted out' rates for employees are reduced on the band of earnings from £110 p.w. to £770 p.w. by 1.6%. For employers, they are reduced on the band of earnings from £110 p.w. to £770 p.w. by 3.7% for employees in salary-related schemes or 1.4% for employees in money purchase schemes. In addition, there is an employee rebate of 1.6% and an employer rebate of 3.7% or 1.4%, as appropriate, on earnings from £97 (£95) p.w. up to £110 p.w.

Class 1A and 1B contributions 12.8%

Class 2 contributions

Flat weekly rate	£2.40
Exemption limit	£5,075

Class 3 contributions

Flat weekly rate	£12.05

Class 4 contributions

8% on the band of profits between £5,715 and £43,875 *plus* 1% on all profits above £43,875.

ADMINISTRATION OF TAX

HMRC Powers: Penalties for Late Filing of Returns and Payment of Tax

New penalties are to be introduced for late filing of returns and late payment of taxes, extending the penalty regime set out in FA 2009, Schs 55 and 56 to various indirect taxes. The taxes covered include VAT, insurance premium tax, aggregates levy, climate change levy, landfill tax and excise duties. The implementation of the penalties will be staged over a number of years and brought into effect by Treasury order.

Under the new rules, there will be an escalating series of penalties depending on the number of failures within a set penalty period. Further penalties will arise if there is a prolonged delay in filing returns or paying the tax due.

Failure to file a quarterly return by the filing date will trigger a penalty period of 1 year and an immediate £100 penalty. The fixed penalty will then escalate by £100 for each subsequent failure within the period, up to a maximum of £400, and the period itself will be extended to the first anniversary of the latest failure. Additional penalties of 5% of the tax on the return will be charged for continuing failure 6 and 12 months after the filing date. Penalties of up to 100% of the tax will be charged where the failure is intended deliberately to withhold information to prevent HMRC correctly assessing the tax.

Failure to pay tax due quarterly will also trigger a 1-year penalty period although no immediate penalty will apply. A second failure in the period will attract a penalty of 2%, a third failure a 3% penalty and further failures a 4% penalty. Again, the penalty period is extended with each failure. Additional penalties of 5% of the tax will be charged for continuing failure 6 and 12 months after the due date.

Similar penalties will apply in relation to monthly returns and payments.

The taxpayer may appeal against a penalty decision if he has a reasonable excuse for the lateness. Late payment penalties may also be avoided where the taxpayer has agreed a 'time to pay' arrangement with HMRC.

HMRC Powers: Excise Modernisation and Compliance Checks

The Government is to introduce legislation which will bring the compliance checking framework for excise duties into line with other duties and taxes. In particular:

- the high-level rules for record-keeping will be aligned, detailed record-keeping rules will not be affected;
- information and inspection powers will be updated;
- the standard time limit for making claims will be increased from 3 years to 4 years;
- the extended 20-year time limit for deliberate underpayment of excise duty will be retained, but the terminology used to describe the behaviours subject to it will be aligned with recent penalties legislation.

The record-keeping proposal and amendments to information and inspection powers are expected to have effect from 1 April 2011. The changes to time limits require a transitional period and will not become fully effective until 1 April 2012.

Tax Law Making

The Government has issued a 24-page discussion document entitled 'Tax Policy Making: A New Approach'. This is intended 'to improve the way tax policy is made', and to support the objectives of predictability, stability and simplicity. The Government has also confirmed its intention to create an independent Office of Tax Simplification, and will announce further details shortly. It has also announced that it intends to impose 'sunset clauses' on regulations, under which they will cease to be law after 7 years unless Parliament has confirmed that they are still necessary and proportionate, or they were explicitly set to have a longer timeframe.

PERSONAL TAXATION

Personal Allowance, Basic Rate Limit and NICs Thresholds for 2011/12

From 6 April 2011 the personal allowance for those aged under 65 will be increased by £1,000 to £7,475. In order that higher rate taxpayers do not benefit from this increase the basic rate limit will be reduced by a figure to be confirmed when September's Retail Prices Index is known.

The upper earnings limit and upper profits limit for National Insurance contributions will be reduced accordingly.

The secondary threshold, the starting point for payment of employers Class 1 National Insurance contributions will be increased by £21 per week above indexation. This is in addition to the planned increase in the primary threshold and the 1% increase in rates already planned for 2011/12.

Changes to the Rules on Deduction of Income Tax at Source

HMRC will have the power to amend the rules relating to how and when individuals and non-corporates need to report and remit income tax that they are required to deduct from certain payments, e.g. interest, patent royalties and other annual payments. This measure will not apply to companies making such payments.

The current regime is set out in primary legislation (ITA 2007, s 963), but with effect from the date of Royal Assent to the autumn Finance Bill, HMRC will be able to make regulations to change these rules.

Special Guardianship Orders and Residence Orders

A new income tax exemption for qualifying guardians is to be introduced with backdated effect from 6 April 2010 for payments received on or after that date. The legislation will be included in a Finance Bill to be introduced as soon as possible after the summer recess.

The exemption will apply to 'qualifying payments' made to 'qualifying guardians'. 'Qualifying guardians' are individuals who care for one or more children placed with them under a special guardianship order or under a residence order (where the individual is not the child's parent or step-parent). 'Qualifying payments' are payments made to the carer by the child's parents or by (or on behalf of) a local authority, in relation to a special guardianship order or a residence order.

Kinship carers who are providing care to a child who has not been placed with them under a residence order will not be qualifying guardians for the purposes of the above exemption. However, they will be entitled to claim the new income tax relief for Shared Lives carers. Broadly they can choose to pay tax only on the excess of their care income above a certain limit or on their actual profits computed under the normal income tax rules for businesses.

Income Tax Relief for Shared Lives Carers

Existing non-statutory guidance is to be superseded by new legislation with backdated effect from 6 April 2010. The legislation will be included in a Finance Bill to be introduced as soon as possible after the summer recess. There will be a single relief (to be known as 'qualifying care relief') for qualifying Shared Lives carers, and this will be based on a tax-free allowance. Carers whose Shared Lives earnings do not exceed the tax-free allowance will not be taxed on their income from providing Shared Lives care. Carers whose Shared Lives earnings are more than the tax-free allowance have the option to choose to be taxed on:

- their total receipts from providing care less the tax-free allowance; or
- their actual profits computed using the normal tax rules for businesses.

This will operate in a similar way to existing relief for foster care. The tax-free allowance will be available per household and consist of:

- a £10,000 fixed amount per tax year;
- £200 per week (or part week) per placement aged under 11; and
- £250 per week (or part week) per placement aged 11 or over.

Where there is more than 1 carer in the household, the household may provide care to a maximum of 3 Shared Lives placements, and the allowance will be shared equally between the carers. If the carer is entitled to both foster care relief and the relief for Shared Lives carers, the household will only be entitled to claim 1 £10,000 fixed amount per tax year.

For the tax year 2010/11 only, Shared Lives carers can choose between the pre-existing non-statutory arrangements for adult placement carers and the new tax-free allowance. The non-statutory arrangements will then be withdrawn from 2011/12.

EMPLOYMENT TAXATION

Expenses Paid to MPs

Amendments are to be made to the income tax and NIC provisions dealing with MPs' expenses. The amendments are required following the introduction of a new scheme for expenses developed by the Independent Parliamentary Standards Authority and take effect retrospectively from 7 May 2010. The amendments deal with additional accommodation expenditure, the costs of visits to EU institutions and other parliaments, travel expenses and costs of evening meals when the House of Commons is sitting late.

Seafarers' Earnings Deduction: EU and EEA Residents

The seafarers' earnings deduction will be extended to EU and EEA-resident seafarers with effect from 6 April 2011. Seafarers' earnings deduction (SED) can provide 100% UK tax relief for the earnings from carrying out duties as a seafarer wholly or partly outside the UK, during an eligible period. The condition that the claimant must be ordinarily resident in the UK to qualify for SED will be extended so that seafarers who are EU or EEA residents can claim the deduction on their earnings as a seafarer which are liable to UK income tax.

Regional Employer NICs Holiday for New Businesses

The Government will introduce a scheme to help new businesses in targeted areas of the UK. During a 3-year qualifying period new businesses starting up in these areas will not have to pay the first £5,000 of employers Class 1 NICs due in the first 12 months of employment in respect of each of the first 10 employees hired in the first year of business, giving a potential saving of £50,000.

The areas are: Scotland; Wales; Northern Ireland; the North East; Yorkshire and the Humber; the North West; the East Midlands; the West Midlands; and the South West.

Subject to meeting the necessary legal requirements the scheme is intended to start no later than 6 September 2010. Any new businesses set up from 22 June 2010 may benefit from the scheme. They will be liable to pay employers NICs in the period before the start of the scheme but will receive an NIC holiday of equal duration once the scheme starts. Only businesses which undertake a sufficient degree of new economic activity will benefit. Full details of the scheme and who is eligible to participate will be made available shortly. Some employees such as those operating under companies caught by the IR35 rules or those engaged through managed service companies will not be eligible. Some business sectors will be excluded, including the coal sector, and restrictions will be applied to the agriculture and fisheries sectors. Individuals employing staff, for example for personal services, will also be excluded.

BUSINESS TAX

Capital Allowances: Rate and Annual Investment Allowance Changes

For chargeable periods ending on or after 1 April 2012 for corporation tax and 6 April 2012 for income tax, the rate of writing-down allowances for new and unrelieved expenditure on plant and machinery will be reduced to 18% in the main rate pool and 8% in the special rate pool. In addition, the maximum amount of annual investment allowance will be reduced to £25,000 from April 2012.

Hybrid rates will apply to businesses whose chargeable period spans the change date for the writing-down allowance. These will be calculated based on the proportion of the chargeable period falling before and after the change date.

Oil and gas ring-fence activities will retain their existing capital allowances treatment.

Capital Allowances Rules for Qualifying Carers

If a foster carer's income is over a certain limit, the foster carer may choose to pay tax on:

- care income above that limit; or
- actual profits computed using the normal tax rules for businesses (including capital allowances).

Similar rules are being introduced for Shared Lives carers. The choice between the 2 alternatives above is made on an annual basis, so carers may be entitled to capital allowances for 1 year but not for the next and vice versa. There are already special rules in place to facilitate the switch into and out of a capital allowances regime.

Legislation is to be included in a Finance Bill introduced as soon as possible after the summer recess to correct technical anomalies in these special rules to ensure that they operate as intended. For example, when a carer re-enters the capital allowances regime, the carer will be treated as having acquired assets he already owns for the smaller of:

- the market value of the asset; or
- the unrelieved expenditure that was in the capital allowances pool at the end of the last chargeable period for which the carer was entitled to claim capital allowances.

The changes will apply to chargeable periods ending on or after the date that the legislation receives Royal Assent.

Zero-Emission Goods Vehicles: 100% First-Year Allowances

Expenditure incurred on new and unused zero-emission goods vehicles on or after 1 April 2010 and before 1 April 2015 for corporation tax and on or after 6 April 2010 and before 6 April 2015 for income tax will qualify for 100% first-year allowances (FYA). A zero-emission goods vehicle is one that cannot under any circumstances produce CO_2 emissions when driven.

The general exclusions for FYAs under CAA 2001, s 46 will apply. In order to comply with State aid rules, restrictions apply, and certain businesses will not be able to claim the FYA. In addition, the amount of expenditure qualifying for the new FYA is limited to 85m euros per undertaking (for example a group of companies) over the 5-year period.

Film Tax Relief

For film production companies making films whose production spans 2 or more accounting periods and which have some overseas expenditure the loss that is currently surrendered for tax credit is the lesser of the available qualifying expenditure (cumulative qualifying expenditure to date, less any previously surrendered amount), and the loss incurred in that period. However, where there is an increased UK spend in the second or later periods there is an unintended effect and this is to restrict the amount of tax credit claimable.

This anomaly is now to be corrected by the way the amount that can be surrendered for tax credit is calculated. The calculation will become the lesser of:

- the available qualifying expenditure; and
- the loss for the period, plus any loss brought forward which has not been surrendered.

This measure has effect for accounting periods ending on or after 9 December 2009 and is to be treated as always having had effect for those periods.

Bank Levy

The Government will introduce a levy based on banks' balance sheets from 1 January 2011. This is intended 'to encourage banks to move to less risky funding profiles'. The final details of the levy will be published later this year, following consultation. It is proposed that it will be set at a rate of 0.07%, with a lower initial rate of 0.04% in 2011.

Furnished Holiday Lettings

The Government has announced that the reliefs for furnished holiday lettings will not now be withdrawn from April 2010 as had previously been proposed. The existing arrangements under which the rules are extended to lettings situated in the European Economic Area will continue to apply for 2010/11.

A public consultation will be carried out about changes to the tax treatment from April 2011. The consultation will specifically consider proposals to increase the number of days for which properties must be let and to change the way in which relief for losses is given. Draft legislation will be published in autumn 2010 with a view to inclusion in the 2011 Finance Bill.

CORPORATION TAX

Main Rate

The main rate of corporation tax for companies with profits above the upper limit of £1.5m will be reduced to 27% from 1 April 2011. There will be further reductions to 24% by 1 April 2014. The main rate for companies with profits arising on and after 1 April 2011 from oil extraction and oil rights in the UK and the UK Continental Shelf (ring-fence profits) will remain at 30%.

Small Profits Rates

For companies with profits below the lower limit of £300,000, the small profits rate of corporation tax will be reduced to 20% from 1 April 2011. The small profits rate for companies with profits arising on or after 1 April 2011 from oil extraction and oil rights in the UK and the UK Continental Shelf (ring-fence profits) will remain at 19%.

Worldwide Debt Cap

The autumn Finance Bill will include 14 separate changes to the worldwide debt cap regime. Most of these have been previously announced, following consultation with business. The changes are intended to ensure that the provisions operate as originally intended. Companies within the special corporation tax regime for securitisation companies will be excluded from the main debt cap rules. This will include the exclusion of their financing expenses when computing the worldwide group's cost of finance. There will also be a power to make regulations to enable companies involved in capital market arrangements to transfer any additional tax liability incurred as a result of the debt cap regime to another company in the group.

Consortium Relief

Two changes are to be made to the consortium relief rules. The changes are to be included in a Finance Bill to be introduced after the summer recess and will apply for accounting periods beginning on or after the date the legislation is published.

The first change extends the link company rule, under which a consortium member can transfer its share of the consortium's losses to a member of its group, so that a company established within the European Economic Area can be a link company.

The second change is to the rule for determining the maximum amount of losses that can be claimed from a consortium company. Currently, the maximum is determined by the lowest result from 3 tests. A fourth test is to be added based on the proportion of voting rights and the extent of control the member holds in the consortium.

Capital Distributions

Legislation will be introduced to clarify the treatment of certain distributions received by UK companies. Essentially the provisions will confirm HMRC's existing practice of treating all UK distributions as being of an income nature unless they are specifically excluded. The legislation will have retrospective effect (although companies can elect for the legislation not to apply retrospectively).

Research and Development Tax Relief

The current conditions under which small or medium-sized enterprises can claim enhanced tax relief for expenditure on research and development include a requirement that any intellectual property deriving from the research and development to which the expenditure is attributable must be owned by the company making the claim. This requirement will be abolished. The abolition will have effect for any expenditure incurred by an SME company on research and development in an accounting period ending on or after 9 December 2009.

Oil and Gas Fiscal Regime

Finance Act 2009 included several measures to provide support for investment by oil and gas companies operating in the UK or on the UK Continental Shelf. These included a provision that chargeable gains would not arise in some circumstances where the disposal proceeds were reinvested in new oil trade assets, and the disposal and acquisition qualified for rollover relief. The scope of this reinvestment relief will be widened so that it can apply when proceeds are reinvested in exploration and development expenditure, including drilling costs, and can apply as intended in a group context when the company making the reinvestment is not the company making the disposal. These changes will have retrospective effect, to 24 March 2010 and 22 April 2009 respectively.

In addition, the scope of the measure providing that in certain circumstances chargeable gains do not arise on the swap of UK/UKCS licences will be widened. The scope of the 'field allowance' will be extended to investment in fields that have previously been decommissioned, with retrospective application to fields whose development was authorised on or after 22 April 2009. The qualifying criteria for a high pressure/high temperature field will be reduced, and the allowance will be tapered, by means of an order which will be introduced before 29 July 2010, and will come into force on the day after the date on which it is made.

Life Insurance Companies

A number of measures are to be introduced to amend the tax regime for life insurance companies, with effect from various dates. The measures will amend the rules applying where insurance business carried on in the UK is transferred to a non-European Economic Area (EEA) overseas company or to a UK branch of a company resident elsewhere in the EEA. It is also confirmed that an anti-avoidance rule announced in the March Budget which prevents manipulation to avoid tax on previously unrecognised profits will be introduced in the Finance Bill.

Interest Harmonisation: Corporation Tax and Petroleum Revenue Tax

Corporation tax and petroleum revenue tax will be brought within the harmonised interest regime introduced in Finance Act 2009. The new harmonised interest provisions will replace the current range of differing regimes with a single legislative framework for interest chargeable on late payments and payable on repayments and this will apply to all taxes and duties administered by HMRC. Interest will be charged from the date the tax or duty was due to be paid to HMRC until the date it is paid. HMRC will pay interest on repayments from the date the tax or duty was due to be paid or, if later, the date the payment was actually received, to the date the repayment is made. The statutory description of interest for each of these taxes will be 'late payment interest' and 'repayment interest'. Interest harmonisation will be phased in over a number of years and the dates from which these changes take effect will be specified by Treasury orders. The rules for Quarterly Instalment Payments remain unchanged and do not form part of the harmonised rules that will apply to corporation tax.

CAPITAL GAINS TAX

Rates and Entrepreneurs' Relief

New rates of capital gains tax (CGT) are introduced with effect for gains arising on or after 23 June 2010. For individuals, a new higher rate of 28% applies where total taxable income and gains are more than the upper limit of the basic rate income tax band (currently £37,400). The higher rate applies to any gains or parts of gains which exceed the limit. Where total taxable income and gains do not exceed the limit, gains remain taxable at 18%.

For trustees and personal representatives, the higher 28% rate applies to all taxable gains arising on or after 23 June 2010.

Gains arising in 2010/11 but before 23 June 2010 are liable to CGT at 18% and are not taken into account in determining the rates which apply to gains made on or after that date.

Changes are also made to entrepreneurs' relief to ensure that gains on qualifying disposals on or after 23 June 2010 are taxed at a rate of 10%. The lifetime limit for entrepreneurs' relief is increased to £5m with effect for gains made on or after the same date. In determining the rate at which an individual pays CGT on other gains, gains qualifying for entrepreneurs' relief are set against any unused basic rate band before non-qualifying gains.

An individual can deduct allowable losses and the annual exempt amount from gains in the way which minimises the tax due.

Principal Private Residence Relief and Adult Placement Carers

Where a person cares for an adult under a local authority placement scheme, their contract with the local authority may require them to set aside one or more rooms exclusively for the use of the adult in care. In such a case, TCGA 1992, s 224 can prevent the CGT exemption on the individual's principal private residence relief being available on that part of the property.

The legislation will remove this possible restriction so the fact that part of the home is occupied by the adult in care will not prevent CGT relief being available on that part.

This change will have effect for disposals on or after 9 December 2009.

SAVINGS AND INVESTMENTS

Enterprise Management Incentives

To ensure that the enterprise management incentive (EMI) share option scheme complies with EU State aid guidelines, legislation will be introduced in a Finance Bill as soon as possible after the summer recess to remove the need for a company granting EMI options to operate wholly or mainly in the UK. Instead, the company will only need to have a permanent establishment in the UK. In the case of a parent company, at least 1 company in the group that is carrying on a qualifying trade must have a permanent establishment in the UK.

A company has a permanent establishment in the UK if it has a fixed place of business in the UK through which the business of the company is wholly or partly carried on, or it has an agent in the UK who exercises authority to do business on behalf of the company.

This will have effect in respect of EMI share options granted on or after the date that the legislation receives Royal Assent.

Venture Capital Schemes

Changes will be made to the rules on enterprise investment schemes (EIS) and venture capital trust (VCT) schemes to comply with European Commission requirements on State aid.

Legislation to be included in a Finance Bill to be introduced as soon as possible after the summer recess will:

- exclude any 'enterprise in difficulty' from qualifying for investment under the rules for EIS or VCT schemes;
- remove the condition in both schemes that the qualifying trade must be carried on wholly or mainly in the UK and replace it with a requirement that the company issuing the shares has a permanent establishment in the UK. The definition of 'permanent establishment' will be based on Article 5 of the OECD Model Tax Convention on Income and Capital.

The term 'enterprise in difficulty' takes its meaning from the European Commission's Rescue and Restructuring Guidelines.

The legislation will also make the following changes applicable only to VCT schemes:

- at least 70% of the VCT's qualifying holdings will have to be holdings of eligible shares (an increase from the current 30% minimum);
- the definition of eligible shares will be expanded to include shares which may carry certain preferential rights to dividends;
- the ordinary share capital of the VCT must be tradable on any EU regulated market (rather than only being included in the official UK list as at present).

All these changes will have effect on or after a date to be appointed. The 'eligible shares' changes for VCTs will not affect the investment of monies raised by a VCT before that commencement date. The 'permanent establishment' condition for both EIS and VCT schemes will apply to shares issued on or after the commencement date.

UK Real Estate Investment Trusts and Stock Dividends

The rules on distributions by UK Real Estate Investment Trusts (REITs) are to be relaxed. Currently, in order to meet the conditions to qualify as a REIT, the company (or group of companies) must distribute at least 90% of the profits from its rental business to its shareholders by way of a cash dividend. Under the new rules, any stock dividends issued by the REIT to its shareholders will also be included to determine if 90% of the profits have been distributed. The legislation will be included in a Finance Bill to be introduced as soon as possible after the summer recess, and will have effect for property income distributions made on or after the date of Royal Assent.

Indexing Individual Savings Account Limits from 2011

With effect from 6 April 2011 the ISA limits will be increased in line with the Retail Prices Index (RPI) on an annual basis. The limits will then be rounded to a convenient multiple of 120, to facilitate calculation of a monthly savings figure.

The new limits will be calculated by reference to the RPI for the month of September before the start of the following tax year, e.g. the limit for 2011/12 will be set by reference to the RPI in September 2010. If the RPI is negative, the ISA limit will remain unchanged. HMRC will announce the new limits in advance of the start of the new tax year in which they apply.

The cash ISA limit will remain half the stocks and shares limit, e.g. for 2010/11, the cash ISA limit is £5,100, the stocks and shares ISA limit is £10,200.

Pensions Tax Relief

Finance Act 2010 included legislation to restrict relief given at above the basic rate on pension provision for 2011/12 onwards by high income individuals. The new Government is to continue with this plan for the time being, but will also be considering, in consultation with interested parties, possible alternative means of raising the same tax revenue. One alternative would be to significantly reduce the pension annual allowance (currently £255,000) to somewhere in the range of £30,000 to £45,000. The Government is to include powers in the next Finance Bill to repeal the legislation contained in Finance Act 2010; it should be noted that this is not to say the legislation will, in fact, be repealed.

Deferral of Maximum Age to Purchase Pension Annuity to 77

The Government is to end the requirement to use a pension fund to buy an annuity by age 75, with effect from 2011/12.

The change will be effective from 22 June 2010 for pension scheme members who are under age 75 at that date.

Income drawdown limits which now apply from age 75, will in future apply from age 77; and IHT charges currently applicable when scheme members die on or after their 75th birthday will also be affected.

The Government will consult on the changes and will introduce transitional measures for those reaching age 75 before the new rules are finalised.

National Employment Savings Trust

As announced in the March 2010 Budget, the National Employment Savings Trust (NEST) will be allowed to register as a pension scheme with HMRC, allowing the members and their employers to benefit from tax relief on contributions and investment growth.

The change will be included in the autumn Finance Bill and will be effective from the date the Bill receives Royal Assent.

TRUSTS

Tax Repayments on Settlor-Interested Trusts

New legislation to be introduced in a Finance Bill as soon as possible after the summer recess will require settlors of settlor-interested trusts to pay any tax refunds they receive on the trust income to the trustees. These repayments will be disregarded for inheritance tax purposes. The rule will apply to repayments relating to trust income arising on or after 6 April 2010.

Trust for Asbestos Victims

This measure will exempt trustees of trusts set up to pay compensation to asbestos victims from capital gains tax, inheritance tax and income tax. The trusts that will benefit are those set up on or before 23 March 2010 as part of an arrangement made by a company with its creditors and specifically to pay compensation to, or in respect of, individuals with asbestos-related conditions. The exemption will have backdated effect from 6 April 2006.

Previously, trustees would have been subject to IHT charges every 10 years (periodic charges) on the value of property held in trust above the IHT nil rate band (currently £325,000) and also on certain payments made out of the trust (exit charges). Trustees have also been liable to income tax on income arising to the trust, and CGT on disposals of certain trust assets. This new measure provides for exemptions from the IHT, CGT and income tax charges on the trustees of these types of trusts. For the exemptions to apply, the trust must also be specifically for the purpose of paying compensation to, or in respect of, individuals with asbestos-related conditions.

The legislation will be included in a Finance Bill to be introduced as soon as possible after the summer recess.

ANTI-AVOIDANCE

Corporation Tax Avoidance: Authorised Investment Funds

Legislation will be introduced, with effect from 22 June 2010, to ensure that a corporate investor cannot make use of an authorised investment fund to create a credit for UK tax where no UK tax has been paid. The corporation tax deduction given for interest distributions will be restricted so that the deduction is reduced to the extent that the distribution is derived from dividends that are exempt from corporation tax. Additionally, where foreign tax is suffered by an authorised investment fund, the deemed tax credit in the hands of the corporate investor will be treated as a foreign tax credit for all tax purposes (and a proportionate part of the income will be treated as foreign income).

Loan Relationships

The summer Finance Bill will include legislation intended to tackle avoidance schemes under which the profits arising to a company from a financial asset have been claimed to fall out of account for tax purposes as a result of the 'derecognition' of a loan or derivative. This will have effect for credits and debits arising on or after 22 June 2010. The legislation will extend the circumstances in which amounts are to be fully recognised for tax purposes, to include cases where derecognition arises as a result of the acquisition or variation of a capital interest in a company, partnership or trust, or where derecognition is triggered by an event that occurs in a later accounting period to that in which the derecognition takes place.

STAMP TAXES

Overpayments of Stamp Duty Land Tax and Petroleum Revenue Tax

The error or mistake relief rules relating to stamp duty land tax and petroleum revenue tax will be amended with effect from 1 April 2011. The time limit for claiming repayments will be reduced from 6 years to 4 years. The requirement that the overpayment must be the result of a mistake in a return, and that it must be made under an assessment, will be removed. The current restrictions on the right of appeal will also be removed. These changes will bring the rules for these taxes into line with those already applying for income tax, capital gains tax and corporation tax.

VALUE ADDED TAX

Increase in the Standard Rate

With effect from 4 January 2011, the standard rate of VAT will rise from 17.5% to 20%. There will be no changes to the scope of zero-rating, reduced-rating, or exemption.

Change in the Standard Rate – Anti-Forestalling Measures

The summer Finance Bill will include provisions to counter schemes that purport to apply the 17.5% rate of VAT to goods or services delivered or performed on or after 4 January 2011, the date on which the standard rate increases to 20%. The legislation will provide that, in certain circumstances, a supplementary VAT charge of 2.5% will be due on supplies of goods or services on which VAT has been declared at 17.5%. This charge will apply where the customer cannot recover all the VAT on the supply and one of the following conditions is met:

- the supplier and customer are connected parties;
- the supplier, or someone connected with him, funds a prepayment;
- an advance VAT invoice is issued where payment is not due in full within 6 months (except for hire purchase invoices issued in accordance with normal commercial practice);
- the value of the supply (and any related supplies) exceeds £100,000 (this does not apply if a prepayment, or the issue of an advance VAT invoice, is normal commercial practice).

The supplementary charge will not apply to prepaid or invoiced rentals of land, buildings or other assets if the period concerned does not exceed 1 year and the payment or invoicing method is normal commercial practice.

The supplementary charge will also apply to rights and options. The legislative provisions will have effect for transactions on or after 22 June 2010.

Changes to the Flat Rate Scheme

The rates applicable to businesses using the VAT flat rate scheme will be recalculated with effect from 4 January 2011, to reflect the increase in the standard rate of VAT to 20%.

The exit threshold (i.e. the level of turnover beyond which a business is required to leave the scheme) is increased from £225,000 to £230,000. Where the increase is due to a one-off transaction, a business may remain in the scheme if it expects its turnover in the subsequent year to be less than a specified amount, which will rise from 4 January 2011 from £187,500 to £191,500.

Change to Zero-Rating of Qualifying Aircraft

The definition of aircraft which may be supplied at the zero rate will be amended with effect in relation to supplies made on or after 1 January 2011. From that date, zero-rating will apply to supplies of aircraft 'used by airlines operating for reward chiefly on international routes'. (The current definition refers to aircraft weighing not less than 8,000kg, and neither designed nor adapted for recreation or pleasure.)

This change is to bring UK legislation into line with EU legislation.

Gas, Heat and Cooling

With effect from 1 January 2011, the application of the reverse charge to certain supplies of gas and electricity will be extended to supplies in all categories of natural gas pipeline, where the pipeline is situated in the EU or is linked to such a pipeline. The reverse charge will also apply to heat and cooling supplied through networks.

In addition, the import VAT relief (in the form of zero-rating) will apply to all natural gas, heating and cooling imported via a network (including liquefied natural gas by tanker).

Postal Services

With effect from 31 January 2011, the exemption for supplies of postal services by Royal Mail will be restricted to those services which are made under a licence duty, i.e. public postal services and incidental goods. Other services (such as those made by Parcelforce) will become standard-rated.

Changes to Lennartz Accounting

The Lennartz procedure, under which a business may initially recover VAT in full on the purchase of an asset even where there is an element of non-business use, is to be changed. Amendments to VATA 1994 will:

- distinguish between business input tax and non-business VAT;
- ensure that VAT is not recoverable on the private or non-business use of specified assets;
- provide a power to treat non-business VAT as input tax;
- ensure that VAT on the private use of directors' accommodation is not recoverable.

The capital goods scheme will be amended to take into account changes in the business/private use of an asset.

As a revenue protection measure, output tax will continue to be due in respect of supplies for which credit was allowed under the Lennartz mechanism.

The changes will, for the most part, apply from 1 January 2011, with the proviso that the revenue protection measure will be deemed always to have had effect.

INSURANCE PREMIUM TAX

Increase in the Standard and Higher Rate

The standard and higher rate of insurance premium tax (IPT) will increase to 6% and 20% respectively with effect from 4 January 2011. For insurers who use the cash receipt method to account for IPT, the new rates will have effect for premiums received under taxable insurance contracts on or after 4 January 2011. For insurers who account for IPT using the special accounting scheme the new rates will have effect for premiums that are written into their records as due to them on or after 4 January 2011.

ENVIRONMENTAL TAXES

Lower Rate of Landfill Tax

Legislation in the autumn Finance Bill will include a measure to provide for the publication and review of criteria for determining the lower rate of landfill tax. The materials which qualify for the lower rate will be listed in a Treasury order, which will come into force on 1 April 2011.

Aggregates Levy: Northern Ireland Credit Scheme

The Northern Ireland aggregates levy credit scheme has been extended for a further 10 years. The scheme allows certain aggregate producers in Northern Ireland an 80% tax credit. State aid approval from the EU Commission is required for the extension of the scheme.

EXCISE DUTIES

Tobacco Products Duty: Long Cigarettes

The Tobacco Products Duty Act 1979 details how tax is calculated on 'long cigarettes' (i.e. those longer than 8cm, excluding any filter) and when they are deemed to be more than 1 cigarette. The autumn Finance Bill will include a measure which will change the basis on which duty is calculated on such cigarettes. In the case of cigarettes longer than 8cm (excluding any filter), each additional 3cm (or part thereof) will be treated as an additional cigarette for the purposes of the calculation of duty. For example, a cigarette of 12cm would be treated as 3 cigarettes.

MISCELLANEOUS

Further Changes

The Government has announced that the following proposals will be withdrawn:

- a tax relief for the video games industry;
- a duty on fixed landlines;
- the Gateway Savings Account.

The proposed introduction of Managed Payment Plans, which would allow taxpayers to pay self-assessed income tax and corporation tax in a series of monthly instalments either side of the theoretical due date, will be deferred.