
Overview of Tax Legislation and Rates

23 March 2011



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Introduction

The Government is committed to improving the way that tax policy is developed, communicated and legislated. Following consultation with taxpayers and tax practitioners, the Government published *A new approach to tax policy making: a response to the consultation* in December 2010¹.

Responding to feedback from the consultation, this document sets out in a single place detail on each tax policy measure announced at Budget 2011. It is intended for tax practitioners and others with an interest in tax policy changes, especially those who will be involved in consultations, both on the policy and on draft legislation.

The information contained here replaces that previously published in Budget Notes and covers all taxes administered by HMRC, as well as Business Rates and vehicle excise duty.

One of the main features of the new approach to policy making is a longer policy cycle. This provides a greater opportunity for consultation on proposed changes to the UK tax system and scrutiny of draft legislation. Budget 2011, and future Budgets, will therefore both confirm legislation intended for the Finance Bill of that year, and announce future policy reforms on which the Government intends to consult.

This document sets out Budget 2011 tax measures as follows:

- Chapter 1 provides detail on **new** tax changes announced in Budget 2011 which will be legislated in Finance Bill 2011 or will otherwise come into effect in the 2011-12 tax year.
- Chapter 2 recaps and summarises previously announced tax changes that will be legislated in Finance Bill 2011 and sets out where changes have been made in response to consultation.
- Chapter 3 provides detail of proposed tax changes announced in Budget 2011 to be legislated in Finance Bill 2012, other future finance bills, programme bills or secondary legislation.
- Annex A includes all Tax Information and Impact Notes published at Budget 2011.
- Annex B provides tables of tax rates and allowances for 2011-12.

Finance Bill 2011 will be published on 31 March 2011.

¹ *A new approach to tax policy making: a response to the consultation*, 9 December 2010
HMRC and HMT websites

1 New tax changes announced in Budget 2011 for Finance Bill 2011

1.1 This chapter summarises new tax changes announced in Budget 2011 where the change is to be made this year. These are to be legislated in Finance Bill 2011 or to be made in programme bills or secondary legislation having effect in 2011-12.

1.2 These measures include tax rates, charges and duties. Also included are a number of new measures to support the Government's *Plan for Growth*¹. Finally, a number of new measures have been announced in response to tax avoidance schemes. Tax Information and Impact Notes have been published where there is a policy change (see Annex A).

Personal Taxes, National Insurance Contributions and Capital Gains Tax

Income Tax and National Insurance Contributions

1.3 Enterprise Investment Scheme and Venture Capital Trusts — Legislation will be introduced in Finance Bill 2011 to increase the rate of income tax relief given under the Enterprise Investment Scheme (EIS) from 20 per cent to 30 per cent with effect from 6 April 2011, subject to State aid approval. Chapter 3 includes details of wider changes to EIS and Venture Capital Trusts planned for Finance Bill 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.4 Company Car Tax rate 2013-14 — Legislation will be introduced in Finance Bill 2011 to reduce the appropriate percentages by one per cent for all vehicles with carbon emissions between 95g and 220g from April 2013. Zero emissions cars will remain at zero per cent and ultra low emissions cars with emissions up to 75g will remain at five per cent.

1.5 Fuel Benefit Charge 2011-12 — Employees and directors who are provided with a company car and who also receive free fuel from their employers are subject to the fuel benefit charge. The cash equivalent of the taxable benefit is determined by multiplying a set figure (currently £18,000) by the appropriate percentage for the car, based on its CO₂ emissions (grams per kilometre). A statutory instrument laid on 23 March 2011 will increase the level of the set figure or multiplier to £18,800 with effect from 6 April 2011.

1.6 Approved Mileage Allowance Payments rates from 2011-12 — Where employees use their own cars for business mileage they can claim reimbursement from their employers through the approved mileage allowance payments rates (AMAPs) which is not regarded as a taxable benefit. There is currently a higher rate of 40p per mile for the first 10,000 miles of business use and 25p per mile thereafter. Where individuals are paid less than those amounts by their employer, they can claim mileage allowance relief (MAR) for the residual amount. A statutory instrument, laid on

¹ Published on HM Treasury's website on 23 March 2011.

23 March 2011, will increase the higher rate to 45p per mile with effect from 6 April 2011. The rate will also apply to MAR. Volunteer drivers may reclaim the actual cost of motoring expenses from the relevant voluntary organisation as long as they keep records to demonstrate that no taxable profit has been made, but, for administrative ease, they are allowed to use the AMAPs rates if preferred. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for employees at 5p per passenger per mile will be extended to volunteers. That will not require legislation and will be covered in updated HMRC guidance. A Tax Information and Impact Note is available at Annex A.

Capital Gains Tax

1.7 Entrepreneurs' relief — Legislation will be included in Finance Bill 2011 to increase the lifetime limit on gains qualifying for entrepreneurs' relief from £5 million to £10 million with effect from 6 April 2011. Subject to satisfying certain conditions gains on disposals of entrepreneurial businesses by individuals and certain trustees qualify for entrepreneurs' relief. Qualifying gains are taxed at a rate of 10 per cent. There are no other changes to the rules or conditions relating to entrepreneurs' relief. A Tax Information and Impact Note for this measure is available at Annex A.

1.8 Capital Gains Tax annual exempt amount — The annual exempt amount for capital gains tax will increase in line with statutory indexation to £10,600 with effect from 6 April 2011. Legislation will also be introduced in Finance Bill 2011 to make a technical change to simplify the procedure for indexing the capital gains tax annual exempt amount for years where indexation does not require an increase. This change ensures the previous tax year's amount will continue to apply for future years unless it is again increased by indexation or Parliament sets a different figure. The formula for indexing the exempt amount is unchanged. Chapter 3 includes details of changes to the default indexation for 2012-13 onwards.

Corporate Taxes

Corporation Tax

1.9 Corporation tax rates — Legislation will be introduced in Finance Bill 2011 to reduce:

- the main rate of corporation tax to 26 per cent for the Financial Year commencing 1 April 2011;
- the main rate of corporation tax to 25 per cent for the Financial Year commencing 1 April 2012; and
- the small profits rate of corporation tax to 20 per cent from the Financial Year commencing 1 April 2011.

A Tax Information and Impact Note in relation to the main rate of corporation tax is available at Annex A. The rates are published in Annex B.

1.10 Capital allowances: short life assets — Legislation will be introduced in Finance Bill 2011 to enable businesses incurring expenditure on an item of plant or machinery from April 2011 onwards to make a short life asset election in respect of that item if they expect to sell or scrap it within an eight-year cut-off period. This is an extension from the current four year period. This will ensure that the capital allowances on the disposed of asset are brought into line with economic depreciation during the period of ownership. A Tax Information and Impact Note for this measure is available at Annex A.

1.11 Enhanced capital allowances scheme for energy saving technologies —

The energy-saving enhanced capital allowance scheme will, subject to State aid approval, be updated during summer 2011. The main change includes the addition of a new technology-efficient hand dryers. Also the qualifying criteria for automatic metering and targeting equipment will be simplified. A Tax Information and Impact Note for this measure is available at Annex A.

1.12 Research and Development tax credits for SMEs —

Subject to State aid approval, legislation will be introduced in Finance Bill 2011 to increase the rate of the additional deduction for expenditure on research and development (R&D) for companies that are small or medium sized enterprises (SMEs) from 75 per cent to 100 per cent from 1 April 2011, giving a total deduction of 200 per cent. The rate of vaccine research relief for SMEs will be reduced to 20 per cent from the same date. A Tax Information and Impact Note for this measure is available at Annex A. Further reforms planned for Finance Bill 2012 are set out in Chapter 3.

Oil and Gas Taxes

1.13 Supplementary charge — Legislation, effective from 24 March 2011, will be introduced in Finance Bill 2011 to increase the rate of the supplementary charge levied on profits from UK oil and gas production from 20 per cent to 32 per cent. As part of the fair fuel stabiliser, if in future years the oil price falls below a set trigger price on a sustained basis, the Government will reduce the supplementary charge back towards 20 per cent on a staged and affordable basis while prices remain low. The Government believes that a trigger price of US \$75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil and gas companies and motoring groups. A Tax Information and Impact Note for this measure is available at Annex A. Chapter 3 includes further information on North Sea oil taxation.

1.14 Oil and gas: intangible fixed assets — Legislation, effective from 23 March 2011, will be introduced in Finance Bill 2011 which will ensure that the scope of the corporate intangible fixed asset (IFA) rules excludes all goodwill and any intangible asset which relates to, derives from or is connected with an oil licence or an interest in an oil licence. The legislation is needed because some companies have interpreted accountancy practice in such a way that goodwill is recognised on the acquisition of an oil licence or an interest in an oil licence. This interpretation may bring this goodwill within the scope of the IFA regime which conflicts with what was intended when the legislation was introduced. Draft legislation has been published on 23 March 2011 on the HMRC website and a Tax Information and Impact Note for this measure is available at Annex A.

Taxation of Financial Services Sector

1.15 Bank Levy — The Bank Levy rates will be increased from 1 January 2012 onwards from those included in the draft legislation published on 9 December 2010 to offset the benefit of the further decrease in corporation tax. The rates for 2012 onwards will now be 0.078 per cent for short-term chargeable liabilities and 0.039 per cent for long-term chargeable equity and liabilities. An updated Tax Information and Impact Note for this measure is available at Annex A. Chapter 2 includes details of the Bank Levy.

1.16 UCITS IV Manco passport enabling measure — Undertakings for collective investment in transferable securities (UCITS) funds are collective investment schemes authorised and regulated in an EEA member state. Legislation will be introduced in

Finance Bill 2011 to treat foreign UCITS funds as not being resident in the UK, in cases where they otherwise might be resident by virtue of having a UK resident fund manager. A Tax Information and Impact Note for this measure is available at Annex A.

1.17 The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 — This order, which came into force on 24 February 2010, unintentionally created a number of potential adverse consequences for the tax and regulatory treatment of some types of debt securities. Legislation will be introduced in Finance Bill 2011 to ensure that no unintended tax consequences arise for the potentially affected debt securities between the issue of the Order on 24 February 2010 and remedying amendments that came into force on 16 February 2011. The unintended consequences are that certain securities may be unable to qualify for the loan capital exemption from stamp duty and the companies that issue them may be unable to qualify for the corporation tax securitisation company regulations. A Tax Information and Impact Note for this measure is available at Annex A.

Business Rates

1.18 Business rate discounts in Enterprise Zones — At the Budget, the Government announced the creation of 21 new Enterprise Zones. The Government will offer up to 100 per cent business rate discount for five years to businesses located in Enterprise Zones.

1.19 Extend small business rate relief (SBRR) holiday — The SBRR holiday will be extended by one year from 1 October 2011.

Charities and Charitable Giving

1.20 Gift Aid donor benefit limits — Legislation will be introduced in Finance Bill 2011 to increase, from £500 to £2,500, the maximum value of the benefits that individuals and companies may receive as a result of making a donation to a charity of more than £10,000 under Gift Aid. The new limit will be subject to the existing rule that the benefit must not exceed five per cent of the gift. HMRC will also publish revised guidance in April 2011 on Gift Aid benefits to clarify a number of issues and misunderstandings that have become apparent following discussions with stakeholders. A Tax Information and Impact Note for this measure is available at Annex A.

Indirect Taxes

Alcohol Duties

1.21 Alcohol duty rates — Legislation will be introduced in Finance Bill 2011 to increase the duty rates for all alcoholic drinks by two per cent above the rate of inflation (based on the retail prices index) as announced in the March 2008 Budget. The changes will take effect on 28 March 2011. This will add four pence to the price of a pint of beer, 15 pence to the price of a bottle of wine, and 54 pence to the price of a bottle of spirits. As previously announced, changes will also be introduced to beer duty. Further information is in Chapter 2. The rates are published in Annex B.

Tobacco Duties

1.22 Tobacco — Legislation will be introduced in Finance Bill 2011 to increase tobacco duty rates by two per cent above the rate of inflation (based on the retail prices index) as announced in the March 2010 Budget. Budget 2011 announced that duty on hand rolling tobacco will increase by an additional 10 per cent. The Government is also restructuring cigarette duty. *Ad valorem* duty on cigarettes has been reduced to 16.5 per cent and specific duty has been increased by 25 per cent above inflation. These changes will come into effect from 6pm on 23 March 2011. A Tax Information and Impact Note for this measure is available at Annex A. The rates are published at Annex B.

Gambling Duties

1.23 Amusement machine licence duty (AMLD) reform: paving legislation — On 9 December 2010, the Government announced its intention to reform the taxation of gaming machines and to introduce a new tax “Machine Games Duty” (MGD), to replace AMLD. Supplies in relation to the playing of games on machines which are liable to MGD will also become exempt from VAT. Finance Bill 2011 provides paving legislation that allows HMRC to proceed with the development of MGD. Chapter 3 includes further information about the development of MGD.

1.24 Amusement machine licence duty (AMLD) and gaming duty revalorisation Legislation will be introduced in Finance Bill 2011 to:

- increase AMLD in line with inflation; and
- raise the gross gaming yield (GGY) bandings for gaming duty in line with inflation.

1.25 These changes will affect casinos and anyone who provides a gaming machine for play in the UK. The new AMLD rates will be charged for any licence applications that are received by HMRC after 4pm on 25 March 2011. The GGY bandings used to calculate gaming duty must be used for any accounting periods starting on or after 1 April 2011. Tables of AMLD rates and GGY bandings are published in Annex B.

Transport Taxes

1.26 Fuel duty rates — Legislation will be introduced in Finance Bill 2011 to amend fuel duty rates as follows:

- the main fuel duty rate will be reduced by 1 penny per litre (ppl) from 6pm on 23 March 2011;
- the 1 April 2011 increase will be deferred and implemented on 1 January 2012 when the main fuel duty rate will increase by 3.02 ppl;
- on 1 January 2012 the effective rate of duty for non-road fuels will rise in proportion to the main fuel duty rate; the duty increases on natural gas will maintain the differential with the main road fuels, and the differential for road fuel gas other than natural gas will be reduced by the equivalent of 1 ppl of petrol; and
- on 1 January 2012 the duty rate for leaded petrol will increase by the same monetary amount as main fuel duty, and the duty rate for aviation gasoline will rise in proportion to the main fuel duty rate.

The duty differential for biodiesel produced from used cooking oil will end as intended on 31 March 2012. A Tax Information and Impact Note for this measure is available at Annex A. The rates are published in Annex B. Chapter 3 includes details of future fuel rate increases and the fair fuel stabiliser.

1.27 Vehicle excise duty uprating — From 1 April 2011, VED rates will increase by indexation only apart from VED rates for heavy goods vehicles which will be frozen in 2011-12. In addition, discount rates for Euro VI reduced pollution certificates (RPCs) will remain the same as for previous Euro standards. RPCs will be available for Euro VI standard vehicles from 1 January 2012 until 31 December 2016, applying to vehicles purchased before the standard becomes mandatory. The RPC will be backdated for Euro VI vehicles purchased before 1 January 2012. All Euro VI vehicles will return to standard VED rates when their tax disc naturally expires from 31 December 2016. The rates are published in Annex B.

Carbon Taxes

1.28 Carbon price floor — Following a consultation earlier this year, the Government confirms a carbon price floor that will come into effect on 1 April 2013. The carbon price floor will tax fossil fuels used in electricity generation under the climate change levy (CCL) and fuel duty. Supplies of fossil fuels (apart from oils) used in most forms of generation of electricity will become liable to CCL while oils used in electricity generation will become liable to fuel duty. Supplies will be charged at the relevant carbon price support rate which will be determined by the average carbon content of the fossil fuel and take account of the expected price of carbon on the wholesale market. For fossil fuels that are liable to CCL, the carbon price support rate for each commodity will be different from the main CCL rates for the same commodities. Anti-avoidance measures to prevent forestalling of CCL will be introduced from 23 March 2011. Primary legislation to cover most of the changes to CCL will be introduced in Finance Bill 2011. A Tax Information and Impact Note for this measure is available at Annex A.

1.29 Climate change levy rates — Legislation will be introduced in Finance Bill 2011 to increase the rates of climate change levy in line with the retail prices index from 1 April 2012. The rates are published in Annex B.

1.30 Climate change levy exemption: certain forms of transport — The exemption from the climate change levy for taxable commodities used in certain forms of transport includes supplies of electricity for use in rail freight and in public passenger rail services that do not hold a Public Service Obligation (PSO). These two parts of the exemption are an approved State aid. The current approval expires on 31 March 2011. The UK Government is seeking re-approval but cannot legally continue with these parts of the exemption beyond 1 April without European Commission re-approval. If re-approval is not received by 31 March 2011 the exemption will be suspended to the extent that it applies to rail freight and public passenger rail services that do not hold a PSO, with effect from 1 April 2011. If re-approval is received after 1 April 2011 the exemption will be reinstated (with retrospective effect from 1 April if the terms of the approval permit). A clause conferring on HM Treasury the power to suspend and reinstate the exemption by order will be included in the Finance Bill 2011. A Tax Information and Impact Note for this measure is available at Annex A.

1.31 Climate change levy exemption: recycling processes — The exemption from the climate change levy for taxable commodities used in certain processes relating to the recycling of steel and aluminium is an approved State aid. The current approval expires on 31 March 2011. The UK Government is seeking re-approval but

cannot legally continue with the exemption beyond 1 April without European Commission approval. If re-approval is not received from the European Commission by 31 March 2011 the exemption will be suspended with effect from 1 April 2011. If re-approval is received after 1 April 2011 the exemption will be reinstated (with retrospective effect from 1 April if the terms of the approval permit). If necessary a clause conferring on HM Treasury the power to suspend and reinstate the exemption by order will be included in the Finance Bill 2011. A Tax Information and Impact Note for this measure is available at Annex A.

Aggregates Levy

1.32 Aggregates levy rate — Legislation will be introduced in Finance Bill 2011 to repeal the increase in the rate of aggregates levy that was due to take effect from 1 April 2011 and to enable the reinstatement of an aggregates levy credit scheme in Northern Ireland, subject to European Commission State aid approval. The increase in the rate of aggregates levy, from £2.00 per tonne to £2.10 per tonne, will now be introduced from 1 April 2012. A Tax Information and Impact Note for this measure is available at Annex A.

Landfill Taxes

1.33 Rates of landfill tax from 2012 — Legislation will be introduced in Finance Bill 2011 to increase the standard rate of landfill tax by £8 per tonne for disposals made, or treated as made, to landfill on or after 1 April 2012, increasing the rate to £64 per tonne. In the June Budget the Government confirmed that the standard rate of landfill tax would rise by £8 per tonne on 1 April each year up to and including 2014. The Government also announced a floor under the standard rate of landfill tax so that the rate will not fall below £80 per tonne from 2014-15 to 2019-20. A lower rate of landfill tax applies to less polluting wastes listed in a Treasury Order. The rate is currently £2.50 a tonne and this rate will remain frozen in 2012-13.

Stamp Duty Land Tax

1.34 Stamp duty land tax (SDLT) reform of rules for bulk purchases — Legislation will be introduced in Finance Bill 2011 to provide a relief for purchasers of residential property who acquire interests in more than one dwelling. Where the relief is claimed the rate of SDLT is determined not by the aggregate consideration but instead is determined by the mean consideration (i.e. by the aggregate consideration divided by the number of dwellings) subject to a minimum rate of one per cent. A Tax Information and Impact Note for this measure is available at Annex A.

VAT Measures

1.35 VAT: low value consignment relief — Legislation will be introduced in Finance Bill to reduce the level at which the low value consignment relief (LVCR) applies from £18 to £15 from 1 November 2011. This is the threshold below which goods imported from outside the EU are VAT-free. The Government will also explore options with the European Commission to limit the scope of the relief, including the possibility of seeking derogation from the relevant EU rules. It will return to the issue of the appropriate level of the LVCR threshold in Budget 2012 with a view to reducing it further if discussions with the European Commission do not produce a workable solution. A Tax Information and Impact Note for this measure is available at Annex A.

1.36 VAT: revalorisation of registration and deregistration thresholds — The following changes will be made to the VAT registration and deregistration thresholds:

- the taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £70,000 to £73,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £68,000 to £71,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £70,000 to £73,000.

A statutory instrument laid on 23 March 2011 will apply the revalorised thresholds on or after 1 April 2011. The simplified reporting requirement (three line accounts) for the income tax Self Assessment return will continue to be aligned with the VAT registration threshold.

1.37 VAT: revalorisation of fuel scale charges — The VAT fuel scale charges will be revalorised. A statutory instrument laid on 23 March 2011 will revalorise the VAT fuel scale charges with effect from 1 May 2011. The fuel scale charges are published in Annex B.

Anti-Avoidance Measures

1.38 Sale of lessor companies: preventing avoidance — Legislation will be introduced in Finance Bill 2011 with effect from 23 March 2011 to ensure that the sale of lessor company legislation continues to have the intended effect. The rules are intended to impose a charge, at the time of sale, on profits of a lessor company that have been earned but not recognised for tax purposes before it changes ownership. It also gives subsequent matching relief. The changes made now will ensure that all plant or machinery leasing is taken into account in determining whether the company comes within the scope of the rules. The legislation will also make sure that the calculation of the charge fully reflects the deferred taxable profits. The changes will also withdraw, with effect from 23 March 2011, the option to elect out of the charge when a lessor company is sold. Further changes will ensure that a company that has previously elected out of the charge will bring into account for tax purposes the full value to the company of any asset later sold. Draft legislation has been published today on the HMRC website and a Tax Information and Impact Note for this measure is available at Annex A.

1.39 SDLT anti-avoidance — Legislation will be introduced in Finance Bill 2011 to put beyond doubt that SDLT-avoidance schemes exploiting three areas do not work. The changes clarify the relationship between the rules for ‘sub-sales’ and alternative finance, narrow the definition of ‘financial institution’ for the purposes of alternative finance and counter the effect of an engineered reduction in market value when properties are exchanged. They are effective on or after 24 March 2011. Draft legislation has been published on 23 March 2011 on the HMRC website and a Tax Information and Impact Note for this measure is available at Annex A.

1.40 Corporate gains: degrouping charges anti-avoidance — Legislation will be introduced in Finance Bill 2011, with effect from 23 March 2011, to prevent groups of companies avoiding corporation tax on chargeable gains by using complex arrangements that seek to exploit the “associated companies exception” to a degrouping charge. This measure clarifies the rule that can impose a degrouping charge when an event follows another to which the associated companies exception applied. It will put beyond doubt that the rule is not itself subject to the exception. The changes also ensure that the original legislation cannot be used to avoid a degrouping charge in circumstances similar to those that this legislation addresses. Draft

legislation has been published on 23 March 2011 on the HMRC website and a Tax Information and Impact Note for this measure is available at Annex A.

Tax Administration

1.41 Amendment to the Provisional Collection of Tax Act 1968 — Legislation will be introduced in Finance Bill 2011 to amend the Provisional Collection of Taxes Act (1968) (PCTA). This will maintain the Government's ability to collect income tax and certain other taxes and duties on a provisional basis following changes to the parliamentary timetable, whilst maintaining appropriate safeguards and allowing time for adequate parliamentary scrutiny. A Tax Information and Impact Note for this measure is available at Annex A.

1.42 Transposing the Mutual Assistance Recovery Directive — Legislation will be introduced in Finance Bill 2011 to enable the UK to implement the Mutual Assistance Recovery Directive agreed by EU Finance Ministers during 2010. Under this Directive EU member states can provide each other with assistance in the recovery of tax debts and duties, which includes service of documents and exchanging information in connection with the recovery of claims. This legislation will replace and repeal the existing legislation implementing the current Mutual Assistance Directive which was originally introduced in 1976 and consolidated in 2008 following a number of revisions. The new Directive has modernised and expanded the scope of the existing Directive. The new Directive comes into force on 1 January 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.43 The taxation of index-linked gilt-edged securities — Legislation will be introduced in Finance Bill 2011 to amend existing rules so that index-linked gilt-edged securities held by companies, whose return is calculated by reference to any index of prices issued by the Office for National Statistics, are taxed in the same way as index-linked gilt-edged securities linked to the retail prices index (RPI). The amended legislation will provide that index-linked gilt-edged securities includes those “under which the amounts of the payments are determined wholly or partly by reference to an index of prices published by the Office for National Statistics”. A Tax Information and Impact Note for this measure is available at Annex A.

1.44 Time to pay — Budget 2011 also confirmed that HMRC will continue through its Business Payment Support Service to provide advice and time to pay to viable businesses experiencing temporary financial difficulty. The service was launched at Pre Budget Report 2008 and is available for all HMRC taxes, including VAT, corporation tax, income tax and NICs (PAYE).

Reliefs

1.45 OTS review of reliefs and Government response — The Office of Tax Simplification (OTS) was commissioned by the Chancellor to undertake a review of the reliefs and allowances available in the tax system. The OTS published their final report on 3 March 2011 (available on the HM Treasury website) in which they recommended abolishing a number of reliefs. Some of these reliefs have no further use, some are poorly targeted and several have an administrative burden that outweighs their benefit. The Government welcomes the recommendations and, based on the findings of the OTS and ongoing work by HMRC, intends to abolish the reliefs set out below. In Finance Bill 2011:

- charities - transitional relief on distributions (F(2)A 1997 s35);

- Millennium Gift Aid (FA 1998 s48);
- National Savings Bank ordinary account interest (ITTOIA 2005 s691);
- payroll giving 10 per cent supplement (FA 2000 s38, FA 2003 s146);
- exemption for certain assignments by seamen (FA 1944 s45; DGR 1939, Reg 47D);
- instruments relating to National Savings (FA 1953 s31); and
- transfers in relation to ships and vessels (FA 1999 Sch 13 Para 24(b)).

Tax Information and Impact Notes for these repeals are in Annex A. The Government has also confirmed that it intends abolish a further set of reliefs in Finance Bill 2012 and beyond. These are set out in Chapter 3.

2 Previously Announced Measures Included in Finance Bill 2011

2.1 This chapter summarises tax changes announced prior to Budget 2011. This includes measures to be legislated in Finance Bill 2011, but also changes to be made in programme bills, secondary legislation or where no legislation is required.

2.2 *A new approach to tax policy making*¹ confirmed the Government's commitment to improving the scrutiny of tax legislation. On 9 December 2010, the Government published draft clauses for the majority of Finance Bill 2011 measures for consultation, along with Tax Information and Impact Notes². Over 250 substantive comments were received in response and a number of clauses have subsequently been revised. This chapter summarises measures for Finance Bill 2011 that:

- are unchanged following consultation;
- have been revised following feedback on draft clauses; and
- that have been previously announced, but where draft legislation has not been published.

2.3 Where revisions have changed the impact of a measure, a revised Tax Information and Impact Note has been published (see Annex A).

Measures Unchanged Following Consultation

2.4 The Government confirms that the following measures will be introduced in Finance Bill 2011 with no changes to the consultation drafts or the Tax Information and Impact Notes:

- Income tax rates, rate limits and personal allowances for 2011-12
- Employer-supported childcare: changes to the "open generally" condition
- Expenses paid to MPs
- Tax relief for protection of vulnerable groups scheme fees paid or reimbursed by employers
- Pensions taxation: enabling retirement savings programme
- Reduction in the small profits rate of corporation tax
- Annual investment allowance: reduction from April 2012 to £25,000
- Writing down allowances: reduction from April 2012
- Corporate capital gains: capital losses after a change of ownership (simplification)

¹ *A new approach to tax policy making: a response to the consultation*, 9 December 2010 HMRC and HMT websites

² *Overview of draft legislation for Finance Bill 2011*, 9 December 2010 HMRC and HMT websites

- Corporate capital gains: value shifting rules (simplification)
- Reform of associated company rules as they apply to the small profits rate of corporation tax
- Reform of stamp duty reserve tax on collective investment schemes
- OECD transfer pricing guidelines
- Changes to accounting standards for leases
- Life insurance apportionment rules
- Exceptional rates of Vehicle Excise Duty for certain heavy goods vehicles
- Refunding irrecoverable VAT costs incurred by Academies

2.5 Review of HMRC powers, deterrents and safeguards security for PAYE and National Insurance contributions — Legislation will be introduced in Finance Bill 2011 to provide a power allowing HMRC to make regulations enabling them to require a security from employers for PAYE and NICs that is seriously at risk of non-payment. It will also introduce a criminal offence for not providing a security when one is required. Draft Finance Bill clauses, together with draft regulations, were published for consultation on 9 December 2010. No changes have been made to the primary legislation. However, the regulations will be amended, taking account of comments received to ensure that time to pay arrangements are considered before a security is enforced. A response document will be published on 31 March 2011.

Measures Changed Following Consultation

2.6 The Government has considered the responses to the consultation on the draft legislation. Following responses received a number of clauses have been revised. For the following measures changes are being made to the proposed legislation to ensure it meets the policy objective. These are summarised below.

2.7 Some changes have not altered the impact of the measure as set out in the Tax Information and Impact Notes published on 9 December 2010, available on the HM Treasury and HMRC websites. For other measures changes are being made to the proposed legislation which are expected to change the impact of the measure and in these cases a revised Tax Information and Impact Note has been published in Annex A.

Personal Tax and National Insurance Contributions

Income Tax

2.8 Furnished holiday lettings — Legislation will be introduced in Finance Bill 2011 to revise the tax rules for furnished holiday lettings (FHL) and to extend the regime to the European Economic Area (EEA). From April 2011 loss relief may only be offset against income from the same FHL business. UK losses can relieve UK FHL income only and similarly with the EEA losses. From April 2012 to qualify in a year, a property must be available to let for at least 210 days and actually let for 105 days. Businesses meeting the actually let threshold in one year may elect to be treated as having met it in the two following years ("period of grace"), providing certain criteria are met. Minor amendments will be made to the draft legislation to ensure that the period of grace provisions apply from 2010-11. A Tax Information and Impact Note for this measure is available at Annex A.

2.9 Employer-supported childcare: changes to tax reliefs — Legislation is being introduced in Finance Bill 2011 to restrict the level of tax relief available to higher earners who join employer-supported childcare schemes from 6 April 2011. As a result of the consultation on the draft legislation, a minor technical change is being made to the legislation in respect of excluded amounts for “relevant income”. An updated Tax Information and Impact Note for this measure is available at Annex A.

Taxation of Pensions

2.10 Restricting pensions tax relief — The Government announced on 14 October 2010 that the annual allowance for tax relief on pension savings for individuals will be reduced from £255,000 to £50,000 from 2011-12, and the lifetime allowance will be reduced from £1.8m to £1.5m from 2012-13. Draft legislation was published for comment on 9 December 2010. Following consultation, the Government published additional draft legislation on 3 March 2011 containing provisions to enable individuals to meet high annual charges from their pension benefits. Individuals with charges above £2,000 will be able to elect for their liability to be met from their pension benefit. In these situations, the tax will be paid at the point the charge arises. A *Summary of Responses* document and an updated Tax Information and Impact Note were also published on 3 March 2011. The legislation introduced in Finance Bill 2011 will include revisions that reflect comments on the draft legislation, ensuring the legislation meets the stated policy objectives.

2.11 Pensions annuitisation — Legislation will be introduced in Finance Bill 2011 to remove the effective requirement to annuitise by age 75 from April 2011. This will include changes to the annuitisation requirements, income drawdown pension arrangements and the related inheritance tax rules. During the consultation on draft clauses some unintended differences in the pensions and lump sums payable before and after age 75 were identified. Changes have been made to the legislation to remove these differences. Savers who have reached age 75 will also be allowed to align multiple drawdown pension funds under the same scheme so the funds can all be valued annually on the same date.

Corporate Taxes

Corporation Tax

2.12 Interim controlled foreign companies (CFCs) reform — Legislation will be introduced in Finance Bill 2011 to deliver a package of interim improvements to the controlled foreign companies (CFCs) rules as a first step to make the rules easier to operate ahead of full reform in 2012. The interim changes will have effect for accounting periods beginning on or after 1 January 2011 other than the extension to the transitional rules for the holding company exemptions which is deemed always to have had effect. Following consultation, a number of changes were made to ensure that the improvements delivered the desired outcome. This includes amending the three year temporary exemption to include overseas subsidiaries that are not currently CFCs but that have been in the past. An updated Tax Information and Impact Note for this measure is available at Annex A.

2.13 Taxation of foreign branches — Legislation will be introduced in Finance Bill 2011 to provide an opt-in exemption from corporation tax on the profits of foreign branches of UK companies. Following consultation some significant changes have been made to the draft legislation published on 9 December 2010 to address the following areas:

- allowing life insurance companies to benefit from exemption;
- ensuring that the transitional rule is workable for business; and
- ensuring that the anti-diversion rules are more targeted and proportionate.

2.14 Corporate capital gains simplification: de-grouping charges — Legislation will be introduced in Finance Bill 2011 to simplify the rules for the calculation of chargeable gains degrouping charges for companies. The legislation includes a number of changes to that published in draft in December 2010 in response to comments received in the consultation. These include some minor drafting changes to clarify the intent, and changes to address the following areas:

- companies leaving a group in consequence of a share for share exchange to which section 127 TCGA 1992 applies; and
- unintended consequences for a few Real Estate Investment Trust (REIT) groups where there are minority investors in a company that leaves the REIT group.

Finance Bill 2011 will also include an anti-avoidance measure. This is described in Chapter 1 (Corporate Gains: degrouping charges anti-avoidance).

2.15 Modernisation of investment trust companies — The Government launched a consultation on the modernisation of the tax rules for investment trust companies ('ITCs') on 27 July 2010. The aim of the proposals was to provide greater certainty for ITCs and their investors and to ensure that the rules are capable of facilitating modern investment practice and a wider range of investment strategies. Following that consultation draft legislation providing for a new definition of an investment trust and for powers to make regulations setting out the rules of the regime was published for comment on 9 December 2010 together with a Tax Information and Impact Note. No further comments were received and only minor technical changes have been made to the consultation draft. The amended legislation will be introduced in Finance Bill 2011. Draft regulations will be published for consultation during April 2011.

2.16 Leasing into tonnage tax — Legislation will be introduced in Finance Bill 2011 to align the rates of writing down allowance on the first £40 million of expenditure on a ship leased to a tonnage tax company with the rates applicable to other ships, including where the ship is a long life asset. The legislation has effect for expenditure incurred on or after 1 January 2011. The legislation differs from the draft legislation published in December 2010 as it now extends to expenditure incurred on or after 1 January 2011 under an agreement preceding this date.

Oil and Gas Taxes

2.17 Oil and gas minor measures — Legislation will be introduced in Finance Bill 2011 to make minor changes to the regime for oil and gas companies that operate in the UK or on the UK continental shelf. One of these measures extends the scope of the chargeable gains ring fence reinvestment relief to allow the relief to apply, for disposals made on or after 24 March 2010, when proceeds are reinvested in exploration and development expenditure. As a result of the consultation on the draft clauses the legislation will now explicitly apply when proceeds are reinvested in exploration, appraisal and development expenditure.

Taxation of Financial Services Sector

2.18 Bank Levy — In the June 2010 Budget the Government announced that it intended to introduce a bank levy (the Levy), effective from 1 January 2011, in respect of certain equity and liabilities on banks' balance sheets. Following consultation on a number of operational issues around design and implementation, including possible and proposed approaches to defining taxable entities and the tax base, the Government published a response document on 21 October 2010 along with an HMRC Technical Note setting out the Government's proposals for the design of the Levy including changes made as a result of the consultation. These changes were also detailed in a Tax Information and Impact Note published on 9 December 2010 alongside the draft legislation for Finance Bill 2011.

The Government announced on 8 February 2011 an increase in the effective rate of the Levy for the year 2011. The rates were increased so that the Levy will raise the target yield of £2.5 billion for the first year. Therefore, the rates for the calendar year 2011 will be:

- 1 January 2011 – 28 February 2011 0.05 per cent for short-term chargeable liabilities and 0.025 per cent for long-term chargeable equity and liabilities;
- 1 March 2011 – 30 April 2011 0.1 per cent for short-term chargeable liabilities and 0.05 per cent for long-term chargeable equity and liabilities; and
- 1 May 2011 – 31 December 2011 0.075 per cent for short-term chargeable liabilities and 0.0375 per cent for long-term chargeable equity and liabilities.

As set out in Chapter 1, Budget 2011 announced an increase in the Levy rates from 1 January 2012 onwards.

An updated Tax Information and Impact Note for this measure is available at Annex A.

Charities

2.19 Changes to the substantial donors rule — Legislation will be introduced in Finance Bill 2011 to replace the existing substantial donors to charities legislation. Following responses received during the consultation on draft clauses amendments have been made to make the legislation clearer and better targeted. The legislation now:

- focuses on “financial advantages”;
- includes a carve out for relevant housing providers and charitable payments made to a charity for onward transmission to a non-charity body; and
- provides for a shorter transitional period before the existing legislation is repealed (reduced from five years to two).

Indirect Taxes

Alcohol Duties

2.20 Duties on high and lower strength beers — Finance Bill 2011 will introduce a new additional duty on beers over 7.5 per cent alcohol by volume (abv) in strength at a rate of 25 per cent of general beer duty. A reduced rate equivalent to 50 per cent of general beer duty will be introduced for beers exceeding 1.2 per cent abv and not

exceeding 2.8 per cent abv in strength. These changes will be effective from 1 October 2011. An updated Tax Information and Impact Note is available at Annex A.

Anti-avoidance Measures

2.21 Disguised remuneration — Legislation will be introduced in Finance Bill 2011 to tackle third party arrangements which seek to avoid or defer the payment of income tax or National Insurance contributions due on employment income or avoid restrictions on pensions tax relief. A draft schedule to enact this measure was published on 9 December 2010. Representations have been received from business, representative bodies and professional advisors. In the light of these the Government has amended the draft legislation to limit impacts on employers and individuals where it is possible to identify arrangements that cannot be used for tax avoidance purposes. The changes made include exclusions for group company transactions and certain short-term loans as well as arrangements relating to deferred remuneration, defined employee car ownership schemes, further employment-related securities schemes and protecting legacy pension savings within these arrangements. An updated Tax Information and Impact Note is available at Annex A.

2.22 UK resident investment companies: currency for tax calculations — Legislation will be introduced in Finance Bill 2011 to counter avoidance involving changes in the functional currency of an investment company. Following consultation the draft legislation published on 9 December 2010 has been amended to make it clear that the ability to elect for a functional currency for tax purposes is limited to companies whose main purpose is to make investments and to make provision for newly incorporated companies.

2.23 Group mismatches — Legislation will be introduced in Finance Bill 2011 to prevent tax losses through the asymmetrical tax treatment of loans and derivatives (group mismatch schemes). Following consultation there have been a number of minor changes to the draft legislation published on 6 December 2010. These are:

- clarification that only UK-to-UK transactions will be affected;
- introduction of a threshold in condition A such that the condition cannot apply unless the expected tax saving from the scheme is at least £2m; and
- an amendment to condition B so that it contains an objective as well as a subjective element. The objective element is that the scheme must be one that is more likely to produce a tax advantage than a tax disadvantage.

The legislation will have effect in relation to group mismatch schemes to which a company is party on or after Royal Assent to Finance Bill 2011.

2.24 Corporation tax anti-avoidance derecognition — Legislation will be introduced in Finance Bill 2011 to amend anti-avoidance rules on derecognition of loan relationships and derivative contracts. Following consultation a number of changes have been made to the draft legislation published on 6 December 2010. These changes will deny debits on creditor loan relationship and derivative contracts; make it clear that the legislation only applies where a company remains party to a loan relationship or derivative contract; and require a company to bring in any difference between the accounts carrying value and the fair value of a derivative as a credit for the period in which tax avoidance arrangements are entered into. This latter provision will have effect from 23 March 2011.

Tax Administration

2.25 Data-gathering — Legislation will be introduced in Finance Bill 2011 to enable HMRC to collect data for risk assessment and to amend Schedule 36 to FA 2008 to provide a penalty if a person is aware of an inaccuracy when providing information or documents. Following consultation on the draft legislation a new safeguard has now been added so that, where a notice requests documents, they need only be provided if in the possession or power of the person to whom the notice is sent. A response document to the consultation will be published on 31 March 2011 alongside the Finance Bill.

Other Measures Previously Announced

2.26 In addition to the draft clauses for Finance Bill 2011 published on 9 December 2010 a number of additional measures have been announced ahead of Budget 2011. For completeness these are summarised below.

2.27 Subsistence Allowances paid to experts seconded to European Union bodies located in the UK — As announced in a Written Ministerial Statement made by the Exchequer Secretary to the Treasury on 16 December 2010 legislation will be introduced in Finance Bill 2011 to create an income tax exemption where subsistence allowances are paid to experts seconded to EU bodies located in the UK. Under the normal rules subsistence allowances are taxable as employment income. Experts seconded to EU bodies in other European member States are not normally taxed on any subsistence allowance they receive from the EU body. This measure will ensure that those on secondment to a body in the UK are not at a disadvantage. The exemption will apply in relation to subsistence allowances paid for any period commencing on or after 1 January 2011. A statutory instrument containing Regulations to create the associated NICs disregard will be made on or before 6 April 2011. A Tax Information and Impact Note for this measure is available at Annex A.

2.28 Reduction in the contracting out rebate — The Department for Work and Pensions announced on 3 February 2011 details of the contracted-out rebate percentage rates that will apply to defined pension schemes from 2012. The new rates were laid in a draft order on the same day. The new rebate will mean that from April 2012 if an individual is contracted out of the State second pension, the employer and the employee will pay more National Insurance contributions. This is because the employer's rebate will reduce from 3.7 per cent to 3.4 per cent and the employee's rebate will reduce from 1.6 per cent to 1.4 per cent.

2.29 Junior ISAs — On 26 October 2010 the Government announced that it would introduce a new tax-advantaged account for saving for children, to be known as a Junior ISA. Legislation to provide for the Junior ISA will be introduced in Finance Bill 2011. Draft secondary legislation for the establishment and operation of Junior ISAs will be published alongside Finance Bill 2011. It is expected that Junior ISAs will be available from autumn 2011 for any UK-resident child who does not currently hold a Child Trust Fund. The Government will be consulting informally with stakeholders on the draft legislation during the spring of 2011. A Tax Information and Impact Note for this measure is available at Annex A.

2.30 Offshore funds amendments — The Government is currently consulting on amendments to the Offshore Funds (Tax) Regulations 2009 (SI 2009/3001). Details of the proposed amendments and the draft amending Regulations were published on the HMRC website on 20 December 2010 and 28 February 2011.

2.31 Climate change levy exemption: gas in Northern Ireland — On 31 January 2011 the Government announced that the climate change levy (CCL) exemption for supplies of gas in Northern Ireland would be replaced with a lower rate from 1 April 2011. Draft legislation and a Tax Information and Impact Note were published alongside the announcement. The Government confirms that the legislation will be introduced in Finance Bill 2011 with no changes to the Tax Information and Impact Note. A minor change has been made to the draft legislation to reflect the change in the lower rate from 1 April 2012 as a result of the increase to the rates of CCL generally from that date, announced in Budget 2011.

2.32 Landfill communities fund – value of the fund — The landfill communities fund (LCF) invests in projects that aim to improve communities around a landfill site. A statutory instrument laid on 23 March 2011, will increase the value of the fund in line with inflation from £74.25 million in 2010-11 to a potential value of £78.1 million of claimable credit in 2011-12. This will be achieved by amending the maximum credit that landfill site operators may claim against their annual landfill tax liability for contributions made to bodies with objects concerned with the environment enrolled under the LCF, from 5.5 per cent to 6.2 per cent.

2.33 Leasing double allowances — As announced by Written Ministerial Statement on 9 March 2011 legislation will be introduced in Finance Bill 2011 to counter avoidance involving the leasing of plant or machinery under a long-funding finance lease. The disclosed avoidance scheme seeks to obtain tax relief for more than the actual expenditure. The scheme involves arrangements which are claimed to have the effect of guaranteeing the value of the leased asset at the end of the lease but which also enable the amount guaranteed to be taken into account for tax relief a second time when paid. The new legislation confirms that lessees engaging in transactions of this type will only be entitled to tax relief up to the actual amount of their expenditure. A Tax Information and Impact Note for this measure was published on 9 March 2011.

2.34 Disclosure of tax avoidance schemes — A package of five measures improving the disclosure of tax avoidance schemes (DOTAS) regime took effect on 1 January 2011 following formal consultation. The package included some refinements to the hallmarks (the descriptions of schemes to be disclosed) to remove known loopholes. The Government intends to implement the remaining changes to the hallmarks in 2011-12. These further changes to the hallmarks will target known avoidance risks, primarily:

- schemes that seek to avoid income tax and NICs on employment income;
- schemes that incorporate offshore transactions to avoid corporation tax; and
- artificial loss schemes.

The Government will be consulting on this measure. It will hold further informal consultation with stakeholders over the summer. The disclosure regime will also be extended to include inheritance tax, as it applies to transfers of property into trust, with effect from 6 April 2011.

3 New tax changes announced in Budget 2011 (changes in future years)

3.1 This chapter summarises new tax changes announced in Budget 2011, where the change is to be made in Finance Bill 2012, other future finance bills, programme bills or secondary legislation. In line with the Government's new approach to tax policy making, the vast majority of these measures will be subject to consultation. The Government recognises that for this consultation to be effective, significant engagement is required from taxpayers, tax practitioners and representative bodies. To assist those who wish to take part in tax consultations, a "tracker" will be published on the HM Treasury and HMRC websites setting out the planned dates of future consultations.

3.2 Where the changes are straightforward (for example routine rate changes or where the policy is settled and will not be subject to consultation), Tax Information and Impact Notes have been published (see Annex A). For other measures, the Government will assess the impacts as part of the consultation and publish a Tax Information and Impact Note alongside the draft legislation.

Personal taxes, National Insurance Contributions and Capital Gains Tax

Income Tax and National Insurance Contributions

3.3 Income tax personal allowances for 2012-13 — Legislation will be introduced in Finance Bill 2012 to set the personal allowance for those aged under 65 at £8,105 and the basic rate limit at £34,370. All other income tax, personal allowances and limits that are subject to indexation will be increased in line with the retail prices index. A Tax Information and Impact Note for this measure is available at Annex A. Income tax rates and allowances are published in Annex B.

3.4 CPI Indexation of National Insurance Contributions rates, limits and thresholds — From 2012 -13 the Consumer Prices Index (CPI) is to replace the Retail Prices Index (RPI) as the default indexation for all National Insurance contributions rates, limits and thresholds:

- Class 1 lower earnings limit and primary threshold;
- Class 2 small earnings exception;
- Class 4 lower profits limit; and
- Rates of Class 2 and 3.

The secondary threshold will be over-indexed when compared to CPI and will continue to rise by the equivalent of RPI from April 2012 until 2015-16. A Tax Information and Impact Note for this measure is available at Annex A. The rates are published in Annex B.

3.5 Income tax and NICs reform — The Government has announced that it will consult on the options, stages and timing of reforms to integrate the operation of income tax and National Insurance contributions (NICs). In exploring potential reforms

the Government aims to remove distortions created by the tax system, reduce burdens on business and improve fairness for individuals. However, it recognises that any change will be complex and involve a wide range of policy and implementation issues. A consultation document will be published later this year setting out the differences in the current income tax and National Insurance systems, and options to address these. The Government will maintain the contributory principle and reflect this in any changes it brings forward. The Government will not extend NICs to individuals above State Pension age or to other forms of income such as pensions, savings and dividends.

3.6 Enterprise Investment Scheme and Venture Capital Trusts — Subject to State aid approval, legislation will be introduced in Finance Bill 2012 making the following changes to the Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT) which will have effect on and after 6 April 2012:

- an increase in the thresholds for the size of qualifying company for both EIS and VCTs to fewer than 250 employees and to the company having no more than £15million of gross assets before the investment;
- an increase in the annual amount that can be invested through both EIS and VCTs in an individual company to £10million; and
- an increase in the annual amount that an individual can invest through EIS to £1million.

The Government will consult on further changes to the schemes including proposals to give additional support through the EIS for seed investment.

Legislation will also be introduced in Finance Bill 2012 providing that companies whose trade consists wholly or substantially in the receipt of feed-in tariffs (FITs) or similar subsidies will only be eligible for the two schemes where commercial electricity generation commences before 6 April 2012. Shares issued before 23 March 2011 will not be affected.

3.7 Review of non-domicile taxation — At the June Budget 2010, the Government confirmed that it would review the taxation of non-domiciled individuals. There is currently a beneficial tax regime for non-domiciles regardless of how long they have been resident in the UK. However, the rules mean that foreign income and gains are taxed if they are brought to the UK and this is a disincentive to inward investment. The Government will introduce the following reforms:

- remove the tax charge when non-domiciles remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses;
- simplify some aspects of the current tax rules for non-domiciles to remove undue administrative burdens; and
- increase the existing £30,000 annual charge to £50,000 for non-domiciles who have been UK resident for 12 or more years and who wish to retain access to the beneficial tax regime (the remittance basis). The £30,000 charge will be retained for those who have been resident for at least seven of the past nine years and fewer than 12 years.

The Government will be consulting on the detail of this measure. It will issue a consultation document in June. The Government intends to implement these reforms from April 2012. There will be no other substantive changes to these rules for the remainder of this Parliament.

3.8 Statutory residence test — The current rules that determine tax residence for individuals are unclear and complicated. The Government will be consulting on the

introduction of a statutory definition of residence to provide greater certainty for taxpayers. It will issue a consultation document in June and intends to implement the measure from April 2012.

Taxation of Savings

3.9 CPI Indexation of annual ISA subscription limits — The Government has announced that it intends to move the underlying indexation assumption for direct taxes to a consumer prices index (CPI) basis. ISA indexation will progress to a CPI basis from 6 April 2012. A Tax Information and Impact Note for this measure is available at Annex A.

3.10 Qualifying time deposits — Interest paid on sums held in qualifying time deposit (QTD) accounts is subject to tax, but is currently paid gross to account holders. The tax collection arrangements for QTD accounts will be aligned with those that apply for comparable saving products. From 6 April 2012 tax will be deducted at source from taxable interest paid on new QTD accounts. This will be achieved by including newly opened QTDs within the tax deduction scheme for interest operated by banks, building societies and other deposit takers. The Government will informally consult stakeholders on the implementation of the change during May 2011 and will legislate in Finance Bill 2012.

Capital Gains Tax

3.11 Capital gains tax annual exempt amounts — From April 2012 the consumer prices index (CPI) will be used as the default indexation assumption for capital gains tax (CGT) annual exempt amount. Legislation will be introduced in Finance Bill 2012 to uprate the CGT annual exempt amount in line with rises in the CPI instead of the retail prices index. The first year to be affected will be 2012-13. Parliament will still be entitled to override automatic indexation and set a different figure. A Tax Information and Impact Note for this measure is available at Annex A. Chapter one includes details of the CGT annual exempt amount for 2011-12.

3.12 Single payment scheme and capital gains tax (CGT) roll-over relief — Assets chargeable to CGT include rights such as entitlements to payments under the EU's single payments scheme (SPS). Business asset roll-over relief defers CGT when proceeds from disposing of old qualifying assets are reinvested in new qualifying assets. Qualifying assets currently include SPS entitlements under a 2003 EU Directive. This Directive was replaced in January 2009. The Government will legislate to restore the availability of capital gains tax roll-over relief for entitlement to payments under the SPS. Legislation will be included in Finance Bill 2012 to revise the list of qualifying assets in order to ensure that, whatever Directive they fall under, SPS entitlements continue to be eligible for roll-over relief. The Government will be consulting on this measure. It will informally consult with key stakeholders in June/July 2011.

Inheritance Tax

3.13 Inheritance tax allowance — The inheritance tax nil rate band is frozen until April 2015. The Government has announced that from 2015-16 the consumer prices index will be used as the default indexation assumption.

Corporate taxes

Corporation Tax

3.14 Full controlled foreign companies (CFCs) reform — The Controlled Foreign Company (CFC) regime is to be reformed, with new rules being introduced in Finance Bill 2012. The aim is to make the CFC regime more competitive while providing adequate protection of the UK corporation tax base. The new regime will introduce a mainly entity based system that will operate in a targeted and more territorial way by bringing within a CFC charge only the proportion of overseas profits that have been artificially diverted from the UK. The new rules will include a finance company partial exemption that, in broad terms, results in an effective UK tax rate of one-quarter of the main rate on profits derived from overseas group financing arrangements. This will result in a rate of 5.75 per cent by 2014. The Government will be consulting on this measure. A consultation document describing the new regime will be published in May 2011 with draft legislation in the autumn of 2011, for inclusion in Finance Bill 2012.

3.15 Patent box — The Government will continue to consult on this measure. It will issue a consultation document in May 2011, with legislation proposed for Finance Bill 2012.

3.16 Research & Development tax credits Following consultation from November 2010 to February 2011 on the support that the research and development (R&D) tax reliefs provide to innovation, and on the recommendations of the Dyson review, the Government will publish a response in May.

The response will include further consultation on the detail of proposed changes. Subject to State aid approval and to this consultation, legislation will be introduced in Finance Bill 2012 as follows:

- the rule limiting a company's payable R&D tax credit to the amount of PAYE and National Insurance contributions (NICs) it pays will be abolished;
- the £10,000 minimum expenditure condition will be abolished for all companies; and
- changes will be made to the rules governing the provision of relief for work done by subcontractors under the large company scheme.

Again, subject to State aid approval, the rate of the additional deduction for expenditure on research and development (R&D) for companies that are small or medium sized enterprises (SMEs) will be increased by a further 25 per cent to give a total deduction of 225 per cent from 1 April 2012. Vaccine Research Relief will not be available for SMEs from the same date. Chapter 1 includes details of changes to R&D tax credits rates in 2011-12.

3.17 Capital allowances: feed-in tariffs and renewable heat incentives — The Department of Energy and Climate Change introduced the feed-in-tariffs (FITs) scheme in April 2010 to incentivise low carbon electricity generation. The renewable heat incentive (RHI) scheme is due to be introduced in summer 2011 and will sit alongside the FITs regime to incentivise heat generation from renewable sources. Where the electricity and heat generation is undertaken by a business, the business may also be able to claim capital allowances in respect of expenditure on the generating equipment. Currently, there is some uncertainty over the rate at which allowances may be claimed and it may be dependent on the business circumstances and the site of the installation. It is proposed that legislation will be introduced that will clarify the appropriate capital allowances treatment of such expenditure and ensure more consistent treatment

between businesses. The Government will be consulting on this measure and will publish a consultation document in May 2011. It will consider including legislation in Finance Bill 2012.

3.18 Capital allowances: enterprise zones — The Government has announced the creation of 21 new Enterprise Zones. It will consider, in a limited number of cases, the scope for introducing enhanced capital allowances to support enterprise zones in those assisted areas, where there is a strong focus on high value manufacturing.

3.19 Future of community investment tax relief — Community investment tax relief is a notified State aid and has clearance until October 2012. Re-notification to the European Commission will be undertaken to ensure the continuance of the scheme.

3.20 Film tax relief: state aid renotification — Film tax relief will be renotified to the European Commission in 2011 as a State aid. Film tax relief is a special relief for expenditure on the production of British films. It is approved by the Commission until 2012. Renotifying the relief will help to secure its future.

3.21 Business premises renovation allowance — The Government has confirmed it will extend the business premises renovation allowance for a further five years from 2012.

3.22 Real estate investment trusts (REITs) — The Government will commence an informal consultation with the industry and the representative body on the REITs legislation shortly after the Budget. Subject to the responses the Government will make changes both to reduce the barriers to entry and investment and to reduce the regulatory burden for existing and future REITs. The proposed legislation will be included in Finance Bill 2012. Further information will be posted on both the HM Treasury and HMRC websites as it becomes available. The consultation will seek views on:

- the introduction of a diverse ownership rule for institutional investors which will enable them to meet the non-close company rule. This will enable institutional investors to set up UK-REITs;
- allowing cash to be a “good” asset for the purpose of the REIT balance of business asset test. This will allow UK REITs to make investment decisions on a commercial basis;
- extending the time limit for complying with the distribution requirement in particular circumstances involving stock dividends. This will reduce the administrative burden on those REITs that pay out dividends on a six monthly basis;
- redefining “financing costs” for the REIT interest cover test to give certainty regarding this requirement;
- abolishing the conversion charge for companies joining the REIT regime;
- introducing a fixed grace period for new REITs to meet the non close company requirement. This will enable start up UK-REITs to build sufficient reputation to attract shareholders;
- relaxing the requirement for a UK-REIT to be listed on a recognised stock exchange. This will encourage entry into the REITs regime, particularly for start-up property investment companies; and
- making technical changes to the REITs legislation.

3.23 Distributions working group — Legislation was introduced in Finance (No3) Act 2010 covering the tax treatment of company distributions received in a narrow set of circumstances. During consultation, areas of uncertainty were identified in other parts of the distributions legislation. A joint working group has been formed with interested tax professionals and will assist HMRC in identifying and resolving points of uncertainty this financial year. These issues will be addressed by publishing comprehensive guidance or enacting legislation in Finance Bill 2012. If legislation is required the Government will consult on draft clauses in the autumn.

3.24 Amendments to the tax treatment of financing costs and income — The financing costs and income of large groups can be subject to the debt cap rules. The debt cap rules restrict, for tax purposes only, the deduction of financing costs and may also exempt financing income. The ongoing consultation on the debt cap has identified practical issues with the application of the rules, such as the *de-minimis* amount, that need to be addressed. The Government will be consulting on this measure. It will conduct informal consultation with stakeholders through the debt cap working group and the HMRC website in June 2011. Following this further consultation legislation will be published in draft in autumn 2011 and introduced in Finance Bill 2012. The legislation will aim to allow businesses to more easily apply the debt cap rules.

3.25 Amendments to the loan relationship and derivative contract disregard regulations — The disregard regulations allow companies to defer exchange gains and losses on loan relationships and derivative contracts for tax in certain circumstances. This measure will alter the circumstances in which the disregard regulations will apply to allow tax to follow the economic outcome. Those circumstances are where loan relationships and derivative contracts are used to reduce foreign exchange exposure in relation to a company's own preference share capital, foreign currency share investments made via partnerships and where a company agrees to sell foreign currency shares but the proceeds are deferred. The changes will allow tax to follow the economic outcome in those circumstances. The Government will consult informally with stakeholders in May 2011. A Tax Information and Impact Note is available at Annex A.

3.26 Consultation on devolving corporate taxation to Northern Ireland — The Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and will shortly publish a consultation paper, on 24 March 2011, including looking at mechanisms for devolving the rate of Corporation Tax to the Northern Ireland Executive.

Oil and Gas Taxes

3.27 North Sea oil tax — Legislation will be introduced in Finance Bill 2012, with effect from Budget 2012, to restrict tax relief for decommissioning expenditure to the 20 per cent rate of supplementary charge. There will be no restrictions to decommissioning relief beyond this level for the lifetime of this Parliament. The Government will work with the industry with the aim of announcing further, longer term, certainty on decommissioning at Budget 2012. Recognising the importance of continuing investment in the North Sea including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance. Chapter 1 includes details about changes to the supplementary charge.

Taxation of financial services sector

3.28 Bank capital instruments — HMRC will work with industry and representative bodies to explore the tax treatment of new capital instruments which banks may create as a result of the *Basel III* proposals on banks' capital requirements. Certain features of these instruments make the current tax treatment uncertain. The Government will be consulting on this measure. HMRC will undertake informal consultation with stakeholders commencing in April 2011.

3.29 Tax transparent fund — Legislation will be introduced in Finance Bill 2012 to establish a tax transparent fund vehicle. This new vehicle will support the competitiveness of the UK fund industry following European regulatory changes in the Undertakings for Collective Investment in Transferable Securities (UCITS IV) directive (*Directive 2009/65/EC of the European Parliament and The Council*). The Government will be consulting on this measure in June 2011.

3.30 Solvency II and the taxation of insurance companies — A Technical Note *Solvency II and the Taxation of Insurance Companies* has been published today, 23 March 2011, to announce the outline of a new life insurance tax regime, to have effect from 1 January 2013. The new regime will deal with essential adjustments arising from Solvency II and at the same time deliver significant changes to create a simpler and more stable tax basis better aligned with the taxation of companies generally. The Government will be consulting further on this measure. It will issue a consultation document in April and there will be further detailed discussions with stakeholders with a view to introducing legislation in Finance Bill 2012.

3.31 Protection life insurance — Changes will be made to the way in which life insurance companies are taxed on certain long term business. The "income minus expenses" calculation used to calculate the profits on those life insurance policies which primarily provide protection in the event of death will not apply to policies written after 31 December 2012. Instead the life insurance companies will be taxed on a trading profits basis. The change is outlined in a Technical Note *Solvency II and the Taxation of Insurance Companies* published today, 23 March 2011 and which is available on the HMRC website. The Government will be consulting further on this measure. It will issue a consultation document in April, and there will be further detailed discussions with stakeholders. Legislation will be in Finance Bill 2012.

3.32 General claims equalisation reserves (CERs) — General insurers and Lloyd's insurers currently receive a tax deduction for amounts based on regulatory claims equalisation reserves (CERs). CERs apply to certain lines of business recognised as being the most susceptible to volatile results. Under the *Solvency II* Directive, which is expected to apply from January 2013, there will be no regulatory requirement for CERs and they will disappear, resulting in the release of built-up reserves to tax. The Government will be consulting on this measure. It will informally consult with stakeholders from April 2011. The Government will look to industry to give a robust justification for continuing the CERs tax relief. Dependent on this, the Government intends to legislate in Finance Bill 2012 to retain the tax relief. The case for CERs will be reviewed again in the light of future insurance accounting developments currently expected in 2014.

3.33 Islamic Finance — The Government will make regulations to introduce direct tax rules for sharia-compliant variable loan arrangements and derivatives in 2011 following formal consultation with industry.

3.34 Stop loss and quota share insurance — HMRC has changed its current view on the timing of any tax deduction in respect of stop-loss premiums as set out in guidance in the Lloyd's manual at LLM4150. HMRC now believes that the position under existing law is that member-level stop-loss premiums are admissible in accordance with the normal rules concerning trading profits. That is, they are allowable in accordance with normal accountancy principles subject to any specific statutory provision. The guidance will be amended shortly. There are certain situations where HMRC continues to believe that this treatment is not appropriate. Amending legislation will be introduced in Finance Bill 2012 to ensure that expenses are to be deducted at the same time as the recognition of the profits to which they relate. The Government will informally consult with stakeholders from April 2011.

Charities and Charitable Giving

3.35 Gift aid: records for small donations — From April 2013 charities (and community amateur sports clubs) that receive small donations of £10 or less will be able to apply for a gift aid style repayment without the need to obtain gift aid declarations for those donations. The amount of small donations on which the new repayment can be claimed will be capped at £5,000 per year, per charity. In order to qualify for this new repayment, charities will need to have been recognised by HMRC for gift aid purposes for at least three years, have been operating gift aid successfully throughout that time and have a good tax compliance record. The Government will be consulting with charity representatives on the details of the new scheme over the summer 2011.

3.36 Gift aid: online filing — In 2012-13 HMRC will introduce a new online system for charities to register their details for gift aid and to make gift aid claims. As a first step towards this, HMRC will publish four new "intelligent" forms for charities to use. The forms contain automatic checks to improve the accuracy of information and reduce administrative burdens. HMRC has worked with the charity sector to develop the new forms and will work with the sector to develop the new online system. HMRC will also work with the charity sector to develop a supporting electronic gift aid database for gift aid declarations.

3.37 In-year repayments of income tax to charities — The Government will publish draft Finance Bill clauses in the autumn that will give statutory effect to an existing extra statutory concession (ESC). Under this ESC, HMRC currently makes certain repayments of tax to charitable companies and certain charitable trusts that make a claim to repayment of tax outside a tax return ("in-year claims").

3.38 Gifts of art — The Government is considering introducing a tax reduction for taxpayers who give a work of art or historical object of national importance to the State. A consultation on the proposal will take place over the summer.

3.39 SA Donate — The SA Donate scheme is to be withdrawn for repayments of tax due on tax returns for 2011-12 and subsequent years, and for any repayments made in respect of earlier tax years on or after 6 April 2012. Self-assessment taxpayers who are due a repayment of tax from HMRC may currently direct that the repayment should be made instead to a charity of the taxpayer's choice. SA Donate was introduced in 2005 but has not been well used, is not cost-effective and is vulnerable to fraud without extensive upgrading. The resources saved from the withdrawal of SA Donate will be redirected to support the introduction of an online claims system for Gift Aid. Legislation will be introduced in Finance Bill 2012 to give effect to the changes. A Tax Information and Impact Note for this measure is available at Annex A.

3.40 Inheritance tax – reduced rate — The Government has announced that a reduced rate of inheritance tax (IHT) will apply where 10 per cent or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the current 40 per cent rate will be reduced to 36 per cent. The new rate will apply where death occurs on or after 6 April 2012. The Government will be consulting on the detailed implementation of this measure and will issue a consultation document before the summer.

Indirect Taxes

Alcohol Duties

3.41 Repeal of Alcoholic Liquor Duties Act s.22 — The Government will repeal the redundant legislation in section 22 of the Alcoholic Liquor Duties Act 1979 that allows for drawback of British compounds and spirits of wine. An informal consultation exercise with the trade and relevant trade associations confirmed that businesses will not be affected by the repeal which will be included in the Finance Bill 2012.

3.42 Potential legislative measures to tackle alcohol fraud — The Government remains committed to tackling alcohol fraud and avoidance. It has been working in collaboration with industry to address these issues but further progress is required. The Government will explore legislative options to tackle existing and emerging threats to receipts.

Gambling Duties

3.43 Machine games duty — Legislation for machine games duty (MGD) is planned for Finance Bill 2012. The Government intends to consult on the design characteristics of MGD in May 2011. A technical consultation on draft legislation for Finance Bill 2012 is expected to be launched in autumn 2011.

Fuel duties

3.44 Fuel duty rates — The fuel duty escalator that was first announced in Budget 2009 will be abolished and replaced with a fair fuel stabiliser. When oil prices are high, as now, fuel duty will increase by the retail prices index (RPI). However, if the oil price falls below a set trigger price on a sustained basis, the Government will increase fuel duty by RPI plus 1 penny per litre. The Government believes that a trigger price of \$75 per barrel would be appropriate, and will set a final trigger price and mechanism after seeking the views of oil and gas companies and motoring groups.

Legislation will be introduced in Finance Bill 2012 to amend fuel duty rates further as follows:

- the 2012-13 increase will be implemented on 1 August 2012;
- on 1 August 2012 the effective rate of duty for non road fuels will rise in proportion to the main fuel duty rate; the duty increases on natural gas will maintain the differential with the main road fuels, and the differential for road fuel gas other than natural gas will be reduced by the equivalent of one penny per litre of petrol; and
- on 1 August 2012 the duty rate for leaded petrol will increase by the same monetary amount as main fuel duty, and the duty rate for aviation gasoline will rise in proportion to the main fuel duty rate.

Chapter 1 includes details of current year fuel rate increases.

3.45 Update on rural fuel duty rebate — The Government has formally applied to European Commission to implement a five pence per litre rural fuel duty rebate pilot scheme covering all islands in the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly.

Transport Taxes

3.46 Aviation tax consultation.— At the June Budget 2010 the Government announced it would explore changes to the aviation tax system. At Budget 2011 a consultation with proposals for reform of Air Passenger Duty from April 2012 was published (available from HM Treasury's website). The Government has also announced its intention to tax business jets, and the consultation will seek views on how this change should be implemented. A summary of impacts can be found at Annex B of the consultation document.

Carbon taxes

3.47 Reform of climate change agreements — Climate change agreements (CCAs) provide businesses in energy intensive sectors with an entitlement to pay a reduced rate of climate change levy (CCL) when agreed energy efficiency targets are met. The current CCA scheme ends in March 2013. Budget 2011 has announced that the scheme will be extended to 2023 and the current 54 participating sectors will continue to be eligible for the scheme. By summer 2011 the Government will publish a consultation on options to simplify the scheme. From 1 April 2011, CCA facilities will pay a reduced rate of CCL of 35 per cent on all taxable commodities. The Budget has also announced that, for electricity supplies only, this reduced rate of CCL will be amended from 35 per cent to 20 per cent from 1 April 2013. Legislation to this effect will be introduced in Finance Bill 2012. Following Royal Assent to that Bill, secondary legislation will provide for amendment to the formula set out in CCL Regulations.

Stamp Duty Land Tax

3.48 SDLT for First Time Buyers — The outcome of the review of the SDLT relief for first time buyers will be announced in the autumn.

VAT Measures

3.49 Diplomatic Privilege — Legislation will be introduced in Finance Bill 2012 to provide a power to enable secondary legislation to be used to provide indirect tax and duty reliefs for diplomatic missions, international bodies, visiting NATO forces and European research infrastructure consortiums (ERICs). In respect of the first three categories, relief is currently provided by means of extra statutory concessions (ESCs) which, following the clarification provided by the House of Lords in the Wilkinson case, need to be withdrawn. In respect of ERICs, the legislation will provide the UK tax relief envisaged by the EU ERIC Regulation.

3.50 VAT grouping extra statutory concession — Legislation will be introduced in Finance Bill 2012 to give statutory effect to an existing VAT extra statutory concession (ESC 3.2.2). This concession allows the value of an anti-avoidance tax charge required within UK VAT groups to be capped at the value of services purchased by an overseas VAT group member and recharged to the UK. Without the concession the group would need to account for VAT on the total value of the supply from the overseas group member to the UK member, including any services sourced in-house. The concession ensures that VAT groups and businesses with overseas branches are

treated equally in respect of overseas services bought in from third parties. The Government will commence a technical consultation with stakeholders in May 2011.

3.51 VAT status of public bodies — Legislation will be introduced to amend UK law to ensure that there is clear transposition of EU agreements relating to the VAT treatment of public bodies carrying out their statutory duties in competition with the private sector. The Government will issue draft legislation in the autumn with a view to introducing the legislation in Finance Bill 2012.

3.52 Tackling VAT fraud on imported road vehicles — The Government has launched a joint HMRC-DVLA initiative to combat VAT fraud on road vehicles brought into the UK. From 2013 vehicles entering the country for permanent use on UK roads will have to be notified to HMRC online before the vehicle is registered with the DVLA. Individuals and non-VAT registered businesses will be required to pay the VAT at the time of notification. VAT registered customers will continue to make payment through their VAT return. Based on the information provided, HMRC will assess whether the payment of the VAT on the vehicle is secure, thus enabling DVLA to refuse vehicle licensing and registration where the VAT is not shown as secure. The Government will be consulting on this measure. It will issue a formal consultation document in May 2011 and legislation covering this scheme will be introduced in Finance Bill 2012.

3.53 VAT cost-sharing exemption — Consultation will continue on the options for implementing the VAT cost sharing exemption into UK legislation. The exemption could be used by organisations such as charities, universities and housing associations wanting to make efficiency savings by working together to achieve economies of scale. Under current UK legislation a VAT cost can arise creating a barrier to the sharing of costs and services. The exemption, if implemented in the UK, would, in certain circumstances, remove this VAT barrier.

Anti-avoidance Measures

3.54 Avoidance: high risk areas — The Government has announced the first reviews in the programme of work to strengthen the legislative framework in areas of the tax code that have repeatedly been subject to avoidance attempts. There will be a rolling programme of work, identifying the areas of greatest risk where policy reform is not already providing the opportunity for review. The document *Tackling Tax Avoidance* contains details of the first two areas to be considered – income tax losses and unauthorised unit trusts. Consultation documents on these will be published this summer. The Government will make an interim announcement on progress at Budget 2012 with a view to introducing legislation in Finance Bill 2013.

3.55 Listed tax avoidance schemes — The Government is aware of continued marketing and use of avoidance schemes which are believed not to deliver the tax advantages advertised. This measure seeks to reduce the cash flow advantage from using certain avoidance schemes. The aim is to deter the use of such schemes by listing them in regulations and attaching statutory consequences to their use. The document *Tackling Tax Avoidance* contains more details of this measure. A consultation document will be issued in May 2011 to be followed by draft legislation for inclusion in Finance Bill 2012.

3.56 Tax treaties anti-avoidance — The Government intends to introduce an anti-avoidance measure in Finance Bill 2012 that would ensure that relief or exemption from UK tax is not given where a claim is made under the UK's double taxation treaties and where arrangements have been made in relation to the claim to avoid UK tax. It is aimed at:

- UK residents (individuals, trustees and companies) who use tax avoidance schemes; and
- overseas residents (often based in countries with which the UK does not have a tax treaty) who enter into arrangements to obtain benefits under the UK's double taxation treaties where they are not properly due.

Such an approach would be in accordance with generally accepted international principles as set out by the OECD in the Commentary to its Model Tax Convention. The Government will be consulting on this measure and it will invite representations on the draft clauses when they are published in the autumn.

3.57 Employer asset-backed pension contributions — The Government will consult on changing tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes so that the tax relief accurately reflects the increase in fair value of pension plan assets, whilst maintaining flexibility for employers and schemes. The consultation document will be published in spring 2011. Subject to the consultation, legislation will be introduced in Finance Bill 2012.

3.58 Changes to the capital allowances anti-avoidance legislation — Chapter 17 of the Capital Allowances Act 2001 contains anti-avoidance legislation to provide protection against abuse of the capital allowances rules that apply to plant and machinery. The Government proposes to make this legislation more effective. The legislation currently applies to transactions where the sole or main benefit arising from the transaction is obtaining an allowance. The Government intends to replace this 'sole or main benefit' test with a new rule that is in line with effective anti-avoidance tests elsewhere in the Taxes Acts. Further changes will be proposed to make the legislation as clear and effective as possible. The Government will be consulting on this measure and will publish a consultation document with further details in May 2011 with a view to introducing legislation in Finance Bill 2012.

3.59 Capital allowances: fixtures mandatory pooling — The Government will consult on plans to introduce changes to the capital allowances fixtures rules that businesses must pool their expenditure on fixtures in a building within a short period of acquiring the building, in order to qualify for capital allowances. A consultation document will be published at the end of May.

3.60 Tax Policy Making (draft protocol on announcements outside fiscal events) — The Government has published the final text of its protocol on unscheduled announcements of changes to tax law. The Protocol sets out the criteria that Ministers will consider when deciding whether to make a change in tax law with immediate effect. The text and details of responses to the draft text published for consultation in December can be found in the document *Tackling Tax Avoidance*.

Tax Administration

3.61 Incapacitated persons — The Government will be consulting on how best to modernise the language used to define an incapacitated person for direct tax purposes. The current definition includes terms which are no longer appropriate. A consultation document will be issued in May 2011.

3.62 Simplification of regulatory penalties — The Government will be consulting on the range of penalties that HMRC can impose for failure to comply with regulatory obligations across the tax and duty regimes. It will publish a consultation document to consider options for simplification in June 2011.

3.63 Dishonest tax agents — The Government has previously made proposals allowing HMRC, with appropriate safeguards, to obtain the working papers of dishonest tax agents, penalise them and publish their details on HMRC's website. The Government will be consulting on this measure. It will continue to informally consult stakeholders and will issue a consultation document and revised draft legislation in July 2011.

3.64 Tax consultation framework — The Government will shortly publish its finalised Tax Consultation Framework alongside a summary of the comments received on the draft Framework published on 9 December 2010. The consultation framework sets out the approach the Government will take to consulting on most changes to tax policy and legislation (and other matters dealt with by HMRC). It also sets out when, generally, consultation will not be appropriate and commits the Government to explaining why it has not consulted or has departed from the framework. A number of interested parties agreed with the Government about the importance of consultation and have been actively involved in developing the tax consultation framework.

3.65 Tax transparency for individuals — The Government will consult in the autumn to explore how the administration of the personal tax system can become more transparent for individuals. HMRC will develop and introduce a new online tax calculator and downloadable applications by April 2012. This will enable taxpayers to calculate both the annual tax and National Insurance contributions they can expect to pay and their overall effective tax rate.

3.66 Response to OTS review of IR35 — The Government has considered the three options on IR35 (the anti-avoidance Intermediaries legislation in Chapter 8, Part 2 of the Income Tax (Earnings and Pensions) Act 2003) set out in the Office of Tax Simplification's report on its review of small business, published on 10 March on the HM Treasury website. The Government has decided that it cannot put substantial tax revenue at risk and has therefore decided to retain IR35 and to achieve simplification by making improvements to the way in which it is administered. These improvements will:

- provide greater pre-transaction certainty, including a dedicated Helpline staffed by specialists;
- provide greater clarity by publishing guidance on those types of cases HMRC view as outside the scope of IR35;
- restrict reviews to high risk cases carried out only by specialists teams; and
- promote more effective engagement with interested parties through an IR35 Forum to monitor HMRC's new approach.

3.67 Response to OTS review of small business tax — As part of the second stage of its review of small business tax, the OTS will look at improving tax administration for small business, with recommendations to the Government for Budget 2012. Further detail on this work, the Government's response to the OTS reviews, and future work by the OTS will be announced shortly.

3.68 Digital default consultation — Following the Minister for the Cabinet Office's statement of 23 November 2010 on "Digital by Default", the Government will consult on how it will mandate use of the new online Registration Wizard for the main business taxes (corporate tax, income tax self assessment/Class 2 NICs, PAYE and VAT – see below). The consultation will take place in summer 2011 with mandation coming into effect between August 2012 and 2013. The measure forms part of the "One Click" programme which will accelerate the move of customers to access services through efficient online channels.

3.69 VAT: mandation of online registration and tranche 2 of online filing of VAT returns — The Government will mandate online VAT registration/de-registration, and notification of changes, from 1 August 2012. This will improve processing time and reduce contact with HMRC. Other changes will include removal of the VAT registration threshold for businesses not established in the UK. Also, the Government will mandate online filing of VAT returns and electronic payments for the second tranche of existing VAT customers (with a VAT exclusive turnover of under £100,000), for VAT periods beginning on or after 1 April 2012. Since April 2010 only VAT customers with a VAT exclusive turnover of £100,000 or more, and customers newly registering for VAT (whatever their turnover) have been legally required to file VAT returns online and pay VAT due electronically. The Government will be consulting on this measure. It will issue consultation documents in June.

3.70 Customer cost reduction announcement — HMRC has targets running from 1 April 2006 to 31 March 2011 to reduce the administrative burdens on business – that is the cost to business of providing information to HMRC or third parties. HMRC has exceeded these targets delivering savings of £578 million against a target of £510 million. For future years HMRC will be expanding the existing narrow administrative burden target to include wider customer compliance costs, particularly the costs incurred where things go wrong or where there is error; referred to as "operational grit". Alongside this HMRC commits not to increase administrative burdens, under the existing measure, over this spending review period. This fits with HMRC's aim to improve customer experience and reduce costs for customers in meeting their tax obligations, achieved through simplification and streamlining of processes as set out in the HMRC customer centric strategy and business plan.

Reliefs

3.71 OTS review of reliefs and Government response — As set out in Chapter 1 the Government intends to abolish the following reliefs next year after a period of consultation:

- payments to mariners to be disregarded (SSCR 2001 Reg 123);
- grants for giving up agricultural land (TCGA 1992 s249);
- pool betting duty payments related to safety improvement at football grounds or for the arts (CTA 2009 s139);
- mineral royalties (ITTOIA 2005 s319);
- payments for the benefit of family members (ICTA 1988 s273; ITEPA 2003 s609; ITA07 s459);
- cycle to work days - provision of meals (SI 2002/205 Reg 3);
- late night taxis (ITEPA 2003 s248; SSCR 2001 Sch 3 Part 5 Para 5(c) and Part 10, Para 8(d));
- luncheon vouchers (ITEPA 2003 s89; SSCR 2001 Sch 3 Part 5 Para 6A);
- pools payment for football ground improvements (FA 1990 s126);
- pools payment for support for games (FA 1991 s121)
- disregard for certain apprentices and students coming to the UK (SSCR 2001 Reg 145(3));
- assistance in identifying lost or stolen credit cards (SSCR 2001 Sch 2 Para 15 Part 10);
- nationalisation schemes (FA 1946 s52); and
- tax reserve certificates issued by HM Treasury (CTA 2009 s1283).

The Government recognises the need to provide a period of notice before the abolition of some reliefs. Therefore, the Government intends that the following reliefs will be abolished after 2012, with a final date set out after the consultation:

- Class 1A NICs - Exemption for prescribed general earnings (SSCR 2001 Sch 3 Para 2(2)(b) Part 8 & Reg 40(4));
- Class 4 NICs - Allows deduction in next tax year of losses incurred in 89/90 or previous tax year where losses from income other than trade or profession or vocation (SSCR 2001 Sch 2 Para 3);
- deeply discounted securities - incidental expenses (ITTOIA 2005 s439(4));
- life assurance premium relief (ICTA 1988 s266, 268-272, 274, 278, Sch 14; SI 1997/1143; SI 1977/1144; SI 1978/1159; SI 1980/1947; SI 1980/1948);
- life assurance premiums paid by employers under E-FRBS (ICTA88 s266A);
- capital allowances - flat conversion allowances (CAA 2001 Part 4A);
- capital allowances - safety at sports grounds (CAA 2001 s30 - s32);
- certain leases granted by registered social landlords (FA 2003 s128);
- disadvantaged area relief (FA 2001 s92 & Sch 30);

- exempt Instruments (SI 1987/516);
- partial relief for company acquisitions (FA 1986 s76);
- shared ownership transactions (FA 1980 s97; FA 1987 s54);
- transfers to registered social landlords (FA 2000 s130);
- visiting forces and allied headquarters (FA 1960 s74);
- disadvantaged area relief (DAR) (FA 2003 s57 & Sch 6 & Sch 15 Para 26; SI 2001/3747);
- Angostura bitters (Alcoholic Liquor Duties Act 1979 s1(7));
- Black Beer (Alcoholic Liquor Duties Act 1979 s1 (3)(a));
- land remediation relief (CTA 2009 Part 14);
- compensation for mis-sold pensions (FA 1996 s148);
- harbour authorities (TCGA 1992 s221);
- harbour reorganisation schemes (CTA 2010 s993); and
- transfers in relation to harbour reorganisation schemes (FA 1966 s45).

A Tax Information and Impact Notes: Introduction

A.1 As set out in the introduction, the Government has consulted on its approach to tax policy making. One of the elements of this has been how information about changes in tax policy is communicated and presented.

A.2 From Budget 2011 onwards, the Government will publish a Tax Information and Impact Note (TIIN) for most tax policy changes at the point at which the policy design is final or near final. This was set out by the Exchequer Secretary to the Treasury in a Written Ministerial Statement on 15 March 2011. Depending on the nature of the policy change, a TIIN could be published alongside the Budget, draft legislation or final legislation. A TIIN will be produced for the majority of substantive changes in tax and NICs policy by primary and secondary legislation.¹

A.3 TIINs are published in this document for the following measures:

- new tax changes announced in Budget 2011 for Finance Bill 2011;
- tax changes that will be legislated for in Finance Bill 2011 that have been previously announced, but where the change in policy or legislation is substantive; and
- new tax changes announced in Budget 2011 but planned for Finance Bill 2012 or beyond where the changes are straightforward and will not be subject to more detailed consultation.

A.4 For each policy measure, the TIIN will provide a clear statement of:

- the change the Government proposes to make to the tax system;
- why it proposes this change; and
- what it expects the impacts of the change to be.

Impact of policy changes

A.5 All the tax policy changes contained in this document have been tested against the list of possible impacts as used in regulatory Impact Assessments.² In most cases, these impacts will be included in the “Other impacts” section of the TIIN. Those tests which result in no impact have not been recorded.

A.6 The full list of impacts against which each policy has been tested is as follows:

- equality;
- competition;

¹ Generally, TIINs will not be published e.g. alongside a routine legislative change that gives effect to previously announced policy, such as routine changes to rates, appointed day orders, secondary legislation enacting Double Taxation treaties, or secondary legislation not laid before Parliament.

² See Annex 6 of the Impact Assessment toolkit: <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-518-impact-assessment-toolkit.pdf>

- small firms;
- carbon emissions;
- wider environment;
- health;
- sustainable development;
- rural proofing;
- justice; and
- privacy.

Ministerial sign-off for Tax Information and Impact Notes

I can confirm that Treasury Ministers have read the attached Tax Information and Impact Notes and are satisfied that, given the available evidence, each represents a reasonable view of the likely costs, benefits and impacts of the measures.

A handwritten signature in black ink, appearing to read 'David Gauke'.

David Gauke MP

Exchequer Secretary to the Treasury

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Personal Taxes, National Insurance Contributions and Capital Gains Tax

Enterprise Investment Scheme and Venture Capital Trusts

Who is likely to be affected?

Companies raising money under the Enterprise Investment (EIS) and Venture Capital Trust (VCT) schemes, and individuals investing under the schemes.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to increase the rate of income tax relief given under EIS from 20 per cent to 30 per cent of the amount subscribed for shares, subject to State aid approval.

Subject to State aid approval legislation will be introduced in Finance Bill 2012 to increase:

- the thresholds for the maximum size of qualifying company for both EIS and VCTs;
- the maximum annual amount that can be invested in an individual company; and
- the annual amount that an individual can invest under the EIS.

These changes will apply from 6 April 2012.

The Government will bring forward and consult on further changes to the schemes including proposals to give additional support through the EIS for seed investment.

Legislation will also be introduced in Finance Bill 2012 providing that companies whose trade consists wholly or substantially in the receipt of Feed-In Tariffs (FITs) or similar subsidies will only be eligible for the two schemes where commercial electricity generation commences before 6 April 2012. Shares issued before 23 March 2011 will not be affected.

Policy objective

The aim of this measure is to help smaller, riskier UK companies to compete for finance.

- To increase the incentive for people to invest in smaller companies, which face barriers in raising external finance, helping these companies to be established and to grow, the EIS rate and the investment limits and company size thresholds for both EIS and VCTs will be increased.
- To help the EIS and VCT schemes focus better on higher risk companies and target tax relief more appropriately, FIT based trades will be excluded. This will help prevent these schemes funding activity which receives the benefit of a subsidy.

Background to the measure

The changes were announced in Budget 2011 following consideration by the Government of responses to:

- a consultation document *Financing a Private Sector Recovery*, published on 26 July 2010 on the website of the Department for Business Innovation and Skills (BIS).
- *Financing business growth: The Government's response to 'Financing a private sector recovery'*, published on the BIS website on 3 October 2010.

- *The path to strong, sustainable and balanced growth* (the “Growth Review”), published on the Treasury and BIS websites on 29 November 2010.

A review of FITs¹ was announced by the Department for Energy and Climate Change (DECC) on 7 February 2011.

Detailed proposal

Operative date

The increase in the rate of EIS income tax relief will have effect for shares issued on or after 6 April 2011, subject to State aid approval.

The increases to the investment limits will, subject to State aid approval, have effect for shares issued on or after 6 April 2012.

The exclusion of FIT based trades will apply where commercial electricity generation commences on or after 6 April 2012. Shares issued before 23 March 2011 will not be affected.

Current law

The EIS and VCT legislation is in Parts 5 and 6 (respectively) of the Income Tax Act (ITA) 2007.

The EIS rate (currently 20 per cent) is set by section 158 ITA, as is the limit (currently £500,000) on the annual amount of relief which an individual can invest under EIS.

The company size threshold (gross assets of no more than £7million immediately before the share issue and £8million after) is set by section 186 ITA (for EIS) and section 297 ITA (for VCTs).

The limit on the number of employees (currently, fewer than 50) is at sections 186A ITA and 297A ITA. The £2million limit on the amount of investment that a company can raise under both schemes is defined at section 173A (for EIS) and section 292A (for VCTs).

Section 192 ITA (for EIS) and section 300 ITA (for VCTs) defines which activities, carried on by an investee company, exclude it from qualifying for relief.

Proposed revisions

Legislation to be included in Finance Bill 2011 will increase the EIS rate to 30 per cent. This change will apply to shares issued on or after 6 April 2011.

Legislation to be included in Finance Bill 2012 will increase:

- the employee limit to fewer than 250 employees;
- the size threshold to gross assets of no more than £15 million before investment;
- the maximum annual amount that can be invested in an individual company to £10 million; and
- the annual amount that an individual can invest under the EIS to £1million.

These changes will, subject to State aid approval, apply to shares in investee companies that are issued on or after 6 April 2012.

¹ Feed-in tariffs (FITs) subsidise the owners of small scale plant generating electricity from renewable sources (such as solar power). The cost of the subsidy is borne by electricity suppliers and passed on to consumers.

Legislation will also be introduced in Finance Bill 2012 providing that companies whose trade consists wholly or substantially in the receipt of Feed-In Tariffs (FITs) or similar subsidies will only be eligible for the two schemes where commercial electricity generation commences before 6 April 2012. Shares issued before 23 March 2011 will not be affected.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	-105	-115	-110	-120
Economic impact	<p>Smaller companies tend to face barriers in raising equity finance. This is due to a number of factors, in particular lack of publicly available information about companies' prospects.</p> <p>Tax relief is therefore given to incentivise such investment. The enhancements to the schemes will improve incentives to invest in small companies, helping new and more established businesses to invest to expand, become more productive and increase employment.</p> <p>Excluding companies whose trade consists wholly or substantially of the receipt of FITs will reduce the incentive to individuals to invest in lower risk investments which receive other forms of subsidy.</p>				
Impact on individuals and households	<p>Individuals and households investing in companies under EIS will benefit from April 2011 by being able to claim increased income tax relief. Individuals investing under both schemes will be able to invest more, and in a wider range of companies, from April 2012. Around 10,000 individuals invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs.</p>				
Equalities impacts	<p>Compared to the self-assessment population, EIS and VCT investors tend to be male, located in the South of England and have higher overall income levels. The changes to the schemes are not likely to change that position. We have no data to suggest that there will be impacts on other groups. From the data available therefore do not think these changes will have a disproportionate impact.</p>				
Impact on business including third sector	<p>The change will increase the amount of equity investment in smaller companies (including potentially some acting in the third sector). There is no administrative impact on them, since the relief is claimed by investors rather than the investee companies. Around 2,000 companies raise funds under EIS each year and around 1,600 through VCTs for all years up to 2007/08.</p>				
Operational impact (£m) (HMRC or other)	<p>The increase, from 2011, in the rate of EIS relief will require some minor changes to HM Revenue & Customs (HMRC's) IT systems.</p> <p>Investors subscribing for shares from 6 April 2011, who claim relief before the measure receives State aid approval and do not complete an annual Tax Return will immediately receive relief at 20 per cent and will be given the additional 10 per cent relief following State aid approval.</p> <p>There will be some costs in updating the forms and guidance.</p>				
Other impacts	<p>There will be a positive impact for smaller firms receiving investment under the Enterprise Investment Scheme, as individuals will have a greater incentive to make such investments and have a wider range of investments available.</p>				

	The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.
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Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment, are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact David Harris on 020 7147 2562 (email: david.harris@hmrc.gsi.gov.uk), Kathryn Robertson on 020 7147 2589 (kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (des.ryan@hmrc.gsi.gov.uk)

Approved Mileage Allowance Payments

Who is likely to be affected?

Employees who use their own cars or vans for business mileage, and employers who pay mileage allowances for such use. Approved Mileage Allowance Payments (AMAPs) rates are also used by employees and they will benefit from the extension of passenger payments to volunteers.

General description of the measure

The AMAPs rates can be used to claim the cost of business mileage in an employee's own vehicle. The rates cover cars, vans, motorcycles and bicycles. Where an employer pays less than the published rates, employees can make a claim for tax relief for the shortfall by using Mileage Allowance Relief (MAR).

Regulations will be introduced so that, with effect from 6 April 2011, the rate of AMAPs for cars and vans will be increased from 40p per mile to 45p per mile for the first 10,000 miles of business travel in the tax year. The rate for mileage beyond 10,000 miles will remain at 25p per mile.

This will mean drivers receiving mileage allowances in excess of AMAPs will see a reduction in their tax and national insurance contributions (NICs) liability, while those who receive less will be entitled to a larger amount of MAR.

In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for employees at 5p per passenger per mile will be extended to volunteers. That will not require legislation and will be covered in updated HMRC guidance.

Policy objective

The objective of AMAPs is to support the transport needs of business. This measure provides tax relief for payments to employees using their own cars or vans for business use; NICs relief will follow the tax treatment.

Background to the measure

- This measure is announced at Budget 2011.
- There has been no consultation on this measure.

Detailed proposal

Operative date

The new rate and the extension of passenger payments to volunteers will apply on and after 6 April 2011.

Current law

Sections 229 to 230 of the Income Tax (Earnings and Pensions) Act 2003 provide for the approved mileage allowance payments for vehicles, and sections 233 to 234 provide for passenger payments. The rate for cars and vans provides the level at which employees using their own vehicles for business mileage can be reimbursed for that use by employers with no chargeable income arising as a result.

Proposed revisions

Regulations will be laid on 23 March 2011 to increase the rate of AMAPs for cars and vans to 45p per mile for the first 10,000 miles of business travel in the tax year.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-35	-35	-35	-35	-35
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	<p>This measure increases the rate of the car and van allowance for the first 10,000 miles of business travel in a tax year. Those drivers receiving mileage allowances in excess of AMAPs will see a reduction in their tax and NICs liability, while those who receive less will be entitled to a larger amount of Mileage Allowance Relief (MAR). Where employers choose to match AMAPs increases, gains for employees will peak at £500 per year for claims of 10,000 miles and above.</p> <p>Volunteers carrying passengers as part of their volunteering duties will also be allowed to use the passenger payments allowance of 5p per mile per passenger. This allowance already exists for employees.</p>				
Equalities impacts	The change is a relieving provision which applies equally to all employees who use their own car or van for business mileage.				
Impact on business including third sector	<p>This measure creates no ongoing administrative burden for businesses as they are required to do no more than they do at present.</p> <p>There may be a small one-off compliance cost for businesses to adjust to the new rate if they have automated systems for the payment of expenses, the cost of which is estimated to be negligible.</p> <p>Businesses and third sector organisations can choose whether or not to reflect AMAPs changes in rates.</p>				
Operational impact (£m) (HMRC or other)	HM Revenue and Customs' (HMRC) costs and impacts will be negligible as the increase will only require some minor changes to internal and external guidance.				
Other impacts	<p>Small firms with 20 or fewer employees may be affected by this measure. HMRC regularly speaks to industry groups that include representatives of small business. There is no indication that they would have any difficulty in implementing the change, which will simply need a substitution of the monetary value in claims made by employees.</p> <p>In addition, it is a matter for employers how much they pay their employees for the business use of a private car or van. They may choose not to meet the statutory increase, in which case employees can seek tax relief on the amount up to the AMAPs limit through the use of MAR.</p>				

Monitoring and evaluation

The policy will be monitored through information collected from tax returns and other data sources.

Further advice

If you have any questions about this change, please contact Steve Gentle on 020 7147 2482 (email: steven.m.gentle@hmrc.gsi.gov.uk).

Entrepreneurs' Relief: Increase in the Lifetime Limit

Who is likely to be affected?

Individuals and trustees who dispose of the whole or part of a trading business, or of shares in a trading company and who meet the current qualifying conditions for Entrepreneurs' Relief.

General description of the measure

The lifetime limit on gains qualifying for capital gains tax (CGT) Entrepreneurs' Relief is increased from £5 million to £10 million.

There are no other changes to the rules or conditions relating to Entrepreneurs' Relief.

Policy objective

Increasing the amount of the lifetime limit reduces a barrier to serial entrepreneurs who want to grow their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs.

Background to the measure

- Entrepreneurs' Relief was introduced in April 2008.
- The amount of an individual's gains that can qualify for Entrepreneurs' Relief is subject to a lifetime limit. The limit applies to all qualifying gains, whatever the year in which they arose. Any such gains in excess of the limit are subject to the main rates of CGT.
- The lifetime limit was originally £1 million. This was subsequently increased to £2 million for qualifying disposals on or after 6 April 2010, and to £5 million for qualifying disposals on or after 23 June 2010.

Detailed proposal

Operative date

The increased lifetime limit will have effect for qualifying disposals on or after 6 April 2011.

Current law

Subject to satisfying certain conditions, including the lifetime limit of £5 million, gains on qualifying business disposals by individuals and certain trustees are eligible for Entrepreneurs' Relief (Chapter 3 of Part 5 of the Taxation of Chargeable Gains Act 1992 (TCGA)). Qualifying gains are liable to CGT at 10 per cent.

The lifetime limit (section 169N TCGA) is applied to the aggregate of gains that benefit from Entrepreneurs' Relief, whatever the year in which the disposal took place. Any gains in excess of the lifetime limit are liable to CGT at the same rates as other chargeable gains (18 per cent and 28 per cent).

For trustees, the £5 million limit is that of the beneficiary of the settlement who meets the conditions for the trustees to claim the relief.

The lifetime limit will increase that limit to £10 million with effect for qualifying business disposals on or after 6 April 2011.

Where individuals or trustees make qualifying gains above the prevailing limit before 6 April 2011, no additional relief will be allowed for the excess. But if they make further qualifying gains on or after 6 April 2011 they will be able to claim relief on up to a further £5 million of those additional gains (or up to £8 million or £9 million where the earlier £2 million or £1 million limit applied), giving relief on accumulated qualifying gains up to the new limit of £10 million.

Proposed revisions

Legislation will be included in the Finance Bill 2011 to increase the lifetime limit to £10 million with effect for qualifying business disposals on or after 6 April 2011.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	-50	-70	-90	-100
Economic impact	Increasing the lifetime limit to £10 million will allow entrepreneurs to retain a greater portion of their gains, incentivising them to build their business and/or reinvest gains in new ventures.				
Impact on individuals and households	Currently 25,000 to 30,000 people each year claim Entrepreneurs' Relief. Of these we estimate a small number will benefit.				
Equalities impacts	<p>Our data indicate that 85 per cent of individuals claiming the highest amounts of Entrepreneurs' Relief are male, with the same percentage being higher rate income tax payers. The increase in the lifetime limit is not likely to alter that position.</p> <p>We have no data to suggest that there are impacts on any other groups. From the data available we therefore do not think a doubling of the lifetime limit will have a disproportionate impact.</p>				
Impact on business including third sector	There will be no impact on business costs as this measure benefits individuals.				
Operational impact (£m) (HMRC or other)	Any operational impact is likely to be negligible. HM Revenue & Customs' guidance will be redrafted to support the change.				
Other impacts	There will be no impact on small firms and competition as this measure benefits individuals only. No other impacts have been identified.				

Monitoring and evaluation

The impact of removing the lifetime limit on gains eligible for Entrepreneurs' Relief will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact the capital gains team on 020 7147 0127 (email: capitalgains.taxteam@hmrc.gsi.gov.uk).

Reduced Childcare Relief for Higher Earners

Who is likely to be affected?

Employees who are higher rate or additional rate taxpayers and who join employer-supported childcare (ESC) schemes providing childcare vouchers (CCVs) or directly-contracted childcare, on or after 6 April 2011.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to restrict the level of income tax relief available to higher rate and additional rate taxpayers so that it matches the amount available to basic rate taxpayers. This will be achieved by reducing the monetary value of the income tax exemption for higher rate and additional rate taxpayers. The measure only applies to individuals who join ESC schemes on or after 6 April 2011.

Policy objective

This measure supports the Government's objective of making the tax system fairer by ensuring that all taxpayers receive the same amount of tax relief through ESC schemes.

At present, basic rate taxpayers can receive up to £900 a year, whilst higher rate taxpayers and additional rate taxpayers can receive up to £1,200 and £1,500 of support through ESC respectively. This reform will make tax relief for ESC fairer and better targeted.

Background to the measure

- This measure was announced by the previous government in the 2009 Pre-Budget Report.
- The Government confirmed in the June Budget 2010 that this measure would be taken forward in 2011.
- A Technical Note, *Reform of the Tax Treatment of Employer-Supported Childcare*, was published in February 2010 explaining how the policy would be delivered. Stakeholder responses to this Note have informed the development of this policy's delivery and their concerns were addressed in further guidance issued in October 2010.
- A draft Finance Bill clause was published on 9 December 2010. A Tax Information and Impact Note was published alongside the draft legislation. These documents are available on the HM Treasury and HM Revenue & Customs (HMRC) websites.
- A number of technical changes have been made to the draft legislation following comments and concerns raised as part of the consultation.
- This Tax Information and Impact Note updates and replaces the Note published on 9 December to show the effect of changes including an updated summary of impacts.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2011.

Current law

Sections 270A (limited exemption for qualifying childcare vouchers) and 318A (childcare: limited exemption for other care) of the Income Tax (Earnings and Pensions) Act 2003 set out the tax exempt limits of £55 per week for CCVs and directly-contracted childcare along with the qualifying conditions for the tax exemption to apply.

Proposed revisions

From 6 April 2011, the income tax exemption for CCVs and directly-contracted childcare provided through ESC schemes will be capped at approximately the same monetary level.

This will be achieved by introducing new income tax exempt limits of £28 per week for higher rate taxpayers and £22 per week for additional rate taxpayers. This will ensure that the monetary equivalent of the tax relief entitlement for all taxpayers will be based on £11 per week.

The national insurance contributions disregard will be aligned to these levels by secondary legislation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+15	+40	+65	+85	+100
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	<p>Since the previous version of this assessment was published, a review of the latest data has led to a reduction in the estimated numbers affected.</p> <p>It is estimated that 450,000 taxpayers receive income tax relief on ESC, and about 40 per cent of these are higher or additional rate taxpayers. This change only affects higher or additional rate taxpayers who join ESC schemes on or after 6 April 2011. The number of affected individuals and households will therefore build up over several years.</p> <p>The tax relief received by these taxpayers will be reduced to be the same as that received by basic rate taxpayers. The reduction in income tax relief for higher rate taxpayers will be £11 per week, and the reduction in income tax relief for additional rate taxpayers will be £16 per week.</p> <p>There are no administrative or compliance costs for individuals. These will be for employers only.</p>				
Equalities impacts	<p>The change applies equally to higher and additional rate taxpayers whether they are male or female. However, approximately two-thirds of those affected will be men, reflecting the higher proportion of men among higher rate and additional rate taxpayers.</p> <p>There are no other equalities impacts.</p>				

Impact on business including third sector	<p>This measure creates an administrative burden for businesses by asking them to undertake a basic earnings assessment for employees each year. Most childcare vouchers are delivered by way of flexible benefit or salary sacrifice arrangements which means that for any employee who has the level of eligibility restricted or increased, the employer may need to contact the employee to agree amendment of the employment contract, revise the agreed level of the employee's pay up or down, contact the voucher provider with new details, and explain the outcomes to the employee.</p> <p>The scale of the administrative burden will increase as the number of employees who join ESC schemes from 2011 increases.</p> <table><tr><td></td><td>Cost</td><td>Time Period (years)</td></tr><tr><td colspan="3">Compliance costs</td></tr><tr><td>One-off Costs</td><td>£negligible</td><td>1</td></tr><tr><td>Average Annual Costs</td><td>£200,000</td><td>5</td></tr><tr><td>Total Costs (PV)</td><td>£1 million</td><td>5</td></tr><tr><td colspan="3">Compliance benefits</td></tr><tr><td>One-off Benefit</td><td>£0</td><td>1</td></tr><tr><td>Average Annual Benefit</td><td>£0</td><td>5</td></tr><tr><td>Total Benefit (PV)</td><td>£0</td><td>5</td></tr><tr><td>Net Benefit (NPV)</td><td>-£1 million</td><td>5</td></tr><tr><td colspan="3">Impact on Administrative Burden</td></tr><tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr><tr><td>£200,000</td><td>£Nil</td><td>£200,000</td></tr></table>		Cost	Time Period (years)	Compliance costs			One-off Costs	£negligible	1	Average Annual Costs	£200,000	5	Total Costs (PV)	£1 million	5	Compliance benefits			One-off Benefit	£0	1	Average Annual Benefit	£0	5	Total Benefit (PV)	£0	5	Net Benefit (NPV)	-£1 million	5	Impact on Administrative Burden			Increase	Decrease	Net Impact	£200,000	£Nil	£200,000
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Increase	Decrease	Net Impact																																						
£200,000	£Nil	£200,000																																						
Operational impact (£m) (HMRC or other)	<p>There will be no operational impact on HMRC.</p>																																							
Other impacts	<p>Firms with fewer than 20 employees will be included in the employers affected if they offer ESC schemes. The impact on them will be mitigated by our published guidance.</p> <p>Some of the stakeholders responding to the Technical Note and the draft Finance Bill clauses represent both large and small employers and no distinction was drawn on the ability of smaller employers to implement the changes.</p>																																							

Monitoring and evaluation

This policy will be monitored and assessed alongside other measures in the Government's package of personal tax and benefits changes.

Further advice

If you have any questions about this change, please contact Steve Gentle on 020 7147 2482 (email: steven.m.gentle@hmrc.gsi.gov.uk).

Subsistence Allowances Paid to Experts Seconded to European Union Bodies Located in the UK

Who is likely to be affected?

Experts seconded by their employers to a body of the European Union (EU) in the UK. There are currently three EU bodies located in the UK: The European Medicines Agency (EMA), the European Police College (CEPOL) and the European Banking Authority (EBA).

General description of the measure

Legislation will be introduced in Finance Bill 2011 to provide a new exemption from income tax in relation to the subsistence allowances paid by a body of the EU located in the UK to experts who are seconded by their employers to work for the EU body.

Policy objective

The measure will help to ensure that the three EU bodies in the UK can attract high quality experts who would not be taxed on subsistence allowances if the bodies were located elsewhere in Europe.

Background to the measure

The measure was announced in a Written Ministerial Statement made by the Exchequer Secretary to the Treasury on 16 December 2010.

Detailed proposal

Operative date

This measure will have effect on allowances paid in respect of periods beginning on or after 1 January 2011.

Current law

Sections 70 to 72 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) treat expenses payments or reimbursements made to an employee by reason of the employment as earnings from the employment for income tax purposes. Under this legislation, subsistence allowances paid to experts seconded to EU bodies located in the UK, are subject to income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 which will amend section 304 of ITEPA 2003. The legislation will provide an employment income exemption where the EU body makes payments in respect of subsistence allowances to experts seconded by their employers because of their expertise in matters relating to the subject matter of the functions of the body.

The new exemption will be an employment income exemption (as defined at section 227(3) Income Tax (Earnings and Pensions) Act 2003 (ITEPA)). It will contain provisions for an

order-making power to amend this legislation to extend the exemption to any new EU bodies that may be located in the UK in the future.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	Negligible	Negligible	Negligible	Negligible	Negligible
Economic impact	The measure is not expected to have significant economic impacts.				
Impact on individuals and households	<p>It is expected that only around a hundred seconded experts will receive payments in respect of subsistence allowances from all three EU bodies.</p> <p>Without the action taken by this measure, these payments would be taxable as employment income and this could deter experts from outside the UK from applying to be seconded to these bodies.</p> <p>The changes create no new tax, compliance or administrative burden for individuals or households.</p>				
Equalities impacts	The policy impacts on all seconded experts irrespective of gender or nationality. The policy is intended to put experts seconded to EU bodies located in various Member States on an equal footing and it is therefore considered to have no negative effect on the relative positions of different equality groups.				
Impact on business including third sector	This measure only affects EU bodies located in the UK and ensures they will not be required to operate PAYE and submit returns to HM Revenue & Customs (HMRC) in respect of subsistence allowances to expert secondees. It creates no new tax, compliance or administrative burden for business.				
Operational impact (£m) (HMRC or other)	This measure removes a small potential operational and compliance cost for HMRC. Without the changes HMRC would incur costs in processing the returns and collecting a very small amount of tax.				
Other impacts	None as the measure only affects experts seconded to EU bodies located in the UK.				

Monitoring and evaluation

This policy will be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Basil Rajamanie on 020 7147 2384 (email: basil.rajamanie@hmrc.gsi.gov.uk).

Introduction of Junior ISAs

Who is likely to be affected?

All UK resident children aged under the age of 18 who do not have a Child Trust Fund (CTF) account will be eligible for a Junior Individual Savings Account (Junior ISA).

Banks, building societies, credit unions, friendly societies and stock brokers which choose to offer Junior ISAs.

General description of the measure

The Government will introduce a new Junior ISA product which will be available for UK resident children who do not have a CTF account. Junior ISAs will be tax-relieved and will have many features in common with existing ISA products. They will be available as a cash or stocks and shares product.

Policy objective

The aims of the Junior ISA scheme are to:

- provide families with a simple, transparent, accessible and competitive product to save for children who do not have a CTF; and
- create the conditions for families to save more for their children than they otherwise would.

Background to the measure

- The Savings Accounts and Health in Pregnancy Grant Act 2010 ended eligibility for new CTF accounts from 3 January 2011.
- On 26 October 2010 the Government announced that, following the end of CTF eligibility, it would introduce a Junior ISA scheme for those children not eligible for a CTF.

Detailed proposal

Operative date

It is expected that Junior ISAs will be available from autumn 2011.

Current law

Sections 694 to 701 of the Income Tax (Trading and Other Income) Act 2005 allow the Treasury to make regulations governing the tax exemptions, investments, administration and management of individual investment plans. These powers were formerly in Sections 333 to 333B of the Income and Corporation Taxes Act 1988.

Section 151 of the Taxation of Chargeable Gains Act 1992 allows the Treasury to make regulations entitling investors to capital gains tax relief on their investment plans.

The Individual Savings Account Regulations 1998 (SI 1998 No 1870) were made and laid on 31 July 1998 under the vires listed above. They (as laid and as subsequently amended) make provisions for the setting up of ISA accounts by account managers, to

which individuals may make subscriptions, and through which those subscriptions may be invested.

Proposed revisions

Finance Bill 2011 contains provisions that will allow for regulations to be made in connection with the establishment and operation of 'investment plans for children' (Junior ISAs).

Draft legislation, to be published on 31 March alongside the Finance Bill 2011, will set out proposed account features and processes for Junior ISAs.

This draft legislation remains subject to further development and discussion with interested stakeholders.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
	The tax cost is expected to be negligible because of the availability of alternative forms of tax free savings for children.				
Economic impact	The economic impact is expected to be minimal.				
Impact on individuals and households	<p>Junior ISAs will be a voluntary product. No individual will be required to open or manage an account. It is estimated that around 6 million children will be eligible for an account from the date of introduction, and that a further 800,000 children will be newly eligible each year, from their date of birth.</p> <p>Based on the proportion of CTF accounts that receive parental contributions it is assumed that progressively over time 20 per cent of children might have a Junior ISA.</p> <p>Junior ISAs will give families more choice when deciding on how to save for their children. Account holders will benefit from tax relief on income and capital gains earned on their Junior ISA.</p> <p>A Junior ISA account will be opened and managed by a person with parental responsibility for an eligible child. There may be minor one-off costs associated with applying for and opening an account, although this will depend upon the processes operated by account providers. Once opened, the person managing the account will be able to decide how actively they wish to do so. There may be provider charges associated with the management of some Junior ISA accounts. However, these charges will reflect a voluntary agreement between the account provider and the person authorised to operate the Junior ISA on behalf of the child.</p> <p>Overall, any costs for individuals are likely to be negligible and incurred voluntarily. Furthermore, these costs will be broadly comparable with those for any other (non ISA) children's saving product.</p>				

Equalities impacts	<p>Eligibility for Junior ISAs will be open equally to all UK resident children who do not currently hold CTFs.</p> <p>Only people under 18 years of age will be eligible for a Junior ISA. This limitation is integral to the policy aims of the accounts, which relate to saving for children.</p> <p>Some faith groups are prohibited from holding certain interest bearing accounts and investments. Junior ISA accounts will be designed so they can be offered as a Sharia compliant product. However, the precise terms and conditions of each account will, in most respects, be matters for agreement with the account provider.</p>
Impact on business including third sector	<p>Provision of Junior ISA accounts will be entirely voluntary, and this will be a commercial matter for each institution. We anticipate that accounts will be provided by a range of banks, building societies, credit unions, friendly societies and stock brokers.</p> <p>The impact upon account providers will depend upon the precise detail of the account features, some of which are still subject to consultation and further development. However it is intended that, where possible, account features and reporting requirements will be based on those already in operation for ISAs/CTFs. In many cases, existing processes are likely to be able to be adapted to include Junior ISA.</p> <p>One off costs will include those incurred in the adaptation of existing ISA/CTF account systems and processes. There will also be ongoing costs associated with opening and managing accounts and investments, and providing information to HM Revenue & Customs (HMRC). However, these accounts are likely to be profitable for providers overall, and, as noted above, it will be a commercial decision for each provider whether or not they offer Junior ISAs.</p>
Operational impact (£m) (HMRC or other)	<p>There will be additional costs for HMRC, including one-off systems costs and ongoing costs attributable to customer contact, staff, compliance etc. HMRC's costs are estimated to be £300,000 for 2011/12 and £150,000 per year thereafter.</p> <p>HMRC costs will be minimised by combining Junior ISA compliance/audit work and data reporting with existing arrangements for other ISA products.</p> <p>There may also be additional costs to publicise the Junior ISA scheme, but this will be subject to further consideration closer to the launch of the scheme.</p>
Other impacts	<p><i>Competition:</i> Junior ISAs may impact upon demand for other children's saving products. However, no impact upon competition between providers is anticipated, as any approved deposit taker can choose to offer Junior ISA.</p> <p><i>Small Firm Impact Test:</i> Some small firms – including credit unions and friendly societies – are expected to offer Junior ISAs. While account requirements (including reporting requirements) will apply equally to all providers, HMRC will continue to discuss any issues or concerns with smaller providers and their representatives.</p>

Monitoring and evaluation

Junior ISAs will be subject to ongoing review through compliance and audit work, as well as discussions with account providers and other interested groups. HMRC anticipates publishing data on account openings at least annually.

Further advice

If you have any questions about this change, please contact Declan Norris on 020 7147 0855 (email: declan.norris@hmrc.gsi.gov.uk).

Income Tax Personal Allowance for Those Aged Under 65 for 2012-13

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

For 2012-13, legislation in Finance Bill 2012 will increase the personal allowance for those aged under 65 to £8,105 and reduce the basic rate limit to £34,370.

For 2012-13, all other income tax personal allowances and limits that are subject to indexation will be increased in line with the Retail Prices Index.

Policy objective

The increase to the personal allowance for those aged under 65 will make the tax system fairer by providing support to individuals on low and middle incomes and by increasing the rewards to work.

The reduction to the basic rate limit means the higher rate threshold (the sum of the personal allowance and basic rate limit) is not affected by this announcement. This ensures no additional higher rate taxpayers are created, and that most basic and higher rate taxpayers will gain from the increase in personal allowances by the same amount.

Background to the measure

Following the £1,000 increase in the personal allowance for 2010-11, this £630 cash increase is the next step towards the Government's longer-term commitment to increase the personal allowance to £10,000.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2012.

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2010 provides for income tax and the tax rates for 2010-11. Section 1 also provides that for 2010-11, the personal allowances for those aged under 65 and the basic rate limit and starting rate limit for savings are the same amount as for 2009-10.

Existing legislation requires the Government to increase personal allowances and rate limits (except the higher rate limit and £100,000 income limit) by the annual percentage increase in the Retail Prices Index for the year to September preceding the new tax year. The Government made the Order for 2011-12 on 2 December 2010. Legislation to be introduced in Finance Bill 2011 will over-ride the amounts set in the Order for the personal allowance for those aged under 65 and the basic rate limit.

The Finance Bill 2011 will provide:

- for income tax and the main tax rates for 2011-12;
- that the personal allowance for those aged under 65 will be £7,475 for 2011-12; and
- that the basic rate limit is £35,000 for 2011-12.

Proposed revisions

For 2012-13:

- the personal allowance for those aged under 65 will be £8,105;
- the basic rate limit will be £34,370.

The Government has announced that for 2012-13 it will over-ride the amounts set in the 2012-13 Order for the personal allowance for those aged under 65 and the basic rate limit. These provisions will be included in Finance Bill 2012.

Finance Act 2010 provides and Finance Bill 2011 and Finance Bill 2012 will provide for the following amounts:

	2010-11	2011-12	2012-13
Personal allowance for those aged under 65	£6,475	£7,475	£8,105
Basic rate limit	£37,400	£35,000	£34,370

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
		-1,050	-1,210	-1,200	-1,230
	Scorecard costings do not include indirect behavioural effects, which are captured in the OBR's economic forecast.				
Economic impact	<p>The measure makes the tax system fairer by providing direct financial support to low and middle income individuals and improving incentives to enter employment.</p> <p>Final impacts on employment (and hours worked) are also dependent on other measures announced at this Budget relating to personal tax and national insurance contributions as well aggregate labour demand and the performance of the wider economy.</p>				
Impact on individuals and households	<p>The increase in the personal allowance for those aged under 65 will remove the 260,000 lowest income taxpayers out of income tax altogether in 2012-13. 25 million taxpayers will have an average real terms gain of £48 a year. This occurs alongside the switch to using the CPI as the basis for indexation for the employee and self-employed national insurance thresholds from 2012-13. 550,000 individuals will have an average loss of £48 a year – all have incomes above £115,970 and lose because they do not have a personal allowance before the change but are affected by the reduction in basic rate limit.</p>				

Equalities impacts	<p>Income tax changes apply regardless of personal circumstances such as gender, race or disability. Of these categories, HM Revenue & Customs (HMRC) only hold taxpayer data on gender. In 2012-13 females are projected to account for 42 per cent of all taxpayers. From this measure:</p> <p>43 per cent of the 25 million individuals better off will be female;</p> <p>56 per cent of the 260,000 individuals taken out of tax will be female;</p> <p>16 per cent of the 550,000 individuals worse off will be female.</p>
Impact on business including third sector	There will be no significant compliance costs for businesses from making this routine change to their employees' Pay As You Earn (PAYE) thresholds.
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible because changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	<p><i>Small Firms Impacts Test:</i> This change will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website.</p> <p>This is provided free of charge and will contain the new amounts which will minimise the burden on employers if they choose to take advantage of it. Small businesses will need to acquaint themselves with the new limits and thresholds. For those businesses which do not have access to computers or payroll software we will provide manual tables.</p> <p><i>Competition Assessment:</i> It is not considered that these changes are anti-competitive.</p>

Monitoring and evaluation

A key aim of this policy is to boost the rewards of employment and HMRC and HM Treasury will seek to assess the cumulative labour market effects of personal allowance increases in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

CPI Indexation of National Insurance Contribution Rates, Limits and Thresholds

Who is likely to be affected?

Employees, employers and the self-employed.

General description of the measure

From 2012-13 the basis for indexation of the following national insurance contribution (NICs) rates, limits and thresholds will be in line with the Consumer Price Index (CPI) instead of the Retail Price Index (RPI):

- the Class 1 lower earnings limit (LEL), which is the level of earnings at which employees start to accrue contributory benefit entitlement;
- the Class 1 primary threshold (PT), which is the level of earnings at which employees begin to pay Class 1 NICs;
- the rate of Class 2 NICs payable by the self-employed;
- the Class 2 small earnings exception (SEE), which sets the level of earnings below which the self-employed can be exempted from paying Class 2 NICs;
- the rate of Class 3 NICs payable by those wishing to fill gaps in their contribution record for basic state pension and bereavement benefit purposes; and
- the Class 4 lower profits limit (LPL), which is the level of profits at which the self-employed begin to pay Class 4 NICs.

The secondary threshold for Class 1 employer NICs will be over-indexed compared to CPI and rise by the equivalent of RPI for the course of this Parliament.

The annual levels of the Class 1 Upper Earnings Limit and Class 4 Upper Profits Limit will continue to be aligned with the income tax higher rate threshold (the sum of the personal allowance and basic rate limit).

Policy objective

This measure reflects the Government's intention to move the underlying indexation assumption for direct taxes and contributions to CPI.

Background to the measure

In the June Budget 2010 the Government announced a review of how the "*CPI can be used for the indexation of taxes and duties while protecting revenues.*"

Detailed proposal

Operative date

The changes will apply from 6 April 2012.

Current law

Section 5 of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) and the Northern Ireland equivalent allows the LEL and PT for a tax year to be set by regulations.

The LEL and PT are specified as weekly figures at regulation 10 of the Social Security (Contributions) Regulations 2001.

Section 11 of the SSCBA 1992 specifies the weekly rate of Class 2 NICs and the SEE limit. Section 13 specifies the weekly rate of Class 3 NICs. Sections 15 and 18 specify the LPL. Section 141 of the Social Security Administration Act 1992 (SSAA 1992) and the Northern Ireland equivalent allow the SEE, Class 2 and 3 weekly rates and LPL to be altered by Order.

Proposed revisions

There are no revisions necessary to the SSCBA 1992 or SSAA 1992 primary legislation to accommodate indexation on the basis of the September CPI. The actual rates will be specified as before though affirmative statutory instruments as part of the annual NICs re-rating exercise.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	+105	+230	+615	+1020
Economic impact	No significant behavioural or wider economic impacts are anticipated from these changes.				
Impact on individuals and households	<p>These measures impact employees and the self-employed, and occur alongside the £630 increase in the personal allowance in 2012-13.</p> <p>Moving indexation of the LEL from RPI to CPI means that around 70,000 more low earners will build up entitlement to contributory benefits and statutory payments.</p> <p>Moving indexation of the PT from RPI to CPI will bring approximately 40,000 additional employees into NICs. 21 million employees will lose by £6 a year on average in 2012-13.</p> <p>Moving indexation of the SEE from RPI to CPI will bring around 20,000 more people into liability for Class 2 NICs. By paying Class 2 NICs they will build up entitlement to contributory benefits.</p> <p>Moving indexation of the Class 2 weekly rate from RPI to CPI will benefit all self-employed individuals who pay Class 2 by £2.60 a year including those brought into liability by the indexation increase of the SEE by CPI.</p> <p>Moving indexation of the Class 3 weekly rate from RPI to CPI will help those who want to fill gaps in their contribution record.</p> <p>Moving indexation of the LPL from RPI to CPI will bring 10,000 self-employed individuals into Class 4 NICs. 2.2 million self-employed</p>				

	<p>individuals who pay Class 4 will lose by £5 a year on average in 2012-13, but will benefit by £2.60 a year as result of moving indexation of Class 2 NICs from RPI to CPI.</p> <p>Estimates of numbers brought into NICs and cash losses are provided for 2012-13 in this section. These impacts increase over time, as the difference between CPI and RPI accumulates.</p> <p>All estimates of numbers brought into NICs or entitlement are indicative, based on projected 2007-08 survey data.</p>																																							
Equalities impacts	<p>NICs changes apply regardless of personal circumstances such as gender, race or disability. Of these categories, HM Revenue & Customs (HMRC) only hold taxpayer data on gender. In terms of changes to NICs liabilities, the equalities impacts from these measures are that:</p> <ul style="list-style-type: none">• 28 per cent of the total winners (from lower Class 2 and 3 rates) are female;• 41 per cent of those brought into NICs are female; and• 42 per cent of the losers are female.																																							
Impact on business including third sector	<p>Moving the LPL to CPI will bring an estimated 20,000 self-employed individuals into NICs Class 2 liabilities and bring around 10,000 into Class 4. These businesses will face compliance costs from implementing and understanding the changes and some ongoing administrative burdens.</p> <table><tr><th></th><th>Cost</th><th>Time Period (yrs)</th></tr><tr><td colspan="3">Compliance costs</td></tr><tr><td>One-off Costs</td><td>£ 500,000</td><td>1</td></tr><tr><td>Average Annual Costs</td><td>£ 1,500,000</td><td>1</td></tr><tr><td>Total Costs (PV)</td><td>£ 2,000,000</td><td>1</td></tr><tr><td colspan="3">Compliance benefits</td></tr><tr><td>One-off Benefit</td><td>£ n/a</td><td>n/a</td></tr><tr><td>Average Annual Benefit</td><td>£ 100,000</td><td>1</td></tr><tr><td>Total Benefit (PV)</td><td>£ 100,000</td><td>1</td></tr><tr><td>Net Benefit (NPV)</td><td>£ -1,900,000</td><td>1</td></tr><tr><td colspan="3">Impact on Administrative Burden</td></tr><tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr><tr><td>£ 1,500,000</td><td>£ 100,000</td><td>£1,400,000</td></tr></table> <p>The above costs are for 2012-13. Annual costs and benefits, and administrative burdens, will increase in subsequent years as the number of affected self-employed individuals rises.</p> <p>There will be no significant compliance costs for employers from making these routine changes to the NICs thresholds and limits.</p>		Cost	Time Period (yrs)	Compliance costs			One-off Costs	£ 500,000	1	Average Annual Costs	£ 1,500,000	1	Total Costs (PV)	£ 2,000,000	1	Compliance benefits			One-off Benefit	£ n/a	n/a	Average Annual Benefit	£ 100,000	1	Total Benefit (PV)	£ 100,000	1	Net Benefit (NPV)	£ -1,900,000	1	Impact on Administrative Burden			Increase	Decrease	Net Impact	£ 1,500,000	£ 100,000	£1,400,000
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Increase	Decrease	Net Impact																																						
£ 1,500,000	£ 100,000	£1,400,000																																						

Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible because changes to the amounts of the NICs thresholds and limits are an annual requirement.
Other impacts	<p><i>Small Firms Impacts Test:</i> This change in indexation will have a minimal impact on small firms already liable for NICs, but the lower LPL and SEE will bring more small businesses into NICs liability.</p> <p>To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator at the business link website. This is provided free of charge and will contain the new limits and thresholds which will minimise the burden on employers if they choose to take advantage of it.</p> <p>Small businesses will need to acquaint themselves with the new limits and thresholds. For those businesses which do not have access to computers or payroll software we will provide manual tables.</p> <p><i>Competition Assessment:</i> It is not considered that the changes to these thresholds are anti-competitive.</p>

Monitoring and evaluation

The policy will be monitored and assessed alongside other measures in the Government's personal tax changes.

Further advice

If you have any questions about this change, please contact Hasan Mustafa on 020 7147 2508 (email: hasan.mustafa@hmrc.gsi.gov.uk) or Raj Nayyar 020 7147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

CPI Indexation: Annual ISA Subscription Limit

Who is likely to be affected?

All Individual Savings Account (ISA) providers and ISA investors.

General description of the measure

The annual ISA subscription limit will be increased on an annual basis by reference to the consumer prices index (CPI) from the 2012-13 tax year instead of the retail prices index (RPI). The CPI for September in the preceding year will be used and the increased limit will be rounded to £120 to allow for regular monthly payments to be made. If the CPI is negative the limit will be unchanged. Following indexation the cash ISA limit will continue to be half the value of the stocks and shares ISA limit.

Indexing the ISA subscription limits on an annual basis retains the value of the limits in real terms.

Policy objective

This measure reflects the Government's intention to move the underlying indexation assumption for direct taxes to CPI.

Background to the measure

- The Government confirmed in the June Budget 2010 that from 6 April 2011 the ISA subscription limits would be increased in line with inflation. At the time the appropriate index was set at RPI. Consequently it was announced in October 2010 that the limits for 2011-12 will be increased from £10,200 to £10,680.
- In the June Budget 2010 the Government also announced a review of how the "*CPI can be used for the indexation of taxes and duties while protecting revenues.*"
- This measure was announced at Budget 2011.

Detailed proposal

Operative date

The measure will have effect for the tax year 2012-13 and later years.

Current law

- The ISA Regulations (SI 1998/1870) set out the overall subscription limit for the tax year (Regulation 4(2)). They also specify how much of the overall limit can be subscribed to a cash account (Regulation 4(3)).
- Investors aged over 16 but under age 18 can only subscribe to a cash ISA. Investors aged 18 or over can subscribe to a cash ISA and a stocks and shares ISA.
- The annual ISA subscription limit for 2010-11 is £10,200, of which half can be subscribed to a cash ISA.

Proposed revisions

Changes will be made in secondary legislation to increase the annual limits from 6 April 2012 and in subsequent tax years. For 2012-13 and later years the ISA subscription limits will be increased in line with the Consumer Prices Index on an annual basis.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	negligible	+5	+20
Economic impact	No economic impact is expected.				
Impact on individuals and households	<p>Indexation will allow individuals paying at or near the ISA subscriptions limits to retain the value of their subscriptions in real terms as measured by CPI.</p> <p>The majority of individuals subscribe below the ISA limits and will be unaffected by the change from RPI to CPI indexation.</p> <p>In 2007-08 around one million people subscribed up to the full ISA limit of £7,000. The full ISA limit is now considerably higher (it will be £10,680 for 2011-12). So the number contributing up to this level is likely to be lower.</p>				
Equalities impacts	<p>The changes to ISA subscription limits will apply to all ISA accounts.</p> <p>Equality groups (such as gender, race or disability) are represented unevenly throughout income distribution. The change in indexation is not expected to have a disproportionate impact on any group. Lower income families are less likely to be able to contribute at or near the ISA subscription limits.</p>				
Impact on business including third sector	<p>This change will not affect businesses' costs as it only takes effect from April 2012. Businesses must wait until precise ISA limits are announced each October before updating their literature for the following year.</p> <p>There may be a cost to providers as they will attract slightly lower levels of subscriptions in future years as the subscription limits will be slightly lower than if RPI indexation had continued.</p>				
Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will need to make some adjustments to its reporting and compliance system to accommodate the change. Additional costs are expected to be negligible.				
Other impacts	<p><i>Competition:</i> Higher ISA subscription limits may impact upon demand for other saving products. However, no impact upon competition between providers is anticipated, as any approved deposit taker or stocks and shares broker can choose to offer ISA.</p> <p><i>Small Firm Impact Test :</i> Small firms – including credit unions and friendly societies – offer ISAs. Indexation of the subscription limits by CPI will be no more difficult for them to operate than a limit set by RPI and we do not therefore believe this change will have any adverse impact on smaller firms.</p>				

Monitoring and evaluation

All aspects of the ISAs scheme are subject to ongoing review through compliance and audit work, as well as discussions with account providers and other interested groups. HMRC publishes data on ISA subscriptions annually.

Further advice

If you have any questions about this change, please contact Simon Turner on 0151 472 6154 (email: simon.turner@hmrc.gsi.gov.uk).

CPI Indexation: Capital Gains Tax Annual Exempt Amount

Who is likely to be affected?

Individuals, trustees and the personal representatives of deceased persons who have capital gains.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to provide that the capital gains tax annual exempt amount (AEA) will rise in line with the consumer prices index (CPI) instead of the retail prices index (RPI). Automatic indexation of the AEA using the CPI will still be subject to override if Parliament determines a different amount should apply.

Policy objective

This measure reflects the Government's decision to move the underlying indexation assumption for all direct taxes to CPI.

Background to the measure

- In the June Budget 2010 the Government announced a review of how the "*CPI can be used for the indexation of taxes and duties while protecting revenues.*"
- This measure was announced at Budget 2011.

Detailed proposal

Operative date

The measure will have effect for the tax year 2012-13 and later years.

Current law

Section 3 of the Taxation of Chargeable Gains Act 1992 (TCGA) provides that individuals pay capital gains tax (CGT) only on their chargeable gains (net of allowable losses and all other reliefs) that exceed the AEA for the tax year.

Section 3(3) increases the previous year's AEA automatically by the percentage increase in the RPI in the 12 months to September of the previous tax year, rounded up to the nearest £100. Parliament can override the automatic increase by setting a higher or lower figure. The RPI is defined in section 288(2) TCGA.

Section 3(4) requires the Treasury to issue an order setting out the AEA for the new tax year if automatic indexation applies.

Section 3(7) entitles personal representatives to the AEA for the tax year in which the deceased dies and the next two tax years. Section 3(8) of and Schedule 1 to TCGA provide rules for certain trustees to qualify for an AEA. In most instances trustees are entitled to half the AEA available to individuals.

Proposed revisions

Legislation will be included in the Finance Bill 2012 to replace the reference to the RPI in section 3 TCGA with a reference to the CPI. Rounding up to the nearest £100 will

continue. The legislation will set the AEA for 2012-13, applying the percentage increase in the CPI for the 12 months to September 2011 (rounded up to the nearest £100), unless a different figure is set. Automatic indexation by reference to the CPI will start from 2013-14 (based on the increase in the CPI for the 12 months to September 2012).

Automatic indexation of the AEA may still be overridden for a tax year if Parliament sets a different figure. The Treasury will still make an order setting out the AEA for the new tax year under automatic indexation. Personal representatives of deceased persons and trustees will be entitled to AEA in the same way as currently.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	0	+5m	+10m	+20m
Economic impact	The change proposed is very small and we do not envisage any significant economic impact.				
Impact on individuals and households	<p>The impact on individual's compliance costs is negligible. Increasing the AEA at a lower rate could lead to around 30,000 to 40,000 more individuals having to pay some CGT by 2015-16. However some of these will arrange their disposals so that gains made in any one year are kept below the AEA, so they will continue to have nothing to pay.</p> <p>Administrative burdens on individuals are likely to be small. A significant proportion of these individuals are likely to be within the Self Assessment system already, further limiting the impact of the change.</p>				
Equalities impacts	<p>The gender split for CGT payers is relatively stable over time, with around 60 per cent of those who file a return declaring capital gains being male compared to 40 per cent female. Those aged between 45-50 and 55-60 years are the people most likely to file a return.</p> <p>We do not expect a change in the AEA rate to have a disproportionate impact on any equality group.</p>				
Impact on business including third sector	We envisage no significant impact on business or the third sector. The majority will either pay corporation tax on gains or be eligible for exemptions.				
Operational impact (£m) (HMRC or other)	There will be only a small impact on HMRC.				
Other impacts	None identified.				

Monitoring and evaluation

The impact of the AEA will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact the capital gains team on 020 7147 0127 (email: capitalgains.taxteam@hmrc.gsi.gov.uk).

Corporate Taxes

Corporation Tax Main Rate

Who is likely to be affected?

Incorporated businesses which have profits between £300,000 and £1.5 million, who pay tax at the main rate reduced by marginal relief and incorporated businesses with profits above £1.5 million who pay tax at the main rate.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to reduce the corporation tax (CT) main rate by an additional one per cent on top of the four annual reductions announced in the June Budget 2010.

The June Budget 2010 announced four annual one per cent drops in the CT main rate from 28 per cent for the Financial Year beginning April 2010 to 24 per cent for the Financial Year beginning April 2014. This cut applied to main rate on all profits, apart from those arising from oil extraction and oil rights in the UK and the UK Continental Shelf ("ring fence profits"), for which the main rate will remain at 30 per cent.

Budget 2011 announced the main rate for the Financial Year beginning April 2011 would instead drop by 2 per cent to 26 per cent to be followed by three further one per cent cuts to 23 per cent by the Financial Year beginning April 2014.

The CT main rate will be cut to 26 per cent for the Financial Year beginning April 2011 and from 26 to 25 per cent for the Financial Year beginning April 2012.

Policy objective

This measure supports the Government's objective to deliver a more competitive corporate tax system to provide the right conditions for business investment and growth.

Background to the measure

- This Tax Information and Impact Note updates and replaces the note published on 9 December 2010 to reflect the changes announced to the CT main rate.
- This measure was announced in Budget 2011.

Detailed proposal

Operative date

The reduction in the CT main rate for Financial Year 2011 will have effect on and after 1 April 2011 and that for Financial Year 2012 will have effect on and after 1 April 2012.

Current law

A rate of 27 per cent for the Financial Year beginning April 2011 was set by section 1 of the Finance (No.2) Act 2010 for all non-ring fence profits.

Proposed revisions

The main rate of CT for all non-ring fence profits will be reduced in Finance Bill 2011 to 26 per cent, from April 2011 and from 26 per cent to 25 per cent from April 2012. The further reductions will be legislated in subsequent Finance Bills.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	- 425	- 810	- 910	- 1000	- 1075
	These figures illustrate the additional impact of the further CT main rate cut announced at Budget 2011 over and above those announced at Budget June 2010. They reflect the costs in each year rather than merely the reductions for the Financial Years beginning April 2011 and 2012.				
Economic impact	A lower corporation tax rate makes the UK more attractive (relative to other locations) as a destination to locate activity and profits. A reduction in the main rate of corporation tax will reduce capital costs for businesses and promote higher levels of business investment.				
Impact on individuals and households	This measure concerns incorporated businesses and has no direct impact on individuals or households.				
Equalities impacts	This measure concerns the taxation of the body corporate which is a non-gender/race specific entity in law. As such it is very unlikely that there will be any impact on equality.				
Impact on business including third sector	<p>The impact on business is negligible in terms of administrative and compliance costs.</p> <p>The beneficiaries will be companies with profits above £300,000.</p>				
Operational impact (£m) (HMRC or other)	Implementation is likely to have only minor operational impact but will necessitate some changes to HM Revenue & Customs (HMRC) IT systems and online filing products.				
Other impacts	For the reasons outlined above in the Economic Impact section the impact on competitiveness and small business is positive (although only a minority of small businesses pay CT at the main rate).				

Monitoring and evaluation

The policy will be monitored and assessed alongside other measures in the Government's package for Corporation Tax changes.

Further advice

If you have any questions about this change, please contact Simon Moulden on 020 7147 2629 (email: simon.moulden@hmrc.gsi.gov.uk).

Capital Allowances: Short-Life Assets

Who is likely to be affected?

Businesses that invest in plant or machinery from April 2011, who expect to sell or scrap it within eight years of the end of the chargeable period in which it is acquired.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to increase the period over which expenditure on plant or machinery can be given “short life assets” (SLA) treatment.

If a business elects for plant or machinery to be treated as a short life asset, capital allowances are calculated individually on the asset until a “cut-off” point. This ensures that, if the asset is sold or scrapped before the cut-off point, the total allowances given over the period of ownership equal the actual net cost of the asset to the business.

An election will be beneficial if the asset depreciates faster than the rate at which capital allowances are given, and it is sold before the cut-off date.

Currently the cut-off point is four years from the end of the chargeable period when the expenditure on the asset is incurred.

This measure applies to future expenditure. It increases the cut-off period for future expenditure to eight years from the end of the chargeable period in which this expenditure is incurred. This increases the range of assets for which an election may be beneficial.

Policy objective

This measure is designed to support enterprise and long-term economic growth. It helps to ensure that the UK capital allowances system better reflects economic depreciation for assets with longer useful lives.

Background to the measure

This measure was announced at Budget 2011.

Detailed proposal

Operative date

The measure will have effect for expenditure incurred

- on or after 1 April 2011 for businesses within the charge to corporation tax (CT); and
- on or after 6 April 2011 for businesses within the charge to income tax.

Current law

Businesses investing in plant or machinery (subject to certain exceptions) can elect for it to have SLA treatment.

Expenditure incurred on an asset given SLA treatment is allocated to a ‘single asset pool’ for the cut-off period. The current four-year cut-off period is four years from the end of the chargeable period in which the expenditure is incurred.

Writing-down allowances are given on the reducing-balance each year, currently at 20 per cent. If the item is scrapped or sold within a 'four-year cut-off' period, the remaining balance of expenditure in the pool is compared with the disposal proceeds. A further allowance, or charge, is made for the difference. This ensures that allowances given to this point match the actual net cost of the SLA.

If the asset is not disposed of within the 'four-year cut-off' period, the remaining expenditure in the single asset pool is transferred to the main capital allowances pool, where writing-down allowances will continue to be available in the normal way.

The exceptions to SLA treatment are listed in section 84 CAA 2001 and include most cars and all expenditure on 'long-life assets' (assets with a useful economic life of at least 25-years) and 'integral features' of a building or structure.

A SLA election must be made for corporation tax within two years of the end of the relevant chargeable period in which the expenditure is incurred. For income tax the time limit is normally the anniversary of the 31 January following the tax year in which the end of the relevant chargeable period occurs.

Proposed revisions

This measure increases the current SLA cut-off period for qualifying expenditure on plant or machinery incurred on or after the operative date. The increased cut-off period will be eight years from the end of the chargeable period in which the expenditure is incurred.

A remaining balance of qualifying expenditure will, in future, be transferred to the main capital allowances pool at the end of eight years from the end of the chargeable period in which the expenditure was incurred, rather than four years as at present.

The revision will extend the potential benefits of the current SLA regime to businesses investing in assets with longer useful lives in the business, of up to broadly eight or nine years. Allowances for the actual net cost of these assets can in future be obtained over their lifespan in the business, if they are scrapped or sold before the end of the eight year cut-off.

The extension is likely to benefit those businesses that make substantial investments in plant or machinery in excess of the Annual Investment Allowance maximum (currently £100,000 a year, set to reduce to £25,000 a year from April 2012).

The exceptions to SLA treatment will continue.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-£10m	-£40m	-£70m	-£100m	-£170m
Economic impact	The effective extension of the SLA regime to assets with longer useful lives may lead to an increase in levels of business investment in plant and machinery. It will serve to align the capital allowances regime more closely with economic depreciation, thereby enhancing the competitiveness of the UK tax system and supporting enterprise and growth.				
Impact on individuals and households	Capital allowances can only be claimed in the course of business so this measure is not expected to have any direct impact on individuals and households.				
Equalities impacts	No different impact on the equality of any protected group has been identified. This measure only affects businesses investing in plant or machinery that they expect to dispose of within the qualifying time period.				
Impact on business including third sector	<p>The measure is likely to be of most benefit to businesses that make substantial investments in plant or machinery with a useful life of between four and nine years, including larger manufacturing firms. It will tend to support substantial investors in plant or machinery because the Annual Investment Allowance (AIA) (currently capped at £100,000 p.a., due to reduce to £25,000 p.a. from April 2012), covers the whole capital investment of the majority of UK businesses.</p> <p>The measure is also likely to increase the administrative burdens on businesses that make a substantially increased number of SLA elections to HM Revenue & Customs (HMRC) as a result of this change. Those businesses will have to track their expenditure on SLA plant or machinery in separate pools, making separate annual writing-down allowance calculations, and separate balancing adjustment calculations when an item is disposed of within the extended 'eight-year cut-off' period, and re-allocating unrelieved expenditure to the main capital allowances pool if the asset is not disposed of by the end of that period. However, businesses can avoid these potential additional burdens by not electing for SLA treatment as the SLA facility is voluntary.</p> <p>HMRC's Standard Cost Model suggests that the administrative burdens for businesses associated with the SLA regime were around £4m per year in 2005. It has been assumed that: (i) the costs of staff time or employing agents to do the extra work will increase over time in line with average earnings since 2005 (ii) that the extra number of assets businesses elect to put into the SLA regime will accumulate to be around 400 per cent of the current level within 8 years and (iii) that the administrative costs of putting the assets into the general main rate pool would be 25 per cent of the costs of putting them within the SLA regime. The estimated increases in businesses' administrative burdens calculated using these assumptions are shown in the table below.</p>				

		Cost	Time Period (yrs)
	Compliance costs		
	One-off Costs	Negligible	2011/12
	Average Annual Costs	£5m	Over the first 5 years
	Total Costs (Present Value (PV))	£20m	Over the first 5 years
	Compliance benefits		
	One-off Benefit	£ 0	N/A
	Average Annual Benefit	£ 0	N/A
	Total Benefit (PV)	£ 0	N/A
	Net Benefit (NPV)	-£20m	Over the first 5 years
	Impact on Administrative Burden		
	Increase	Decrease	Net Impact
	£5m	£ 0	£5m
Operational impact (£m) (HMRC or other)	This measure is not expected to have a significant impact on HMRC operating costs.		
Other impacts	<p>The measure will not have an impact on competition.</p> <p>Precise data on the impact on small firms (those with less than 20 full-time employees) is not available as businesses are not required to give this information on tax returns. However, as this measure is likely only to affect businesses that invest more than the AIA cap (currently £100,000 p.a., due to reduce to £25,000 p.a. from April 2012), which covers the whole qualifying expenditure of the majority of UK businesses, it is possible to conclude that most small firms will not be affected by this measure while many larger firms will be.</p>		

Monitoring and evaluation

The policy will be monitored and assessed alongside other measures in the Government's package of corporation tax changes.

Further advice

If you have any questions about this change, please email Joy Guthrie (joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith (malcolm.smith3@hmrc.gsi.gov.uk) or telephone 020 7147 2610.

Enhanced Capital Allowances (ECA) Scheme for Energy-Saving Technologies

Who is likely to be affected?

Businesses purchasing designated plant and machinery which use energy efficiently.

General description of the measure

This measure updates the lists of technologies and products covered by the energy-saving ECA scheme.

The scheme is targeted at plant and machinery which is widely used by business, but where the use of more efficient plant and machinery needs to be encouraged. It does this by allowing 100 per cent of the cost of an investment in qualifying plant and machinery to be written off against the taxable profits of the period in which the investment is made, benefiting a business's cash flow.

Policy objective

The scheme aims to reduce the consumption of energy by business, by providing an incentive to invest in efficient plant and machinery. This can help reduce carbon emissions, aiding the UK's Carbon Reduction Commitment obligation.

Background to the measure

- Since its introduction in 2001 the scheme has been updated annually to ensure that only the most efficient products are supported.
- Recommendations about the technologies and products that should qualify for the energy-saving scheme are made by the Department for Energy and Climate Change (DECC), who also carry out the relevant consultation.

Detailed proposal

Operative date

The changes to the scheme will have effect on and after a date to be appointed by Treasury Order to be made prior to the summer 2011 Parliamentary recess.

Current law

Capital expenditure by business on plant and machinery normally qualifies for tax relief by way of capital allowances, usually given at the rate of 20 per cent a year on a reducing balance basis.

The scheme provides 100 per cent first year allowances for expenditure on certain energy-saving technologies. The qualifying technologies are published in the Energy Technology Criteria List.

Proposed revisions

This year the list of technologies that qualify for the energy-saving scheme will be revised to include one new technology: certain energy efficient hand dryers. The criteria for automatic monitoring and targeting equipment will also be revised.

Information giving details as to when the new List takes effect will be given at the Enhanced Capital Allowances website.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
Economic impact	<p>This measure is not expected to have a significant effect on the UK economy in overall terms. The ECA scheme is carefully targeted at those energy consuming technologies widely used by business, where more efficient technologies are available, but have not been widely adopted, for reasons such as price differential. The aim is to ensure that energy is used more efficiently and overall CO₂ emissions reduced.</p> <p>Rapid technological and market developments mean that the technologies supported by the scheme are reviewed annually to ensure the focus of the scheme is maintained.</p>				
Impact on individuals and households	<p>Amendments to the scope of plant and machinery that qualifies for the scheme will have no impact on households. Although it is possible in certain limited circumstances for individual employees to claim capital allowances, it is unlikely that any would claim ECAs.</p>				
Equalities impacts	<p>The ECA scheme is aimed at businesses. Following discussions with DECC on this year's amendments, HM Revenue & Customs (HMRC) has not identified any specific impact on any equality group.</p>				
Impact on business including third sector	<p>There will be some one-off compliance costs for businesses considering buying products affected by the changes, associated with understanding what differences the changes could make to the capital allowances that they can claim. The on-going effects on businesses' administrative burdens are expected to be negligible.</p> <p>These changes only apply to business expenditure that qualifies for the ECA scheme. For the majority of businesses the changes will have no impact because the majority of the expenditure they incur on plant and machinery will be eligible for full relief under the separate Annual Investment Allowance (AIA). Even when the rate cap for AIA is reduced to £25,000 in 2012, 95 per cent of all businesses will still be able to write off all their plant and machinery expenditure using their AIA entitlement.</p> <p>Consequently the changes will have little or no impact on business, charities or voluntary bodies.</p>				
Operational impact (£m) (HMRC or other)	<p>None. The changes will not increase HM Revenue & Customs (HMRC's) processing or compliance resource needs.</p>				

Other impacts	<p>This measure applies to all sizes of business, but in practice it will only affect those with qualifying plant and machinery expenditure above the level of the AIA. As a result there is expected to be very limited impact on small firms, the large majority of which incur less than £25,000 per annum on capital expenditure. However, should a small business decide to write off the cost of ECA-qualifying plant and machinery under the ECA scheme, rather than AIA, they like any other business, will need to identify the products that qualify for the schemes via the Enhanced Capital Allowances website, and make a claim.</p> <p>The energy-saving scheme is not a notifiable State aid; although the UK has undertaken to notify the Commission of the inclusion of new technologies before their addition. But there may be some relatively minor impacts on competition as in some markets some businesses will be manufacturing/selling products that are affected by the changes to a greater extent than others.</p>
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Monitoring and evaluation

The lists of technologies and products that qualify for the energy-saving scheme is reviewed every year to ensure that they are still relevant, and the wording of the qualifying criteria discussed with suppliers to ensure that they are effective.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

Research and Development Tax Credits for SMEs

Who is likely to be affected?

Companies that are small or medium sized enterprises (SMEs) which claim Research and Development (R&D) tax relief.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to increase the additional deduction for qualifying R&D expenditure given to SMEs in computing business profits or losses for corporation tax purposes. Subject to State aid approval, the additional deduction will increase from 75 per cent to 100 per cent of the qualifying R&D expenditure: a total deduction of 200 per cent.

Subject to State aid approval, legislation will be introduced in Finance Bill 2012 to increase the additional deduction by a further 25 per cent giving a total deduction of 225 per cent from 1 April 2012, and, subject to consultation, to simplify the rules of R&D tax relief for SMEs.

Policy objective

To improve the overall competitiveness of the UK tax system for R&D companies by increasing the incentive for SMEs to carry out R&D, increasing R&D and innovation in the UK.

Background to the measure

- A consultation document *Corporate Tax Reform: Delivering a more competitive system* was published on 29 November 2010 on the HM Treasury website and included consultation on R&D tax relief.
- The increase in the rate of the additional deduction was announced in Budget 2011.

Detailed proposal

Operative date

The increase in the rate of the additional deduction will have effect for expenditure incurred on or after 1 April 2011. The further increase will have effect for expenditure incurred on or after 1 April 2012, as will the simplifications.

Current law

The current rules are in Part 13 of the Corporation Tax Act 2009 (CTA). Section 1044 provides that a company which is a small or medium sized enterprise will receive an additional deduction of 75 per cent of its qualifying R&D expenditure, and sets out the conditions for this, including that its expenditure meets the R&D threshold (section 1044(3)).

Section 1058 defines the amount of payable tax credit to which a company is entitled, and limits this to the amount of its PAYE and NIC liability for the period in question.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to increase the additional deduction for SME companies to 100 per cent of qualifying R&D expenditure, subject to State aid approval.

To allow for the increase, while remaining within State aid intensity thresholds, the deduction available under Vaccine Research Relief for SMEs will be reduced to 20 per cent of qualifying R&D expenditure on vaccines research from 1 April 2011.

Legislation will, subject to State aid approval, be introduced in Finance Bill 2012 to increase the additional deduction for qualifying R&D expenditure by SMEs further to 125 per cent and prevent SMEs claiming Vaccine Research Relief. In addition, and subject to further consultation, the following changes will be made to simplify the relief:

- the rule limiting a SME company's payable R&D tax credit to the amount of PAYE and national insurance contributions (NICs) it pays will be abolished;
- the £10,000 minimum expenditure condition will be abolished for all companies; and,
- changes will also be made to the rules governing the provision of relief for work done by subcontractors under the large company scheme.

The changes made by Finance Bill 2012 will apply to expenditure incurred on or after 1 April 2012.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-20	-75	-105	-105	
Economic impact	<p>Several academic studies have found that companies are likely to carry out less R&D than is optimal for the economy as a whole. R&D expenditure has positive spillover effects in terms of increased innovation and productivity.</p> <p>However, as this benefit will not be reflected in the return to R&D investment that individual companies make they will tend to under invest in R&D.</p> <p>R&D tax relief reduces the cost of R&D investment that companies make and is therefore likely to increase R&D expenditure, which will benefit the economy more widely through the positive spillover effects.</p>				
Impact on individuals and households	<p>There is no impact on individuals or households. This change only affects companies involved in research and development and not individuals.</p>				
Equalities impacts	<p>This change only affects companies involved in research and development and not individuals. It is therefore considered that these proposals have no significant impacts on age, race, disability or gender equality.</p>				
Impact on business including third sector	<p>Around 6,500 SME companies claim R&D tax relief each year. These companies will benefit from the improved incentive to carry out additional R&D and the simplification of the rules. These are straightforward changes with minimal administrative impact on companies claiming.</p>				

Operational impact (£m) (HMRC or other)	Negligible. The measure simply changes the rate of the additional deduction, and removes rules from the current schemes, so no structural changes are necessary to operational delivery. It is unlikely that significant numbers of additional companies will claim, although some companies may incur more expenditure and make larger claims.
Other impacts	These changes respond to consultation with small companies and other stakeholders. There will be a positive impact for small firms carrying out research and development, as they will benefit from increased tax relief. There should not be any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the number of companies claiming the relief and amounts of relief claimed are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact David Harris on 020 7147 2562 (email: david.harris@hmrc.gsi.gov.uk) or Neil Smillie on 020 7147 0864 (email: neil.smillie@hmrc.gsi.gov.uk).

Oil and Gas Taxation: Supplementary Charge

Who is likely to be affected?

Oil and gas companies that operate in the UK or on the UK Continental Shelf (UKCS).

General description of the measure

Legislation will be introduced in Finance Bill 2011, effective from 24 March 2011, to increase the supplementary charge payable in respect of profits from oil and gas production in the UK and UKCS from 20 per cent to 32 per cent.

As part of the fair fuel stabiliser, if in future years the oil price falls below a set trigger price on a sustained basis, the Government will reduce the supplementary charge back towards 20 per cent on a staged and affordable basis while prices remain low. The Government believes that a trigger price of US \$75 per barrel would be appropriate, but will set a final level and mechanism after seeking the views of oil and gas companies and motoring groups.

Legislation will be introduced in Finance Bill 2012, with effect from Budget 2012, to restrict tax relief for decommissioning expenses to the 20 per cent rate of supplementary charge. There will be no restrictions to decommissioning relief beyond this level for the lifetime of this Parliament. The Government will work with the industry with the aim of announcing further, longer-term certainty on decommissioning at Budget 2012.

Policy objective

The increase in the supplementary charge at a time of high oil prices reflects the Government's aim to strike the right balance between oil producers and consumers, and to ensure fairness to taxpayers.

Background to the measure

This measure was announced at Budget 2011.

Detailed proposal

Operative date

This measure will have effect on and after 24 March 2011.

Current law

A company operating in the UK or on the UKCS is liable to corporation tax on its profits. However the UK tax code puts a ring fence around profits from UK and UKCS oil and gas production to ensure they are not reduced by losses from other activities. This ensures the Government achieves its desired taxation from the exploitation of a national natural resource.

Section 279 Corporation Tax Act (CTA) 2010 details the ring fence treatment and provides that certain oil-related activities conducted as part of a trade are to be treated for the purposes of corporation tax as 'a separate trade, distinct from all other activities carried on by the company as part of the trade'. These ('upstream') activities are:

- any oil extraction activities (section 272 CTA 2010)

- the acquisition, enjoyment or exploitation of oil rights (sections 273 and 274 CTA 2010).

In addition to ring fence corporation tax, profits derived from upstream activities are subject to an additional tax, the supplementary charge (section 330 CTA 2010). The supplementary charge is currently charged at 20 per cent.

Proposed revisions

The proposed measure, which is effective from 24 March 2011, will be introduced in Finance Bill 2011. It will increase the rate of the supplementary charge to 32 per cent.

The rate at which companies obtain relief for decommissioning expenses will be changed by Finance Bill 2012, with effect from Budget 2012, to deny relief against the increase in the amount of supplementary charge.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+ 1780	+2240	+2120	+2090	+1870
Economic impact	<p>The impact of this tax change will not influence oil prices, as oil is traded globally. High commodity prices increase the profitability of oil and gas production in the UK and the UKCS. An increase in the tax burden through a higher rate of supplementary charge will reduce the post-tax profits of companies producing oil and gas, though Government still expects that average post-tax profits per barrel will be higher over the next five years than the last five.</p> <p>The measure may potentially affect the commercial viability of a handful of marginal investments, but the Government does not expect a significant impact on investment or production in the forecast period as a consequence of this measure. The Government will consider with the industry the case for introducing a new category of qualifying field for field allowance to support continued investment in the North Sea.</p>				
Impact on individuals and households	<p>There is no impact on households. As oil and gas are internationally-traded commodities, upstream production companies are not able to pass increased taxation onto consumers through higher pump/domestic gas prices.</p> <p>Dividends from oil companies contribute to pension fund income. The impact on pension fund income is not expected to be material because the proportion of that income generated from UK upstream activities is small.</p>				
Equalities impacts	<p>This measure applies only to companies involved in the oil and gas industry in the UK or UKCS, and is considered to have no differential impact on any equality groups.</p>				
Impact on businesses and third sector	<p>There are around 350 companies involved in the UK or UKCS oil and gas industry. The increase in the supplementary charge will have an impact on company post-tax profits within the UK.</p> <p>There will be no adverse administrative impact on companies from an increase in the rate of the supplementary charge.</p>				

Operational Impact (£m) (HMRC or other)	The supplementary charge increase will have a minimal operational impact for HM Revenue & Customs (HMRC).
Other impacts	<p><i>Carbon:</i> Oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU Emissions Trading System.</p> <p><i>Sustainable development, wider environment and health:</i> The changes proposed will not increase activity and therefore risk. The industry is heavily regulated to seek to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to seek to ensure the health and wellbeing of its workers.</p> <p><i>Small Firms Impact Test:</i> The measure will impact small firms involved in the oil and gas sector in the UK or UKCS. The change applies to all oil and gas production companies operating in the UK or UKCS.</p>

Monitoring and evaluation

The policy will be kept under review through regular communication with the business sector affected by the measure.

Further advice

If you have any questions about this change, please contact Hugh Hedges on 0207 438 6576 (email: hugh.hedges@hmrc.gsi.gov.uk) or Paul Philip on 0207 438 6993 (email: paul.philip@hmrc.gsi.gov.uk).

Oil and Gas: Intangible Fixed Assets

Who is likely to be affected?

Oil and gas companies that operate in the UK or on the UK Continental Shelf (UKCS).

General description of the measure

Legislation will be introduced in Finance Bill 2011 to ensure that the Corporate Intangible Fixed Asset (IFA) rules apply as intended so that a deduction in computing a company's profits, where a company acquires an oil licence or an interest in an oil licence from another company, is not available under the IFA rules.

Policy objective

This measure clarifies the scope of the IFA rules as they apply to an oil licence or an interest in an oil licence. The measure ensures that the IFA rules apply in the way that was intended when the legislation was introduced in 2002 and prevents a potential loss to the Exchequer.

Background to the measure

- This measure was announced at Budget 2011 and is effective from Budget day 23 March 2011.
- The draft legislation published on Budget day will be discussed with industry stakeholders in the period up to the publication of Finance Bill 2011.

Detailed proposal

Operative date

This measure will deem a new accounting period to start on 23 March 2011 and the measure will have effect in respect of this deemed accounting period and future periods.

Current law

A corporation tax regime for intangible assets was introduced by Schedule 29 to the Finance Act 2002, which is now Part 8 of Corporation Tax Act 2009 (CTA 2009).

The regime allows intangible fixed assets, including goodwill, to be treated for tax purposes on an income basis. By following accounts' entries the regime allows companies to obtain tax relief in respect of expenditure on intangible fixed assets charged to the profit and loss account: amortisation and impairment, or on a fixed rate basis of 4 per cent per annum.

Similarly, the regime imposes a tax charge for receipts in respect of intangible fixed assets that are reflected in a company's profit and loss account. For example a tax charge might arise on the realisation of an intangible fixed asset when it is sold.

The legislation, however, specifically excludes a number of assets from the IFA regime. These exclusions include an oil licence or an interest in an oil licence (section 809 CTA 2009) as well as other rights over land (section 805 CTA 2009).

Proposed revisions

Legislation is being introduced in Finance Bill 2011 to ensure that the scope of the IFA regime excludes all goodwill and any intangible asset which relates to, derives from or is connected with an oil licence or an interest in an oil licence.

Some companies have interpreted accountancy practice in such a way that goodwill is recognised on the acquisition of an oil licence or an interest in an oil licence. This interpretation may bring this goodwill within the scope of the IFA regime, which conflicts with what was intended when the legislation was introduced.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	The proposed change is unlikely to have any impact on investment in the UKCS or the wider economy.				
Impact on individuals and households	There is no impact on individuals as the changes apply only to companies involved in the UK or UKCS oil and gas industry.				
Equalities impacts	This measure applies only to companies involved in the oil and gas industry in the UK or UKCS, and is considered to have no differential impact on any equality groups.				
Impact on business including third sector	There are around 350 companies involved in the UK or UKCS oil and gas industry. The proposed change will impact those companies which reflect the value of the acquisition of an oil licence, or an interest in an oil licence, as goodwill. It will not have any significant overall impact on businesses in the oil and gas sector, and there will be no impact on civil society groups.				
Operational impact (£m) (HMRC or other)	None.				
Other impacts	<p><i>Carbon:</i> Oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU Emissions Trading System.</p> <p><i>Sustainable development, wider environment and health:</i> The changes will not of themselves increase activity and therefore risk. The industry is heavily regulated to seek to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to seek to ensure the health and wellbeing of its workers.</p> <p><i>Small Firms Impact Test:</i> The measures will not materially impact small firms involved in the oil and gas sector in the UK or UKCS.</p> <p><i>Competition:</i> The proposed change will not have a negative effect on competition.</p>				

Monitoring and evaluation

The policy will be kept under review through regular communication with the business sector affected by the measure.

Further advice

If you have any questions about this change, please contact Paul Philip on 020 7438 6993 (email: paul.philip@hmrc.gsi.gov.uk) or Hugh Hedges on 020 7438 6576 (email: hugh.hedges@hmrc.gsi.gov.uk).

Bank Levy

Who is likely to be affected?

- UK banks, banking groups and building societies;
- foreign banking groups operating in the UK through permanent establishments or subsidiaries; and
- UK banks and banking sub-groups in non-banking groups.

General description of the measure

Legislation in Finance Bill 2011 will introduce the bank levy (the Levy). This will be a tax based upon the total chargeable equity and liabilities as reported in the relevant balance sheets of affected banks, banking and building society groups at the end of a chargeable period.

The design of the Levy is based broadly on the proposal in the International Monetary Fund Report to the G20, *A Fair and Substantial Contribution by the Financial Sector*, for a broad balance sheet charge. It is designed to encourage less risky funding and complements the wider agenda to improve regulatory standards and enhance financial stability.

Policy objective

The purpose of the Levy is to ensure that the banking sector makes a fair contribution, reflecting the risks they pose to the financial system and the wider economy. The Levy will also encourage banks to move away from risky funding models that threaten the stability of the financial sector and the wider economy.

Background to the measure

- The Government announced the introduction of the Levy from 1 January 2011 in the June 2010 Budget.
- *Bank Levy: a consultation* was published on 13 July 2010. The consultation set out proposals to address a number of operational issues around design and implementation, including possible and proposed approaches to defining taxable entities and the tax base.
- A consultation response document was published on 21 October 2010, along with initial draft legislation. All documents are available on the HM Treasury and HM Revenue & Customs (HMRC) websites.
- The Chancellor announced on 8 February 2011 an increase in the rate of the Levy to be charged in 2011. This change will increase the revenue from the levy in 2011 by £800 million to £2.5 billion.
- The Chancellor has today announced an increase in the Levy rates from 1 January 2012 onward. The rates for 2012 onwards will now be 0.078 per cent for short-term chargeable liabilities and 0.039 per cent for long-term chargeable equity and liabilities.
- This Tax Information and Impact Note is an update and replaces the note published on 9 December 2010 to reflect the announced increase in the rates of the Levy.

Detailed proposal

Operative date

The measure will have effect in relation to periods of account ending on or after 1 January 2011.

Payment of the Levy will be through the existing corporation tax Quarterly Instalment Payments (QIPs) system. In 2011 payment will be required only on QIPs payment dates on or after the date that Finance Bill (No 3) 2010 receives Royal Assent.

Proposed changes

The Levy will apply to:

- the global consolidated balance sheet of UK banking groups and building societies;
- the aggregated UK-group and UK subsidiary balance sheets, together with a proportion (determined in accordance with these provisions) of the balance sheets of foreign banks operating in the UK through permanent establishments (branches) which are members of foreign banking groups;
- the balance sheets of UK banks and banking sub-groups in non-banking groups; and
- the balance sheets of UK banks that are not members of groups.

The Levy will be based upon the total chargeable equity and liabilities as reported in the relevant balance sheets as set out above at the end of a chargeable period.

In determining the chargeable equity and liabilities the following amounts are excluded:

- Tier 1 capital (insofar as it constitutes equity or liabilities);
- certain “Protected deposits” (deposits covered by depositor protection schemes, including, where greater, deposits by reference to which premiums on such schemes are paid, and deposits covered by explicit Government guarantees);
- repo and stock lending liabilities secured against certain sovereign and supranational debt;
- liabilities that arise from certain insurance business within banking groups;
- liabilities in respect of currency notes in circulation;
- Financial Services Compensation Scheme (FSCS) liabilities;
- liabilities representing segregated client money; and
- deferred tax liabilities, current tax liabilities, liabilities in respect of the Levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities.

It will also be permitted in specified circumstances to reduce certain liabilities by:

- netting against them certain assets, or
- offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the FSA definition).

The reduction for high quality liquid assets applies first to long term liabilities with any balance applying to short-term liabilities.

Certain liabilities will be subject to only a half rate, namely:

- liabilities with a maturity greater than one year; and
- any deposits not otherwise excluded (except for those from financial institutions and traders).

Rates

The rates are:

01 January 2011 – 28 February 2011

0.05 per cent for short-term chargeable liabilities and 0.025 per cent for long-term chargeable equity and liabilities.

01 March 2011 – 30 April 2011

0.1 per cent for short-term chargeable liabilities and 0.05 per cent for long-term chargeable equity and liabilities.

01 May 2011 – 31 December 2011

0.075 per cent for short-term chargeable liabilities and 0.0375 per cent for long-term chargeable equity and liabilities.

1 January 2012 onwards

0.078 per cent for short-term chargeable liabilities and 0.039 per cent for long-term chargeable equity and liabilities.

The Levy will not be charged on the first £20 billion of chargeable liabilities. This first £20 billion of liabilities not charged to the Levy will be apportioned between long and short maturity liabilities in accordance with the proportions of each within the total chargeable equity and liabilities for a chargeable period.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+630	+210	0	0	0
The figures above are the fiscal year yields arising from the increase in Levy rates for the year 2011 announced on 8 February 2011.					
	2011-12	2012-13	2013-14	2014-15	2015-16
	0	+75	+100	+105	+100
The figures above are the fiscal year yields arising from the increase in Levy rates from 1 January 2012 announced today.					
In December 2010 when the initial draft rates were included in the draft Finance Bill the yield shown in the accompanying TIIN for the Levy was forecast to be:					
	2011-12	2012-13	2013-14	2014-15	2015-16
	+1,260	+2,320	+2,550	+2,560	+2,560
The increase in the Levy rates for 2011 announced on 8 February, plus the rate increase from 2012 announced today, therefore increases the total forecast yield for the Levy to the following:					
	2011-12	2012-13	2013-14	2014-15	2015-16
	+1,890	+2,610	+2,650	+2,670	+2,660
The Levy is based on banks' periods of account and will raise £2.5 billion for the year to 31 December 2011. The figures above are based on receipts in a fiscal year. Payment of the Levy will be through the existing					

	corporation tax Quarterly Instalment Payments system.
Economic impact	<p>The Government initially announced that a reduced rate of 0.05 per cent would apply in 2011, recognising the uncertain market conditions prevailing at the time. The Government no longer considers this necessary.</p> <p>As the Bank of England recently noted the near-term outlook and resilience of the UK banking sector has improved (Financial Stability Report, Bank of England 17 December 2010). Markets also now have certainty over the timing and direction of regulatory change, with the Basel III regulatory reforms not being introduced until 2013 at the earliest and including extended transition periods.</p> <p>The long term rate for the Levy is set to ensure banks pay an appropriate contribution that balances fairness with competitiveness. This takes account of the impact of other measures on the sector. The increase in the rate from 2012 has been to offset the further reduction in the rate of Corporation Tax announced in Budget 2011. This change will ensure that banks continue to make a fair contribution while also ensuring that they continue to be encouraged to move to less risky funding models.</p> <p>The Levy will strengthen incentives for banks to increase their Tier 1 capital, longer-term funding, retail deposits and liquid assets. The Levy therefore complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. In the forecast period we expect any incremental improvements in banks' funding profiles as a result of the Levy to be small.</p>
Impact on individuals and households	There is no direct impact on individuals and households. The Levy is a corporate tax on the balance sheets of banks, banking groups, and building societies. Although the extent to which the cost of the Levy is not absorbed by shareholders may result in additional costs for individual customers.
Equalities impacts	The Levy is not expected to have a direct or disproportionate impact on any of the defined equality groups.
Impact on business including third sector	<p>The Levy will affect between 30 and 40 banks, building societies and banking groups. The Levy has been specifically designed to ensure a consistent and proportionate application with regard to all banks and banking groups operating in the UK; the Levy applies to the aggregated liabilities of the UK business and subsidiaries of foreign bank groups to ensure that a fair measure of the UK's exposure to that group can be determined and to provide a consistent basis with UK banks.</p> <p>The compliance costs to businesses vary proportionally depending on both the size of the bank or banking group and the current structure of internal systems of the relevant business. In establishing most liabilities to the Levy banks should be able use a combination of existing process and controls and certain other reporting processes to generate and validate the appropriate information needed to calculate the Levy.</p> <p>The Levy design, insofar as possible, draws on existing regulatory processes which will also help to minimise costs. However in many cases information will need to be gathered from around the world to calculate the levy. For example, it will be necessary to extend work done to capture protected deposits in the UK under the FSCS to all equivalent deposit systems and protection schemes where the group operates.</p>

	<p>Banks are evaluating how to collect data on high quality liquid assets as this data is not currently collected from all subsidiaries, with similar work ongoing on establishing the scope for netting liabilities. Here adjustments may not be identical to regulatory netting data given the different regulatory balance sheet as the starting point for the Levy calculation.</p> <p>Where processes are not already in place banks will also need to put in place appropriate governance to ensure that any necessary new controls or systems are adequately designed and effectively implemented.</p> <p>Banks will have to invest a degree of management time to explain the composition, drivers and impacts of the Levy across the businesses and the recognition of the costs across the Group where appropriate.</p> <p>The associated costs will vary from bank to bank. Provisional estimates of the one off compliance cost provided by banks during the consultation varied from £500,000 to below £700,000 with annual ongoing compliance figures of circa £500,000.</p> <p>The design of the Levy will be formally reviewed in 2013 to make sure it is operating efficiently. As part of this, the actual costs and benefits to business will be established once further information is available.</p>
Operational impact (£m) (HMRC or other)	<p>The Levy is being delivered through existing systems thereby minimising costs to HMRC.</p> <p>There will be some additional costs for HMRC in the first year of implementation arising from giving advice to customers, producing guidance and establishing reports on the Levy for management purposes, particularly given the recent progress made by HMRC on the need to provide and publish unit costs of tax collection.</p> <p>However, the additional costs are expected to be negligible; there are only 30-40 banks and building societies affected.</p>
Other impacts	<p>A number of additional impacts have also been considered.</p> <p><i>Competition assessment:</i> The scope of the Levy has been specifically designed to ensure a level playing field for all those affected by it in the UK. Certain building societies and foreign banks will not breach the £20 billion allowance and therefore will not pay the Levy. This could create a small competitive distortion where these businesses compete in the same markets as those that will be liable for the Levy. However, the £20 billion allowance ensures that the Levy is proportionate and balances the probability that the failure of a bank could pose a systemic risk against the relative burden imposed in order to gather additional revenue at the margin.</p> <p><i>Small Firms Impact Test:</i> The 30 to 40 banks, building societies and banking groups affected by the Levy are considered to be large firms.</p>

Monitoring and evaluation

The Levy will be formally reviewed in 2013 to make sure it is operating efficiently. Receipts from the Levy will be monitored from 2011.

Further advice

If you have any questions about this change, please contact Malcolm White on 020 7147 0565 (email: malcolm.white@hmrc.gsi.gov.uk).

UCITS IV: Management Company Passport

Who is likely to be affected?

Collective investment schemes authorised in an EEA member state under Article 5 of the UCITS IV directive¹ (UCITS funds) which are established and regulated in another member state, but which have a fund manager resident in the United Kingdom.

General description of the measure

The UCITS IV Directive provides that UCITS funds may be managed by an authorised fund manager resident in a member state other than the home state of the fund.

This measure provides legislation to treat foreign UCITS funds as not being resident in the United Kingdom, in cases where they otherwise might be resident by virtue of having a United Kingdom resident fund manager.

Policy objective

This measure maintains UK competitiveness in the asset management industry by ensuring that there will be no adverse tax consequences in the United Kingdom when a foreign UCITS fund happens to have a manager resident in the United Kingdom.

Background to the measure

- This measure was announced at Budget 2011.
- The measure arises from the HM Treasury consultation on the transposition of UCITS IV which closed on 21 March 2011.

Detailed proposal

Operative date

This measure will be included in the Finance Bill and will have effect on and after the date that Finance Bill 2011 receives Royal Assent.

Current law

Under current case law some foreign funds may be held to be tax resident in the United Kingdom when centrally managed and controlled here.

Proposed revisions

The proposed legislation to be included in the Finance Bill will treat a UCITS fund that is established and regulated in another EEA state as not being resident in the United Kingdom.

¹ Directive 2009/65/EC of the European Parliament and Council

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
	In so far as this measure results in the management of UCITS being transferred into the UK then the Exchequer will benefit by way of additional direct and indirect taxation both in respect of the new business and its employees, although the amounts are unlikely to be significant.				
Economic impact	This enables take-up of the UCITS IV directive by UK fund management companies. The aim of the UCITS IV directive is to improve competition and cross-border use of collective investment schemes in Europe.				
Impact on individuals and households	We would not expect this tax measure to impact the tax treatment of individual investors. The measure affects only the tax residence of certain collective investment schemes.				
Equalities impacts	This measure has direct effect only on certain collective investment schemes. It is not considered that there will be any equalities impacts.				
Impact on business including third sector	Where a foreign UCITS funds is subject to UK management then this measure will provide certainty of tax residence. While, at this stage, it is not a change that is quantifiable in overall financial terms the change will be legally and administratively beneficial.				
Operational impact (£m) (HMRC or other)	As the purpose of the proposed measure is to provide tax certainty that foreign UCITS funds will remain outside of the UK tax net, we do not consider there to be any operational impact on HMRC.				
Other impacts	<p>We have considered small firms and competition impacts. As set out under 'economic impact' above this measure, in combination with the directive, has a positive impact on competition. The measure is available to small firms as well as to large firms.</p> <p>We do not expect other impacts to arise.</p>				

Monitoring and evaluation

HMRC and HMT policy partners will continue to monitor industry developments, stakeholder contact and customer feedback to ensure that the revised rules are operating in the way intended.

Further advice

If you have any questions about this change, please contact John Buckeridge on 020 7147 2560 (email: john.buckeridge@hmrc.gsi.gov.uk).

Tax Treatment of Specified Investments

Who is likely to be affected?

Some companies in the financial sector issuing certain types of securities, particularly those involved in securitisations.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to reverse the unintended tax consequences of an order made in February 2010: the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010.

This order had the unintended effect that certain debt securities may be unable to qualify for the loan capital exemption from stamp duty, and the companies that issue them may be unable to qualify for the corporation tax securitisation company regulations.

Policy objective

The aim of the measure is to preserve previous expectations about the tax treatment of debt securities affected by these unintended consequences.

Background to the measure

- In February 2010, HM Treasury (HMT) made an order ('the first order') to amend the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544). This aligned the regulatory treatment of a certain type of sharia-compliant financial instrument ('alternative finance investment bonds' – AFIBs) with conventional debt securities to which they are economically equivalent. It created a new regulatory category for AFIBs, Article 77A, corresponding to Article 77 under which conventional securities are regulated.
- It subsequently became apparent that the terms of the first order inadvertently created a number of regulatory and tax problems. It had the unintended effect of creating a category of financial instruments that fall neither within Article 77 (where such instruments are not listed or traded, or where the interest on them exceeds a commercial rate of return) nor within Article 77A. As a consequence, such instruments do not qualify for the stamp duty loan capital exemption, and companies issuing such securities are unable to benefit from the special tax regime for securitisation companies.
- In January 2011, HMT made a second order (the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2011), to reverse the unintended effects of the first order. This order ensures that the correct regulatory treatment applies on or after 16 February 2011.
- In a Written Ministerial Statement to Parliament, the Exchequer Secretary to the Treasury confirmed on 19 November 2010 that the Government would introduce retrospective legislation in the next Finance Bill to restore previous expectations about the way that potentially affected debt securities are taxed, subject to an opt out to ensure the retrospective application of new legislation does not increase tax liabilities.

Detailed proposal

Operative date

The legislation will have effect in relation to instruments executed on or after 24 February 2010.

Current law

Instruments executed on or after 24 February 2010 that for regulatory purposes fall within neither Article 77 nor Article 77A do not qualify for the stamp duty loan capital exemption in section 79(4) of Finance Act 1986. In addition, companies that issue such instruments and which have accounting periods part of which fall within the period 24 February 2010 to 16 February 2011 do not qualify for the special tax regime for securitisation companies in the Taxation of Securitisation Companies Regulations (SI 2006/3296).

Proposed revisions

Finance Bill 2011 will provide that for all tax purposes, the second order will apply as if it had been made on 24 February 2010. As a consequence, instruments will continue to qualify for the stamp duty loan capital exemption and the securitisation company regulations will apply as if the first order had not inadvertently disapplied Article 77. A person may elect to opt out of this continuity of treatment, to ensure that no one is disadvantaged by these provisions.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	The measure will act to prevent an adverse effect on capital markets. In its absence a number of companies would be wrongly exposed to an unexpected tax charge (corporation tax and stamp duty).				
Impact on individuals and households	There is no impact on individuals and households because this measure affects only entities involved in wholesale capital markets.				
Equalities impacts	There will be no different impact on any equality group because the measure is directed only at entities involved in wholesale capital markets, not at individuals. The measure will have no impact on individuals holding Sharia-compliant securities.				
Impact on business including third sector	The measure affects only a small number of large companies involved in issuing securities into the capital markets and those investing in such products, and has the effect of restoring the tax treatment to what such companies would have expected had the first order not been made. The administrative and compliance costs to businesses, either annual or one-off, are expected to be negligible. No small businesses are likely to be affected either by the first order or this measure, and where any small businesses are affected, the measure will have the effect of restoring the expected tax treatment, as it does for larger businesses.				

Operational impact (£m) (HMRC or other)	This measure has no impact on HM Revenue & Customs' costs.
Other impacts	No other impacts have been identified.

Monitoring and evaluation

The effect of the measure will be monitored through information gathered from stakeholders in the capital markets.

Further advice

If you have any questions about this change, please contact Tony Sadler on 020 7147 2608 (email: tony.sadler@hmrc.gsi.gov.uk) or Nicola Rass on 020 7147 2802 (email: nicola.rass@hmrc.gsi.gov.uk).

Interim CFC Reform

Who is likely to be affected?

Primarily large UK based multinationals, but any UK corporate with overseas subsidiaries may be affected.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to deliver a package of interim improvements to the controlled foreign company (CFC) rules

These will:

- modernise aspects of the rules so as to exempt commercially justified activities that both business and HM Revenue & Customs (HMRC) agree do not erode the UK tax base; and
- introduce other improvements that will help UK businesses that wish to undertake overseas acquisitions and reorganisations and non-UK businesses that want to invest or locate in the UK.

This is a first step to making the rules more competitive ahead of full reform in 2012.

Policy objective

This measure supports the Government's objective to deliver a more competitive corporate tax system to provide the right conditions for business investment and growth. These changes are in line with a move towards a more territorial corporate tax system that reflects the global reality of modern business. The interim improvements are designed to make the current CFC rules easier to operate and, where possible, to increase competitiveness.

Background to the measure

- In the June 2010 Budget, the Government announced that it would introduce CFC interim improvements in Finance Bill 2011 ahead of a fuller reform of the CFC regime in 2012.
- The Government published a note entitled the *Aim and scope of the CFC interim improvements* on 27 July 2010, which outlined the detailed objectives and informal consultation was undertaken from July to October 2010.
- The Government published detailed proposals for reform on 29 November 2010 as part of the Corporate Tax Reform document. All documents are available on the HM Treasury website.
- Draft Finance Bill clauses for this measure were published for consultation on 9 December 2010. A Tax Information and Impact Note was published alongside the draft legislation.¹
- Following consultation, the Government has made a number of changes to the design of the new exemptions to make it easier for businesses to benefit from them.

¹ *Tax Information and Impact Notes (TIINs) including draft clauses and explanatory notes* HM Revenue & Customs (HMRC) 9 December 2010

- This Tax Information and Impact Note updates and replaces the Note published on 9 December 2010 to show the effect of changes including an updated summary of impacts.

Detailed proposal

Operative date

The new rules will have effect for accounting periods beginning on or after 1 January 2011, except for the extension to the transitional rules for holding companies, which is treated as always having had effect.

Current law

The current law is in sections 747 to 756 of and Schedule 25 to the Income and Corporation Taxes Act 1988. The relevant aspects of the CFC legislation currently:

- restrict the level of intra-group transactions that qualify for exemption. There is a parallel restriction on transactions with the UK;
- exempt for up to two years certain subsidiaries acquired from third parties which have not previously been controlled from the UK;
- exempt CFCs whose UK chargeable profits would be below £50,000 per annum; and
- exempt superior and non-local holding companies under transitional rules which expire in July 2011.

Proposed revisions

The law will be changed by Finance Bill 2011 to:

- introduce an exemption for certain intra group trading transactions where there is little connection with the UK and therefore it is unlikely that UK profits have been artificially diverted;
- introduce an exemption for CFCs with a main business of intellectual property (IP) exploitation where the IP and the CFC have minimal connection with the UK;
- introduce a statutory exemption which runs for three years for foreign subsidiaries that, as a consequence of a reorganisation or change to UK ownership, come within the scope of the CFC regime, including those that are not currently CFCs but have previously been so, making the exemption available to previously UK-headed groups if they return to the UK;
- introduce an alternative to the current de minimis exemption, which will increase the limit to £200,000 profits per annum, and replace the need to calculate chargeable tax profits with an accounts based measure; and
- extend the transitional rules for superior and non-local holding companies until July 2012.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-55	-15	-25	-25	-25
Economic impact	This measure will benefit UK corporate groups by making the CFC regime easier to operate and taking initial steps to improve its				

	competitiveness. It will also facilitate the setting up of new coordinating or HQ companies in the UK by foreign businesses with the consequent economic impact.
Impact on individuals and households	This is a corporate tax measure and therefore, has no direct impact on individuals and households.
Equalities impacts	These proposals will affect companies, rather than individuals or households, and therefore there are not expected to be any different impacts in respect of any equality group.
Impact on business including third sector	<p>The Government does not hold sufficient information to provide an accurate estimate on the number of businesses likely to be affected.</p> <p>However, the CFC rules impact all large UK multinationals and other UK companies with overseas subsidiaries.</p> <p>This package of measures is intended to ease the compliance burden caused by the current CFC rules and provide increased certainty (e.g. introduction of new exemptions will reduce the reliance on the motive test in certain circumstances and increasing the de minimis exemption will reduce compliance requirements). In particular, the exemption of intra-group trading activities with limited UK connection means that UK multinationals will now benefit from greater organisational flexibility without the risk of a CFC charge. This flexibility will make it easier to respond to commercial pressures for increased efficiency through reorganisation of their overseas operations.</p> <p>The response from businesses during consultation has been that the measures should achieve their aims.</p>
Operational impact (£m) (HMRC or other)	There will be no significant impact on HMRC.
Other impacts	No other impacts have been identified. In particular, this measure should have minimal impact on small firms.

Monitoring and evaluation

The reforms will be monitored once they are implemented, as part of a wider programme of evaluation. This will involve collecting statistics on the application of different exemptions.

Further advice

If you have any questions about this change, please contact Mark Bryan on 020 7147 2684 (email: mark.bryan@hmrc.gsi.gov.uk).

Taxation of Foreign Branches

Who is likely to be affected?

UK businesses operating outside the UK through foreign branches. Those businesses that do this tend to be large companies involved in oil and gas exploration, insurance or banking.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to exempt the profits of foreign branches of UK resident companies from corporation tax (CT), precluding the need for credit relief to prevent double taxation. Companies will be able to opt into this exemption regime. Any such election will be irrevocable.

Policy objective

This measure supports the Government's objective to deliver a more competitive corporate tax system to provide the right conditions for business investment and growth. This change is in line with a move towards a more territorial corporate tax system that reflects the global reality of modern business. It will also help to achieve greater consistency of tax treatment between foreign branches and subsidiaries of UK companies, which will, in turn, help create a level playing field across different business operating models.

Background to the measure

- In the June 2010 Budget, the Government announced that it would reform the rules on foreign branch taxation in Finance Bill 2011.
- The Government published Foreign branch taxation: a discussion document on 27 July 2010.
- The Government published detailed proposals for reform on 29 November 2010 as part of the Corporate Tax Reform document. All documents are available on the HM Treasury website.
- Draft Finance Bill clauses for this measure were published for consultation on 9 December 2010. A Tax Information and Impact Note was published alongside the draft legislation. These documents are available on the HM Treasury and HM Revenue & Customs (HMRC) websites.
- A number of changes have been made to the draft legislation following comments and concerns raised as part of the consultation. These include elements of the anti-diversion rules, transitional rules and capital allowances. Some life insurance business will now be eligible for exemption.
- This Tax Information and Impact Note updates and replaces the Note published on 9 December to show the effect of changes including an updated summary of impacts.

Detailed proposal

Operative date

The proposal will have effect for accounting periods commencing on or after Royal Assent to the Finance Bill 2011.

Current law

Section 5(1) of the Corporation Tax Act 2009 charges UK resident companies to corporation tax (CT) on all their profits wherever arising, including those of any foreign branches. Credit relief is given against that CT for the foreign tax paid on the profits of foreign branches. That occurs when a claim is made under a double taxation arrangement, normally based on Article 23B of the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention. When there is no such convention unilateral relief is given.

Provisions authorising the UK's current double taxation arrangements, provisions relating to those arrangements and the unilateral credit relief regime are contained in Part 2 of the Taxation (International and Other Provisions) Act 2010 (TIOPA). Section 42 of TIOPA restricts the amount of credit available against CT in respect of foreign tax paid on any profits to the amount of CT payable on the same (UK measure of) profits.

Proposed revisions

Legislation in Finance Bill 2011 will allow a company to make an irrevocable election for all its foreign branches, located anywhere in the world, to be exempt from UK CT on their profits. Where a treaty with a non-discrimination article is in place, the exempt income will be the UK measure of the profits of the permanent establishment that are taxable by the other state in accordance with the relevant treaty. Otherwise the measure will be based on the OECD Model Tax Convention. Exempt profits will include any capital gains attributable to the foreign branch and taxable under the treaty. No relief will be available for foreign branch losses.

Certain restrictions will prevent abuse whereby profits that would otherwise remain within the charge to CT are diverted to an exempt foreign branch. There will also be a transitional rule to ensure that any outstanding loss relief which has been claimed in the last six years is recaptured by the Exchequer (except in the case of very large losses, which will remain in the scope of the transitional rule indefinitely).

Foreign branch exemption will not extend to international air transport and shipping, to the extent that these activities may not be taxed by the foreign jurisdiction due to a specific treaty restriction. It will extend the exemption to some, but not all, life insurance business.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	-30	-70	-80	-80
Economic impact	The exemption regime will improve alignment in tax treatment of foreign branches and subsidiaries ensuring there is no competitive disadvantage to companies that use a branch structure. The largest benefits will fall to UK owned multinational corporate groups. Most industries use a subsidiary structure but some, such as the financial sector, use branches for regulatory purposes. The primary				

	<p>benefit of this proposal will arise in three sectors: banking, which currently makes greatest use of foreign branches, and general insurance and life assurance, where it is expected that use will increase due to EU regulatory changes.</p> <p>The proposal is also expected to have a marginal (beneficial) economic impact on oil and gas, which is the other sector operating a significant number of foreign branches.</p>
Impact on individuals and households	The proposal will affect companies, and does not impact on individuals or households.
Equalities impacts	This proposal will affect companies, not individuals, and is therefore not expected to have any different impact in respect of any equality group.
Impact on business including third sector	<p>Based on current corporate structures, the proposal should impact on no more than 150 companies owned by large UK multinational groups, plus a small number of companies owned by non-UK multinational groups that have established foreign branches from the UK.</p> <p>Companies opting into the exemption will benefit from a reduction in tax, where the profits of their foreign branches would otherwise be subject to UK tax for the difference between the tax paid in overseas territories and the UK CT on those profits. This will achieve greater consistency of tax treatment with overseas subsidiaries.</p> <p>The Government expects large financial services companies to make the greatest use of the exemption regime. Any company not opting into the exemption will be unaffected.</p> <p>The availability of a branch exemption regime to all UK-resident companies should not impact on competition. The administrative and compliance cost of making the change is expected to be negligible.</p>
Operational impact (£m) (HMRC or other)	There will be no significant impact on HMRC running costs; and since this proposal only affects companies, there should be no impact on the wider public sector.
Other impacts	The branch exemption regime will be available for any company to choose to opt in to. Companies with fewer than 20 full time equivalent employees do not tend to have foreign branches and discussions with businesses have indicated they are unlikely to be affected in practice.

Monitoring and evaluation

The policy will be kept under review through regular communication with the business sectors affected, and through information collected from tax returns.

Further advice

If you have any questions about this change, please contact Andrew Page on 020 7147 2673 (email: andrew.page@hmrc.gsi.gov.uk), Bob Fisher on 020 7147 2198 (email: bob.fisher1@hmrc.gsi.gov.uk) for financial and chargeable gains matters, Mike Hogan on 020 7147 2655 (email: mike.hogan@hmrc.gsi.gov.uk) for non-financial, capital allowances and intellectual property matters or Nick Shepherd on 020 7147 2689 (email: nick.shepherd@hmrc.gsi.gov.uk) for anti-diversion and life insurance matters.

Charities and Charitable Giving

Gift Aid Benefit Limits

Who is likely to be affected?

Charities and Community Amateur Sports Clubs (CASCs) that provide benefits to donors who make qualifying donations in excess of £10,000 and the individuals and companies who make those donations.

General description of the measure

For donations to charities to be eligible for Gift Aid tax relief, there are limits on the value of benefits that individuals and companies may receive as a result of making those donations. Legislation will be introduced in Finance Bill 2011 to increase the benefit limit for donations of more than £10,000. The existing rule that the benefit must not exceed 5 per cent of the gift will remain the same, but the overriding annual limit to the value of benefits a donor may receive will be increased from £500 to £2,500.

Policy objective

The measure is designed to encourage people to give more to charity. It will enable charities who wish to do so, to thank their larger donors in a more generous way without the donations being disqualified from Gift Aid. This measure is part of a wider package designed to boost donations to charity.

Background to the measure

This measure is announced at Budget 2011.

Detailed proposal

Operative date

The change will have effect for benefits received as a consequence of donations made on or after 6 April 2011 by individual donors, and for donations made in accounting periods ending on or after 1 April 2011 by corporate donors.

Current law

Gift Aid for Individuals

Chapter 2 of Part 8 of the Income Tax Act 2007 (ITA) allows donations by individuals to qualify for Gift Aid tax relief. One of the conditions of the relief is that the value of any benefit received by the donor, or a person connected with the donor, as a consequence of making the donation, must not exceed certain limits.

Under section 418 of ITA, the current limits on the value of benefits received by the donor, or a person connected with the donor, in consequence of a donation made to a particular charity or CASC in a tax year are as follows:

Amount of donation	Maximum value of benefits			
£0 - £100	25% of the donation			
£101 - £1000	£25	Current Cap	Overall	New Overall Cap
£1,001 +	5% of the donation	£500		£2,500

Gift Aid for companies

Section 197 of the Corporation Tax Act 2010 (CTA) largely replicates the provisions in section 418 ITA that are applicable for individuals, and applies them to donations made by companies.

Community Amateur Sports Clubs (CASCs)

For the purposes of Gift Aid, section 430(1)(d) ITA treats registered CASCs as if they are charities, so that donations by individuals to CASCs can qualify for Gift Aid reliefs.

Proposed revisions

The current overall Gift Aid benefit limit (contained in section 418(3) ITA and section 197(3) CTA) will be increased from £500 to £2,500.

The increase to the S418(3) ITA limit will apply to CASCs by virtue of S430(1)(d) ITA.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
Economic impact	No significant economic impact is envisaged.				
Impact on individuals and households	Individuals making a donation of more than £10,000 under Gift Aid will be able to receive more benefits from a charity without losing entitlement to tax relief on the donation.				
Equalities impacts	There are no identified impacts on different equality groups as a result of this increase to the Gift Aid benefits limits.				
Impact on business including third sector	This will have a negligible impact on administrative burdens for charities and no impact on business. The overwhelming majority of charities and donors would be unaffected and no additional form filling is required. The measure will enable charities who wish to do so to thank and encourage donors who give a donation of more than £10,000 by increasing the amount of benefit to such donors. We estimate that a few hundred donations a year would be affected, and hence a similar number of donors. The only requirement is that charities giving an increased benefit must assess the value of that benefit to ensure it remains within the new limit.				
Operational impact (£m) (HMRC or	There are no identified operational impacts on HM Revenue & Customs (HMRC).				

other)	
Other impacts	No other significant impacts have been identified and in particular, no significant impacts on small firms or on competition.

Monitoring and evaluation

This policy may be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

SA Donate

Who is likely to be affected?

Charities that receive donations made by Self Assessment (SA) taxpayers under the SA Donate scheme; and the SA donors making those donations.

General description of the measure

The SA Donate scheme will be withdrawn for repayments of tax due on tax returns for 2011-12 and subsequent years, and for any repayments made in respect of earlier tax years on or after 6 April 2012.

Policy objective

This measure supports the Government's objectives to simplify the tax system and direct resources to encourage charitable giving to more cost effective methods.

Background to the measure

- Under SA Donate, SA taxpayers who are due a repayment of tax from HM Revenue & Customs (HMRC) may direct that the repayment should be made instead to a charity of the taxpayer's choice. Taxpayers may also apply Gift Aid to the donation provided they have paid enough tax to cover the charity's repayment claim. HMRC pays the basic rate of tax due in respect of the donation, to the charity.
- SA Donate was introduced in 2005 but has not been well used, is not cost effective and is vulnerable to fraud without extensive upgrading.
- It was announced at Budget 2011 that SA Donate will be withdrawn and the resources saved from the withdrawal of SA Donate will be redirected to support the introduction of an online claims system for Gift Aid.

Detailed proposal

Operative date

SA Donate will be withdrawn in relation to repayments of tax in respect of:

- tax returns for the tax year 2011-12 onwards; and
- tax returns up to and including 2010-11 where the repayment is made on or after 6 April 2012.

Current law

Section 429 of the Income Tax Act (ITA) 2007 provides for a repayment of tax due to an individual SA taxpayer, who has directed that the repayment should be made to a charity, to be treated as a qualifying donation under the Gift Aid scheme in Chapter 2 Part 8 of ITA 2007.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 429 of ITA 2007.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
	Negligible Exchequer impact. Some donors may choose to retain their tax repayments instead of giving to charity, but the total amount paid through SA Donate is very low – less than £400,000 in most years.				
Economic impact	No significant economic impact.				
Impact on individuals and households	There is a minimal impact on individuals and households although those wanting to donate their tax repayment will need to give to charity by different means. Individuals will no longer need to complete the SA Donate boxes, but some may incur costs of giving through other means. Only a few thousand individuals give via SA donate per annum and the overall impact on individuals is negligible.				
Equalities impacts	There are no identified impacts of different equality groups as a result of the withdrawal of SA Donate. Fewer than 2,500 charities have benefited from SA Donate over the past six years. There is no specific type of charity benefiting from SA Donate; but HMRC analysis on repayment claims reveal that nine of the top 10 most frequently nominated charities are also the top 15 charity earners as identified by the Charities Aid Foundation in their 2007 Trend Report ¹ . Six of the 10 biggest beneficiaries from SA Donate were also in the ten earners identified in this report.				
Impact on business including third sector	<p>There is no impact on business or the administrative burden and negligible administration impact on the third sector.</p> <p>Some charities may see a reduction in donations. The total amount donated through SA Donate is low (less than £400,000 in most years and even less on current trends for 2010-11). Most charities benefiting from SA Donate are the largest ones who have the greatest fund raising capacity.</p>				
Operational impact (£m) (HMRC or other)	There will be additional costs for HMRC, including one-off costs for system changes of £110,000 and ongoing savings attributable to reduce staffing and IT maintenance (approx. £150,000 pa).				
Other impacts	No other significant impacts have been identified, in particular, there are no significant impacts on small firms or on competition.				

Monitoring and evaluation

This policy may be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

¹ <http://www.cafonline.org/default.aspx?page=14687>

Indirect Taxes

Tobacco Products: Rates of Duty

Who is likely to be affected?

Manufacturers, importers and consumers of tobacco products. Tobacco products include cigarettes, cigars, hand-rolling tobacco, other smoking tobacco and chewing tobacco.

General description of the measures

Legislation is introduced in Finance Bill 2011 to increase the rates of duty on all tobacco products imported into, or manufactured in, the UK. Tobacco duty on cigarettes is also rebalanced to decrease price-based duty but increase quantity-based duty.

For cigarettes, the quantity-based duty is increased by 25 per cent above retail price inflation, whilst the price-based duty is reduced from 24 per cent to 16.5 per cent of the retail price. This reduces the duty differential between cigarettes in different price categories.

Duty on hand-rolling tobacco (HRT) is increased by 12 per cent above retail price inflation to reduce the duty differential between hand-rolling tobacco and cigarettes.

For other tobacco products, the rate of duty is increased by 2 per cent above retail price inflation.

Policy objective

The Government is committed to maintaining high tobacco duty rates to support health objectives and ensure that tobacco duties continue to contribute to fiscal consolidation.

The rebalancing of tobacco duty on cigarettes and the additional duty increase on hand-rolling tobacco supports health objectives by targeting the duty increase on cheaper tobacco products and thereby reducing the affordability of smoking.

Background to the measures

- The March 2010 Budget announced that tobacco duty rates would increase by 2 per cent above retail price inflation in every year from 2011 to 2014.
- Changes made to the European Directive 95/59/EC, effective from 1 January 2011, give Member States more flexibility over the percentage of tobacco duty that can be based on quantity. This has enabled the UK to rebalance the two types of duty further towards the quantity based duty.

Detailed proposal

Operative date

The rate changes will have effect from 6pm on 23 March 2011.

Current law

The table of rates of duty in Schedule 1 to the Tobacco Products Duty Act 1979 is substituted with a table providing for the revised duty rates for all categories of tobacco products.

Proposed revisions

The revised rates of duty are:

- cigarettes: an amount equal to 16.5 per cent of the retail price plus £154.95 per thousand cigarettes;
- cigars: £193.29 per kilogram;
- hand-rolling tobacco: £151.90 per kilogram; and
- other smoking tobacco and chewing tobacco: £84.98 per kilogram.

Summary of impacts

Exchequer impact (£m)		2011-12	2012-13	2013-14	2014-15	2015-16
	Cigarettes	60	40	45	50	55
	HRT	20	20	20	20	25
	Total	80	60	65	70	80
Economic impact	<p>These measures will add:</p> <ul style="list-style-type: none"> • 33 pence to a packet of premium cigarettes, • 50 pence to a packet of economy cigarettes, • 67 pence to a packet of hand-rolling tobacco, • 10 pence to a packet of 5 small cigars, and • 17 pence to a packet of pipe tobacco. <p>Research has consistently shown that the price of tobacco products affects demand. In addition, any increase in tobacco duties results in downtrading from more expensive to cheaper tobacco products, including from the licit to the illicit tobacco market.</p> <p>Rebalancing, together with the increase in hand-rolling tobacco duty, reduces the price gap between the different tobacco products, and is expected to reduce the rate of downtrading to cheaper tobacco products.</p> <p>An increase in tobacco duty should also decrease smoking prevalence, although the extent of this is difficult to estimate.</p>					
Impact on individuals and households	<p>Smokers will face an increase in the price of tobacco products. Heavy smokers and smokers consuming economy cigarettes and hand-rolling tobacco will face the highest increase from this measure.</p>					
Equalities impacts	<p>Any change to tobacco products duty will have an equalities impact because of differences in smoking prevalence across gender, age and marital status. The proposed taxation change will raise revenue and discourage smoking. These benefits will outweigh any unintended effects on equality groups.</p>					

Impact on business including third sector	Tobacco manufacturers will face an increase in tax from this measure, which they are expected to pass on to consumers. A rate change will impose a negligible one-off compliance cost to businesses. It is not expected to have a significant impact on competition.
Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will incur a negligible one-off compliance cost.
Other impacts	Smoking kills half of all long-term users and is the biggest single cause of inequalities in death rates between rich and poor in the UK. Decreases in smoking prevalence have significant positive health impacts, and also contribute to reducing health inequalities.

Monitoring and evaluation

Revenue receipts from tobacco products will be monitored to ensure tobacco duties continue to contribute to fiscal consolidation.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Fuel Duty Rates

Who is likely to be affected?

Businesses producing and importing, and consumers of, hydrocarbon oils and alternative fuel products.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to amend fuel duty rates.

Policy objective

This measure will ease the burden on motorists at a time of record pump prices.

Background to the measure

- The fuel duty escalator was introduced at Budget 2009 to increase fuel duty by RPI+1ppl each year until 2014-15.
- This measure was announced at Budget 2011.

Detailed proposal

Operative date

The changes will have effect on and after 6pm on 23 March 2011 and on and after 1 January 2012.

Current law

Excise duty rates are contained in the Hydrocarbon Oil Duties Act 1979 (HODA): section 6 contains the rates for hydrocarbon oils; section 8 contains the rates for road fuel gases; section 11 contains rebated rates for heavy oils; section 14 contains the rebated rate for light oil used as furnace fuel; and section 14A contains the rebated rate for certain biodiesel.

Proposed revisions

- The Government will abolish the fuel duty escalator and replace it with a fair fuel stabiliser.
- As part of the fair fuel stabiliser, when oil prices are high, fuel duty will increase by RPI only. However, if the oil price falls below a set trigger price on a sustainable basis the Government commits itself to increasing fuel duty by RPI plus 1 penny per litre in each such year. The Government believes that a trigger price of \$75 per barrel would be appropriate, and will set a final trigger price and mechanism after seeking the views of oil and gas companies and motoring groups.
 - The main fuel duty rate will be cut by 1 penny per litre from 18:00 on 23 March 2011.
 - The main fuel duty rate will increase by 3.02 pence per litre on 1 January 2012.
 - The 2012-13 increase in fuel duty will be implemented on 1 August 2012.

- On 1 August 2012 rebated oils will also rise in proportion to the main rate. The duty differential for compressed natural gas will be maintained, but the differential for liquefied petroleum gas will be reduced by the equivalent of 1 penny per litre.

Finance Bill 2011 will amend the relevant sections of HODA.

At 6pm on 23 March 2011 the duty rates for main fuels (that is unleaded petrol and heavy oil (diesel)), and for biodiesel and bioethanol, will be reduced by 1 ppl.

On 1 January 2012 the duty rates for main fuels (that is unleaded petrol and heavy oil (diesel)), and for biodiesel and bioethanol, will be increased by 3.02 ppl.

Biodiesel made from waste cooking oil will continue to benefit from a 20ppl duty differential until 31 March 2012.

	Duty rate per litre (£)		
	Current	On and after 6pm on 23 March 2011	On and after 1 January 2012
Unleaded petrol	0.5895	0.5795	0.6097
Heavy Oil	0.5895	0.5795	0.6097
Biodiesel	0.5895	0.5795	0.6097
Bioethanol	0.5895	0.5795	0.6097

At 6pm on 23 March 2011 the duty rate for light oil other than unleaded petrol or aviation gasoline will be reduced by 1 ppl.

On 1 January 2012, the duty rate for light oil other than unleaded petrol or aviation gasoline will be increased by 3.02ppl.

	Duty rate per litre (£)		
	Current	On and after 6pm on 23 March 2011	On and after 1 January 2012
Light oil (other than unleaded petrol or aviation gasoline)	0.6867	0.6767	0.7069

At 6pm on 23 March 2011 the duty rate for aviation gasoline (avgas) will be reduced by 0.65ppl.

On 1 January 2012, the duty rate for aviation gasoline (avgas) will be increased by 1.96 ppl.

	Duty rate per litre (£)		
	Current	On and after 6pm on 23 March 2011	On and after 1 January 2012
Aviation gasoline (Avgas)	0.3835	0.3770	0.3966

At 6pm on 23 March 2011 effective rates of duty (that is, the relevant duty minus the relevant rebate) for non-road fuels will be reduced by the same percentage as main road fuels.

On 1 January 2012, effective rates of duty (that is, the relevant duty minus the relevant rebate) for non-road fuels will be increased by the same percentage as main road fuels.

	Duty rate per litre (£)		
	Current	On and after 6pm on 23 March 2011	On and after 1 January 2012
Light oil delivered to an approved person for use as furnace fuel	0.1088	0.1070	0.1126
Marked gas oil	0.1133	0.1114	0.1172
Fuel oil	0.1088	0.1070	0.1126
Heavy oil other than fuel oil, gas oil or kerosene used as fuel	0.1088	0.1070	0.1126
Kerosene to be used as motor fuel off-road or in an excepted vehicle	0.1133	0.1114	0.1172
Biodiesel for non-road use	0.1133	0.1114	0.1172
Biodiesel blended with gas oil for non-road use	0.1133	0.1114	0.1172

At 6pm on 23 March 2011 the duty rate for natural gas and liquefied petroleum gas (LPG) will be reduced by 1.45p and 1.43p per kg respectively, to maintain the differential with road fuels in pence per litre equivalents.

On 1 January 2012, the duty rate for natural gas will be increased by 4.37 pence per kg to maintain the differential with road fuels in pence per litre equivalents, and the duty rate for LPG will be increased by 5.73 pence per kg to reduce the differential with main road fuels by the equivalent of 1 penny on a litre of petrol.

	Duty rate per kg (£)		
	Current	On and after 6pm on 23 March 2011	On and after 1 January 2012
Road fuel natural gas (NG), including biogas	0.2615	0.2470	0.2907
Road fuel gas other than NG – e.g. liquefied petroleum gas (LPG)	0.3304	0.3161	0.3734

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-1,900	-1,600	-1,700	-2,100	-2,100
Economic impact	<p>This policy will reduce the price of fuel compared with that under the fuel duty escalator. As a result of this lower price, fuel consumption and the number of miles driven will increase and the incentive to improve fuel efficiency will be weaker. These effects are included in estimating the Exchequer impact.</p> <p>Fuel is a major business input for the UK economy. The reduction in duty will reduce costs for business; as such it is expected that this measure will have a positive impact on GDP.</p>				
Impact on individuals and households	<p>A cut in fuel duty and the abolition of the fuel duty escalator will benefit all motorists.</p> <p>In 2009 approximately 75 per cent of the UK population had access to a car and 81 per cent of adults lived in a household that owns a car. It is estimated a typical Ford Focus driver will be £56 better off in 2011-12 as a result of the measures announced in Budget 11.</p>				
Equalities impacts	<p>Motorists who drive the same car and drive the same number of miles should broadly be affected by the same amount.</p>				
Impact on business including third sector	<p>This policy will see the average yearly fuel bill for an average haulier decrease by just over £100 in 2011-12, compared with an increase of almost £1,950 under the fuel duty escalator.</p> <p>The impact on business is negligible in terms of administrative and compliance costs.</p>				
Operational impact (£m) (HMRC or other)	<p>Changing fuel duty rates will have minimal operational impacts for HMRC.</p>				
Other impacts	<p>Removing the fuel duty escalator and cutting duty by 1ppl could result in a small increase in CO₂ emissions in 2011-12 of 0.4Mt. However, emissions from road transport are forecast to be approximately 1 per cent lower than current levels by 2015-16 owing to underlying trends in vehicle efficiency.</p>				

Monitoring and evaluation

The policy will be monitored through information collected from tax receipts.

Further advice

If you have any questions about this change, please contact the Excise and Customs helpline on 0845 010 900.

Carbon Price Floor

Who is likely to be affected

Businesses that supply fossil fuels to generators of electricity, including power stations and auto-generators. Generators of electricity using oils that currently reclaim fuel duty. All electricity consumers will also be indirectly affected.

General description of the measure

A carbon price floor will be introduced on 1 April 2013. Supplies of fossil fuels used in most forms of electricity generation will become liable either to the climate change levy (CCL) or fuel duty from that date. Such supplies will be charged at the relevant carbon price support rate, depending on the type of the fossil fuel used, which will be determined by the average carbon content of each fossil fuel. The carbon price support rates will reflect the differential between the future market price of carbon and the floor price determined by the Government.

From 1 April 2013, the 'carbon price support rates' for CCL and, in the case of oils, fuel duty will be equivalent to £4.94 per tonne of carbon dioxide (tCO₂). The rates will be:

Carbon price support rates from 1 April 2013

Supplies of commodity	1 April 2013 to 31 March 2014	Unit
Gas	£0.00091	per kilowatt hour (kWh)
Liquefied petroleum gas (LPG)	£0.01460	per kilogram
Solid fuel (e.g. coal or coke)	£0.01188	per kilogram
Fuel oil	£0.01568	per litre
Gas oil	£0.01365	per litre

Indicative rates for 2014-15 and 2015-16 will be equivalent to £7.28/tCO₂ and £9.86/tCO₂ respectively. Based upon these carbon prices, the indicative carbon price support rates for future years will be:

Carbon price support rates for fuels used in electricity generation

Supplies of commodity	Indicative rate for 1 April 2014 to 31 March 2015	Indicative rate for 1 April 2015 to 31 March 2016	Unit
Gas	£0.00134	£0.00181	per kWh
LPG	£0.02150	£0.02912	per kilogram
Solid fuel (e.g. coal or coke)	£0.01749	£0.02369	per kilogram
Fuel oil	£0.02310	£0.03128	per litre
Gas oil	£0.02011	£0.02724	per litre

Policy objective

The purpose of this change is to encourage additional investment in low-carbon power generation by providing greater support and certainty to the carbon price. The Government believes a carbon price floor will build upon the EU emissions trading system (ETS).

Background to the measure

- In most cases, gas, solid fuels (including coal) and LPG used to generate electricity are currently exempt from CCL. Oils are not subject to CCL, but fuel duty is payable at the point oils leave the refinery. This duty can currently be reclaimed in full by the electricity generator.
- In the June Budget 2010, the Government announced it would consult on introducing a carbon price floor from April 2013, to support investment in low-carbon generation.
- On 16 December 2010, the Government published the consultation document.
- Draft legislation was published on 11 January 2011.
- The Government's response to the consultation will be published shortly.

Detailed proposal

Operative date

Supplies of fossil fuels used to generate electricity will become liable to carbon price support rates on and after 1 April 2013. Anti-avoidance provisions will be introduced for supplies subject to the carbon price support rates for CCL with effect from 23 March 2011.

Current law

Schedule 6 to the Finance Act 2000 (c17) contains the primary legislation for CCL. Paragraph 14 exempts supplies of solid fuels, LPG and gas used for the generation of electricity.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 enable generators who use oil to create electricity to reclaim the fuel duty paid on the oil when it leaves the refinery. The regulations also contain details of the relief from fuel duty for oils used in a combined heat and power (CHP) plant to generate electricity.

Proposed revisions

The carbon price floor will be introduced broadly in line with the consultation proposal:

- The exemption from CCL for solid fuels, gas and LPG used to generate electricity will be removed. These commodities will become liable to new 'carbon price support rates' for CCL taking account of the commodities' average carbon content. These rates will be different from the main CCL rates levied on consumers' use of gas, coal, LPG and electricity, which will be retained.
- As oil is not subject to CCL, the amount of fuel duty that can be reclaimed on oil used in electricity generation (fuel oil and gas oil) will be adjusted to establish new 'carbon price support rates' for oils.
- The exemption from CCL for electricity used to generate further electricity will be retained.
- CCL will still be charged on taxable supplies of electricity to consumers.
- The treatment of imported electricity will not change.
- Fossil fuels used to generate electricity in the UK that is subsequently exported will be taxed at the relevant carbon price support rate.
- Supplies of fossil fuels to auto-generators will be taxed at the relevant carbon price support rate.

- Auto-generators will no longer be able to reclaim the CCL or fuel duty charged on the fossil fuels they use to produce electricity which is subsequently supplied to the electricity transmission and distribution networks.
- Fossil fuels used in carbon capture and storage (CCS) plants will pay reduced carbon price support rates based on the extent to which the carbon dioxide produced by burning fuel in a CCS plant is captured, stored and not emitted.

These changes have been made to the scheme following the consultation:

- Fossil fuels used to generate electricity in a CHP plant registered under the CHP Quality Assurance programme will be liable to reduced carbon price support rates for CCL and fuel duty, subject to State aid approval. The reduced rates and administrative details will be determined following further discussion with the CHP sector.
- Anti-avoidance provisions for supplies of fossil fuels subject to the carbon price support rates for CCL will be introduced with effect from 23 March 2011. The provisions will affect businesses that invoice or receive payment before 1 April 2013, in a way that is not acceptable normal practice. It will cover supplies that will not be delivered until 1 April 2013 or later. The legislation defines acceptable business practice as when:
 - it is normal to invoice or pay in advance;
 - it does not involve issuing invoices or making payments more than 15 weeks in advance of the delivery of the fossil fuels; and
 - the advanced invoicing or payment is in accordance with these practices.

In cases caught by these anti-avoidance provisions, the proportion of the invoice or payment related to supplies to be delivered on or after 1 April 2013 will be treated as supplied on 1 April 2013 and so liable to the relevant carbon price support rate for CCL.

In addition:

- The current exemption from CCL for electricity generated in CHP plants which is supplied indirectly to an energy consumer will be removed from 1 April 2013. HM Revenue & Customs (HMRC) will discuss the details of removal with the CHP Association and other interested parties.
- The discount from CCL for electricity will be increased from 65 per cent to 80 per cent from 1 April 2013 for energy-intensive sectors with Climate Change Agreements.

Paragraphs 6, 14, 21, 42 and 101 of Schedule 6 to the Finance Act 2000 will be amended in Finance Bill 2011 and a new paragraph 42A inserted. This will remove the exemption from CCL on supplies of taxable commodities (apart from electricity) used to generate electricity and create new carbon price support rates for CCL for such supplies. The Bill will also include the anti-avoidance provisions relating to supplies subject to the carbon price support rates for CCL.

The Government plans to introduce further changes to primary legislation relating to CCS plants and CHP plants in Finance Bill 2012. Changes to the administrative provisions for CCL arising from the changes in Finance Acts 2011 and 2012 will be introduced by secondary legislation after Royal Assent to Finance Bill 2012.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 will be amended during 2012 to adjust the amount of fuel duty that can be reclaimed by those generating electricity using oils (including oils used in a CHP plant registered under the CHP Quality Assurance programme) to reflect the carbon price support rates.

Summary of impacts

Further information about impacts will be published in the Government response document shortly.

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	0	740	1,070	1,410
Economic impact	<p>The price floor is designed to rebalance the electricity market towards greater low-carbon generation. The £30/tCO₂ price floor is expected to drive £30-40 billion of new investment in low-carbon, increasing low-carbon generation capacity by 7.5 to 9.3 giga watts (GW) by 2030; broadly equivalent to 5,000 wind turbines or five new nuclear power stations. Higher levels of investment will lead to an increase in capital investment. Total resource costs will increase by £6.1 billion from 2013 to 2030.</p> <p>The price floor increases the wholesale electricity price above the baseline forecast price until the late 2020s. Wholesale electricity prices are expected to flatten out in the 2020s as more low-carbon generation capacity lowers the marginal cost of electricity generation. As a result, wholesale electricity prices are lower by 2030.</p>				
Impact on individuals and households	<p>Around 40 per cent of total costs are likely to be borne by households. Based on the market prices of fossil fuels and carbon, the economic determinants published at Budget, and assuming full pass through to the wholesale electricity price, average household electricity bills will increase by around one per cent (£6) in 2013 and around four per cent (£17) in 2016. However, in the late 2020s electricity bills will be between two to four per cent lower than would otherwise have been the case.</p> <p>Any increase in wholesale electricity prices tends to increase the risk of fuel poverty.</p>				
Equalities impacts	<p>In absolute terms households with higher levels of electricity consumption will face a proportionally larger bill increase from the same increase in price. However, poorer households will spend a larger proportion of their expenditure on electricity.</p> <p>Single parent households and single pensioners are likely to be affected as, on average, electricity bills represent a relatively higher proportion of total expenditure. This is likely to affect relatively more women than men. In the longer term these households will see a greater benefit from lower bills as a result of increased investment in low carbon generation.</p>				

Impact on business including third sector	<p>Electricity bills for an average energy-intensive business will increase by two per cent and six per cent in 2013 and 2016 respectively. However, in the late 2020s electricity bills will be between two to five per cent lower than would otherwise have been the case.</p> <p>The sectors most affected by the price floor and CCL are likely to be: aluminium; calcium carbonate; cement and slag grinding; chemicals (fertilisers, basic inorganic, industrial gases); glass; kaolin and ball clay; lime; malt; non-woven textiles; paper; steel; and wood panel manufacture. The increased electricity cost as a percentage of Gross Value Added (GVA) ranges from between 1 per cent to 5 per cent for the most electricity intensive sectors. To mitigate the impacts, the Budget also announces an increase in the discount from CCL for electricity from 65 per cent to 80 per cent from 1 April 2013 for energy-intensive sectors with Climate Change Agreements.</p> <p>Around 150 fossil fuel electricity generators embedded into the National Grid and around 1,000 CHP plants and a large number of small electricity generators will incur the carbon price support rates upon their fuel input. The total one-off familiarisation and IT costs and continuing administration burdens for the affected businesses are negligible.</p>
Operational impact on HMRC	<p>Additional operational costs for HMRC will be negligible.</p>
Other impacts	<p>A price floor will reduce emissions from electricity generation by a total of 263 million tonnes of CO₂ to 2030. Over this period the power sector will reduce purchases of EU ETS allowances by around £7.2 billion. A reduction in the use of fossil fuels for electricity will also have benefits for air quality valued at £0.9 billion across the period 2013 to 2030.</p> <p>Adding together carbon emissions permits savings and air quality benefits, set against resource costs and administrative burdens, the net present value (NPV) of this policy over the period 2010-2030 is +£1.9 billion (in 2009 prices).</p>

Modelling assumptions: short term and long term

Short-term impacts over the Budget forecast horizon, 2013-2016, are based on market prices and economic determinants, published in the Budget. The assessment of impacts beyond this period reflects the Government's long-term fossil fuel price assumptions and emission projections.

Monitoring and evaluation

The Government will consider how best and when to evaluate the policy against its objective to encourage investment in low-carbon power generation.

Further advice

If you have any questions about this change, please contact Ian Moules on 020 7147 0653 (email: ian.moules@hmrc.gsi.gov.uk).

Climate Change Levy Exemption: Certain Forms of Transport

Who is likely to be affected?

Electrified rail freight train operators; and a limited number of operators of public passenger rail services that do not hold a Public Service Obligation (PSO)¹.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to give HM Treasury the power to suspend, by Order, part of the climate change levy (CCL) exemption for certain forms of transport, specifically rail freight and public passenger rail services where the operator does not hold a PSO. This will take effect from 1 April 2011 if State aid re-approval for continuing with these parts of the exemption has not been obtained by then. The power will also enable the Treasury to re-instate the exemption using secondary legislation if re-approval is received (with retrospective effect, if the terms of the approval permit).

Policy objective

The current State aid approval for the CCL exemption for taxable commodities used in certain forms of transport expires on 31 March 2011. Suspending parts of the exemption whilst re-approval is being sought removes the risk that those who benefit from the exemption will have to repay illegal aid and ensures the UK continues to comply with its general State aid obligations.

Background to the measure

- The exemption from the CCL for taxable commodities used in certain forms of public transport is an approved State aid. The current approval is due to expire on 31 March 2011.
- The Government has been in dialogue with the European Commission about the exemption since last summer. As a result of the discussions, most of the exemption can continue without formal State aid approval. However, the UK needs to obtain a further period of re-approval for supplies of taxable commodities used by rail freight and certain public passenger rail services where the operator does not hold a PSO. The Commission has not yet made its final decision on whether to grant approval.
- Following discussions with the Commission, the Government has concluded that other parts of the transport exemption do not require State aid approval and will continue after 1 April, namely:
 - public passenger rail services where the operator does hold a PSO; and
 - heritage rail services.

¹ A PSO sets out the standards of service a public transport operator agrees to provide in return for the right to operate the service. This may or may not include a public subsidy.

Detailed proposal

Operative date

The exemption as it applies to taxable commodities used by rail freight and public passenger rail services where the operator does not hold a PSO will be suspended from 1 April 2011, if State aid approval has not been obtained by then.

Current law

Paragraph 12 of Schedule 6 to the Finance Act 2000 provides for an exemption for supplies of taxable commodities used in certain forms of public transport.

Proposed revisions

Legislation to be introduced in Finance Bill 2011 will give HM Treasury the power to suspend the relevant parts of paragraph 12 from 1 April 2011 if State aid re-approval has not been obtained by then. If approval is received by then for either rail freight or non-PSO public passenger rail services but not both, the Treasury will be able to limit the scope of the suspension accordingly.

The primary legislation will also enable the Treasury to re-instate all or part of the suspended parts of the exemption using secondary legislation once State aid re-approval is received (with retrospective effect, if the terms of the approval permit).

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	If the exemption is suspended, we anticipate that the operators will absorb the small increased costs on the basis that this is intended to be a temporary arrangement and they would expect to recover the levy paid in the interim period once State aid re-approval has been secured.				
Impact on individuals and households	Suspending the exemption is not expected to have a direct impact on households or individuals.				
Equalities impact	We do not anticipate that suspending the exemption would have a direct impact on any equality group.				
Impact on businesses and third sector	<p>Suspending the exemption would mean that electrified rail freight operators and public service rail passenger operators that do not hold a PSO would have to start paying the levy. They may also need to provide new relief certificates to their suppliers, giving rise to a small one-off and negligible cost. Fewer than 10 operators are likely to be affected.</p> <p>If the re-approval permits retrospective reinstatement of the exemption, affected operators may experience a temporary cash flow disadvantage but would be able to recover the levy that they paid during the period of suspension.</p>				

Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will incur negligible one-off costs.
Other impacts	This is likely to be a minor and temporary tax change, which is unlikely to have any effect on competition. It is unlikely to have any impact on small firms as there are no rail freight operators with fewer than 20 employees.

Monitoring and evaluation

The changes will be monitored and reviewed as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Climate Change Levy Exemption: Recycling Processes

Who is likely to be affected?

Suppliers of taxable commodities liable to account for the climate change levy (CCL) and recyclers of aluminium and steel that currently claim exemption from the levy.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to give HM Treasury the power to suspend the CCL exemption for recycling processes for aluminium and steel by Order from 1 April 2011 if State aid re-approval has not been obtained by then. The power will also enable HM Treasury to re-instate the exemption using secondary legislation if re-approval is received (with retrospective effect, if the terms of the approval permit).

Policy objective

The current State aid approval for the CCL exemption for taxable commodities used in the recycling of aluminium and steel expires on 31 March 2011. Suspending the exemption whilst re-approval is being sought ensures that beneficiaries of the exemption are not put at risk of having to repay illegal aid and the UK continues to comply with its general State aid obligations.

Background to the measure

- The exemption from the CCL for taxable commodities used in the recycling of aluminium and steel is an approved State aid. The current approval is due to expire on 31 March 2011.
- The Government is in dialogue with the European Commission to obtain a further period of re-approval but the Commission has not yet made its final decision.

Detailed proposal

Operative date

The exemption will be suspended from 1 April 2011, if State aid approval has not been obtained by then.

Current law

Paragraph 18A of Schedule 6 to the Finance Act 2000 provides for an exemption for supplies of taxable commodities used in metal recycling processes. Regulation 4 of and Schedule 2 to the Climate Change Levy (Fuel Use and Recycling Processes) Regulations 2005 prescribe the metal recycling processes to which the exemption applies.

Proposed revisions

The Finance Bill will give HM Treasury the power to suspend paragraph 18A from 1 April 2011 as it applies to the recycling of aluminium and steel if State aid re-approval has not been obtained by then. If approval is received for one of the metals but a decision is outstanding on the other, the Treasury will be able to limit the suspension accordingly.

The primary legislation will also enable HM Treasury to re-instate the exemption using secondary legislation once re-approval is received (with retrospective effect, if the terms of the approval permit).

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	Suspending the exemption is not expected to have significant economic impact.				
Impact on individuals and households	The exemption is available for certain metal recycling processes. These are industrial processes. Suspending the exemption for steel and aluminium recyclers will have no impact on individuals and households.				
Equalities impact	Suspending the exemption is likely to affect fewer than 30 recycling businesses. The change will have no impact on individuals and we do not anticipate they will affect any equality group.				
Impact on businesses and third sector	The UK is still seeking re-approval of the exemption for aluminium and steel. If the re-approval permits retrospective reinstatement of the exemption, recyclers may experience a temporary cash flow disadvantage but would be able to immediately recover the levy that they paid during the period of suspension if the terms of the approval permit. Recyclers affected by the suspension may need to provide new relief certificates to their energy suppliers and later recover any CCL incurred from HM Revenue & Customs (HMRC), giving rise to small one-off costs. In all cases the costs are negligible.				
Operational impact (£m) (HMRC or other)	HMRC will incur some negligible one-off costs.				
Other impacts	This is only a very small tax change and will not have an impact on consumer prices etc. The impact on businesses with fewer than 20 employees will be negligible as all of these businesses have been operating for many years. They are familiar with the procedures and will have the capability to deal with any of the administrative issues that may arise. There are no issues surrounding sustainability or any impact on rural areas as suspension of the exemption will not result in any increased business activity.				

Monitoring and evaluation

The changes will be monitored and reviewed as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Aggregates Levy Rate

Who is likely to be affected?

Those commercially exploiting taxable aggregate in the UK.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to repeal the increase in the rate of aggregates levy that was due to take effect from 1 April 2011, and to enable the reinstatement of an aggregates levy credit scheme (ALCS) in Northern Ireland, subject to EU State aid approval.

The increase in the rate of aggregates levy, from £2.00 per tonne to £2.10 per tonne, will now be introduced from 1 April 2012.

Policy objective

These measures will ensure that no additional tax burden is placed on quarry operators in Northern Ireland following the suspension of the aggregates levy credit scheme on 1 December 2010, and that the Government is able to reintroduce a credit scheme in Northern Ireland as soon as possible following a new decision from the European Commission on State aid compatibility.

Background to the measure

- Under the ALCS, introduced on 1 April 2004, registered operators in Northern Ireland could qualify for a levy credit of 80 per cent where they entered into an agreement to comply with the Code of Practice for the Aggregates Industry in Northern Ireland.
- The ALCS had EU State aid approval until 31 March 2011. At the Budget in June 2010, the Government announced that it was seeking State aid approval to extend the scheme for a further ten years, until 2021. However, the scheme's existing State aid approval was annulled in September 2010 by a judgment made by the European General Court. As a result, the Government had to announce the suspension of the scheme with effect from 1 December 2010.
- Finance Act (FA) 2010 legislated for an increase in the rate of aggregates levy from £2.00 per tonne to £2.10 per tonne with effect from 1 April 2011.

Detailed proposal

Operative date

The increase in the rate of aggregates levy to £2.10 will not now go ahead on 1 April 2011.

The primary legislation enabling the reinstatement of an ALCS will have effect on and after the date that the Finance Bill 2011 receives Royal Assent. Regulations reinstating a scheme will be laid at a later date, if the scheme secures State aid approval.

Current law

Section 16(4) of FA 2001, as amended, specifies the rate of aggregates levy. Section 16 of FA 2010 amended the rate from £2.00 per tonne to £2.10 per tonne with effect from 1 April 2011.

Under section 30A of FA 2001, the Commissioners for Her Majesty's Revenue and Customs (HMRC) may make regulations providing for a tax credit where a charge to aggregates levy has arisen on a quantity of aggregate which has been subject to commercial exploitation in Northern Ireland during a period ending 31 March 2011.

Proposed revisions

Section 16 of FA 2010 will be repealed, so £2.00 per tonne will remain the rate of aggregates levy in force.

Section 30A of FA 2001 will be amended to enable the Commissioners for HMRC to make regulations for the reinstatement of an ALCS in Northern Ireland.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	- 15	- 15	- 20	- 20	- 20
Economic impact	No significant impact expected from this measure though it will provide a minor stimulus for the aggregates and construction industry compared with if the increase were implemented.				
Impact on individuals and households	Aggregates levy is levied on the first commercial exploitation of aggregates, so the cancellation of the increase will not result in any additional costs for households and individuals.				
Equalities impacts	It is considered that these proposals have no significant impacts on equality groups.				
Impact on business including third sector	<p>All registered aggregate operators benefit from the levy rate remaining unchanged rather than increasing. This measure averts further pressure on registered aggregate operators in Northern Ireland, particularly those close to the border with the Republic of Ireland following the suspension of the ALCS on 1 December 2010.</p> <p>This measure may remove a small administration and compliance cost for the 685 aggregates levy registered operators as a result of them not needing to adjust their accounting and billing systems to deal with the rate change. Some costs may, however, have already been incurred on the expectation of having to make the pre-announced rate change.</p> <p>Other aggregate suppliers will not incur any additional costs.</p>				
Operational impact (£m) (HMRC or other)	HMRC will incur negligible one-off costs.				
Other impacts	No negative impact on small firms is anticipated.				

Monitoring and evaluation

The policy will be kept under review through regular communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact the National Advice Service on 0845 010 9000.

Stamp Duty Land Tax: Reform of Rules for Bulk Purchases

Who is likely to be affected?

Purchasers of residential property who acquire more than one dwelling from the same vendor (including, in either case, persons connected with them).

General description of the measure

Stamp Duty Land Tax (SDLT) is a tax on transactions in land. The rate of tax is normally determined by the total consideration given for the land in question. This includes single transactions involving more than one interest in land and “linked transactions” between the same purchaser and vendor (or, in either case, persons connected with them). This means that a purchaser acquiring multiple properties can pay a higher rate of tax than a purchaser acquiring a single property.

Legislation will be introduced in Finance Bill 2011 to provide a relief for purchasers of residential property who acquire more than one dwelling. Where the relief is claimed, the rate of SDLT on the consideration attributable to the dwellings is determined by the mean consideration i.e. by the aggregate consideration divided by the number of dwellings (subject to a minimum rate of 1 per cent).

Policy objective

This measure reduces the rate of SDLT on a purchase of multiple residential properties so that it is closer to that charged when purchasing those properties singly. This will strengthen demand for and reduce a barrier to investment in residential property.

Background to the measure

- This measure was announced at Budget 2011.
- The measure was included in the consultation *Investment in the UK private rented sector*, launched by the previous government on 3 February 2010. The Government responded in September 2010, ruling out further work at that time on this policy.

Detailed proposal

Operative date

The measure will have effect for transactions where the effective date is on or after the date on which the Finance Bill receives the Royal Assent.

Current law

- Section 55 Finance Act (FA) 2003 sets the rate of SDLT which applies to a land transaction. Different scales of rates apply depending on whether the “relevant land” consists entirely of residential property or wholly or partly of non-residential property. The rate of tax which applies to a transaction or linked transactions is then set by the “relevant consideration”. In the case of “linked transactions”, the relevant land and the relevant consideration are aggregated over the linked transactions.

- Section 108 FA 2003 defines “linked transactions” as transactions forming part of a single scheme, arrangement or series of transactions between the same vendor and purchaser or, in either case, persons connected with them.
- Section 116(7) FA 2003 provides that, where a single transaction involves the transfer of a major interest in, or the grant of a lease over, six or more dwellings, those dwellings are not treated as residential property.
- Schedule 5 FA 2003 deals with the amount of tax chargeable where all or part of the consideration consists of rent. This is substantially unaffected by this measure.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to provide a new SDLT relief. The relief must be claimed in a land transaction return.

The relief will be available where a land transaction, or a scheme, arrangement or series of linked transactions, includes interests in more than one dwelling.

Where the relief applies, the rate of tax charged on the consideration attributable to the dwellings will be determined by the mean consideration i.e. by the aggregate consideration attributable to dwellings, divided by the number of dwellings. However, the minimum rate of tax will be 1 per cent.

For the purposes of the relief, the dwellings will be treated as residential property, however many dwellings are involved.

Provision will be made for the relief to apply to “off-plan” purchases where a contract is substantially performed before construction of the dwellings has begun. A further return will be required if the number of dwellings reduces, so that additional tax becomes due, within three years of the transaction.

Where a transaction, or a scheme, arrangement or series of linked transactions, includes dwellings and non-residential property, the non-residential property will be excluded from the relief. The rate of tax which applies to the proportion of the consideration attributable to the non-residential property will be determined by the aggregate consideration, including that attributable to the dwellings.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-70	-90	-120	-130	-150
Economic impact	<p>The reduction in the effective tax rate should stimulate demand and lead to additional transactions. Capitalisation of the tax cut may increase the price for this type of transaction.</p> <p>The property industry views the current tax treatment as a barrier for investors in residential property. Removing this barrier is intended to make way for further investment in the sector and, in the longer term, increased supply of private rented property.</p>				
Impact on individuals and households	<p>Where individuals buy multiple dwellings, they will be eligible to claim this relief. Compliance costs for individuals and households will be marginally higher than at present due to a slightly more complex self-assessment of tax due. However, relief will be on an opt-in basis. The change is forecast to affect around 7,000 individuals in 2011-12 but overall compliance costs will be negligible.</p>				

Equalities impacts	SDLT treatment is determined by transaction type rather than purchaser. It is considered that there is little or no connection between the protected groups and the likelihood of purchasing more than one residential property, and that no separate equalities impact test is required.
Impact on businesses and Civil Society groups	<p>This measure will benefit businesses purchasing multiple residential properties where they elect to claim the relief; it is estimated that around 1,800 could claim the relief. Administrative burdens will be marginally higher due to a slightly more complex self-assessment of tax due and due to transactions involving both dwellings and non-residential property needing to apportion the transaction value. However, relief will be on an opt-in basis. Overall administrative burdens will be negligible.</p> <p>The impact on small firms (those with fewer than 20 employees) and Civil Society groups is unlikely to differ as in practice completion of the land transaction return is undertaken by professional advisers handling the conveyancing process.</p>
Operational impact (£m) (HMRC or other)	The estimated cost of HM Revenue & Customs (HMRC) system changes is £450,000. Compliance activity will be undertaken within existing resources.
Other impacts	<p><i>Competition impact:</i> the measure is intended to have a positive impact on competition in the private rented housing sector by encouraging new operators to enter the market.</p> <p><i>Sustainable development and wider environmental impact:</i> the measure is intended to improve standards of governance and so have a positive impact on sustainability, health and well-being in the private rented housing sector.</p>

Monitoring and evaluation

From HMRC data it will be possible to monitor the number of transactions involving bulk property purchases before and after the introduction of the relief, and the number of transactions claiming the relief and value of the relief claimed.

Further advice

If you have any questions about this change, please contact Keith Brown on 020 7147 2790 (email: keith.brown@hmrc.gsi.gov.uk).

VAT: Low Value Consignment Relief

Who is likely to be affected?

Any individual or business importing goods with a value between £15 and £18 from outside the European Union (including the Channel Islands).

The person (or business) to whom the item is addressed is classed as the importer.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to lower the Low Value Consignment Relief (LVCR) threshold, below which goods imported from outside the EU are VAT-free, from £18 to £15.

The Government will also explore options with the European Commission to limit the scope of the relief so that it can no longer be exploited for a purpose for which it was not intended, including the possibility of seeking a derogation from the usual EU rules on LVCR.

It will return to the issue of the appropriate level of the LVCR threshold in Budget 2012 if discussions with the European Commission do not produce a workable solution to the problem of the exploitation of the relief, with a view to reducing it further.

Policy objective

It is the Government's intention to stop the LVCR from being exploited for a purpose for which it was not intended and to improve the competitive position of UK small and medium enterprises.

Background to the Measure

- LVCR is an administrative simplification to reduce the costs for businesses, HM Revenue & Customs (HMRC), Royal Mail, Express Carriers and consumers all of whom would otherwise be involved in the collection, and/or payment of small amounts of VAT on large numbers of low value packages.
- The cost of LVCR to the Exchequer has risen from £85m to £130m annually over the last five years, reflecting the growth of internet shopping and the willingness of UK companies to relocate their operations outside the EU to exploit the relief.
- The Government announced to Parliament in July 2010 (13 July 2010, *Official Report*, column 661W) that it was carrying out a review of the LVCR.

Detailed proposal

Operative date

- The LVCR will be reduced to £15 with effect from 1 November 2011.
- Consultation with the European Commission will commence immediately.

Current law

Article 23 of Council Directive 2009/132 states that goods of a total value of less than 10 euros (currently £9), shall be exempt from import VAT when they are imported into the European Union. It also allows Member States to increase this limit to a maximum of 22 euros (currently £20). The UK limit is £18 and is provided for in the VAT (Imported Goods) Relief Order 1984.

Proposed revisions

The LVCR threshold will be reduced to £15 through legislation in Finance Bill 2011.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+5	+10	+10	+10	+15
Economic impact	The reduction of the LVCR limit to £15 is unlikely to have significant economic impacts.				
Impact on individuals and households	<p>Individuals and households importing goods of a value between the lower limit of £15 and £18 will now incur VAT on their purchases, at the same rate and amount applicable to goods purchased in the UK. The number of people impacted by a £3 reduction in LVCR limit is likely to be small, and it will mostly affect some on-line shoppers. However, this change merely brings the VAT liability into line with that for domestic sales of the same goods.</p> <p>There are no figures available that indicate how many individual consumers import goods or how they will be affected financially.</p> <p>It is estimated there will be an increase in VAT payable of £10million annually.</p>				
Equalities impacts	This change is not expected to impact on equality. The measure applies equally to anyone importing goods with a value between £15 and £18 and there is no particular impact on groups protected by equality legislation.				
Impact on business including third sector	<p>1) This will eliminate the competitive disadvantage faced by UK businesses supplying similar goods to those imported using the LVCR - for example (but not limited to), media, electronic goods and accessories - priced between £15 and £18. It will reduce the attraction for UK businesses to locate outside the EU.</p> <p>2) Non-EU businesses (Channel Islands and the rest of the world) supplying the same goods under 1) will no longer be at an advantage over UK based companies as these items will now be subject to VAT at import.</p> <p>We have considered one-off, and on-going compliance costs for fast parcel operators involved in importing goods to the UK and concluded that they will be negligible.</p> <p>These effects will be significantly magnified if the Government's discussions with the Commission are able to identify a practical mechanism to prevent LVCR from being exploited for tax management purposes in the future.</p>				

Operational impact (£m) (HMRC or other)	<p>There will be an increase in the number of packages where the UK Border Agency has to apply a VAT charge manually. The increase cannot be reasonably estimated until business and customer behavioural change is known.</p> <p>There will be limited impact on Royal Mail.</p>
Other impacts	None identified.

Monitoring and evaluation

The impact of the policy will be monitored and assessed by HM Treasury, HMRC and the UKBA. The Government will return to the issue of the appropriate level of the LVCR threshold in Budget 2012 if discussions with the European Commission concerning a derogation do not produce a workable solution.

Further advice

If you have any questions about this change, please contact Richard Crabtree on 020 7270 6124 (email: Richard.Crabtree@hmtreasury.gsi.gov.uk) or Diane Evans on 01702 361989 (email: diane.evans@hmrc.gsi.gov.uk).

Climate Change Levy: Reform of Climate Change Agreements

Who is likely to be affected?

Gas and electricity utilities, suppliers of solid fuels and liquefied petroleum gas and energy-intensive businesses with climate change agreements (CCAs).

General description of the measure

The current CCA scheme ends in March 2013. The Government announces that the CCA scheme will be extended to 2023 and the 54 participating sectors will continue to be eligible for the scheme. A Department of Energy and Climate Change (DECC) consultation on options to simplify the scheme will be published by summer 2011.

The Government also announces that legislation will be introduced in Finance Bill 2012 to amend the reduced rate of climate change levy (CCL) on electricity only from 35 per cent to 20 per cent, from 1 April 2013.

Policy objective

The reduced rate of CCL for facilities covered by the CCA scheme reduces the impact of the levy on the competitiveness of energy-intensive businesses. In order to receive the reduced rate participating industry is required to meet challenging energy efficiency or carbon reduction targets, supporting the Government's environmental objectives.

Amending the CCL reduced rate from 35 per cent to 20 per cent for supplies of electricity will help mitigate the impacts of the carbon price floor (an extension of CCL and fuel duty to fossil fuels used to generate electricity from April 2013) on energy-intensive industry.

Background to the measure

- The CCL is a tax on business energy use, with four different tax rates for electricity, gas, coal and liquefied petroleum gas. CCAs were introduced alongside the levy in 2001 in recognition of the levy's impact on the competitiveness of energy-intensive sectors of industry. They are voluntary agreements made between DECC and the participating sector associations and their members. The scheme has 54 participating sectors.
- The agreements entitle participating facilities within these sectors to pay a reduced rate of CCL in return for meeting challenging energy efficiency or carbon reduction targets.
- Finance Act 2010 amended the reduced rate of the levy for those in CCAs from 20 per cent to 35 per cent for all taxable commodities, with effect from 1 April 2011. This will ensure that the relief complies with the EU Regulation under which the CCA scheme will be cleared for State aid purposes for the period 1 April 2011 to 31 March 2013.

Detailed proposal

Operative date

The amendment to the reduced rate of CCL will have effect for supplies of electricity treated as taking place on and after 1 April 2013.

Current law

Paragraph 42(1)(c) of Schedule 6 to the Finance Act 2000 provides for the CCL reduced rate.

Paragraph 2 of Schedule 1 to the Climate Change Levy (General) Regulations 2001 sets out the formula used by businesses in CCAs to calculate their relief entitlement.

Proposed revisions

Paragraph 42 will be amended in Finance Bill 2012 to provide for the new reduced rate for electricity. Following Royal Assent to that Bill, secondary legislation will provide for amendment to the formula set out in the Climate Change Levy (General) Regulations 2001.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	0	0	-40	-50	-50
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The CCL is not levied on the supply of energy to individuals and households so this measure will not have any direct impact on their energy bills. The reduction in business energy bills may be passed through to the prices paid by consumers for goods and services, with the degree of pass through likely to vary by sector.				
Equalities impacts	The proposed changes will affect energy-intensive businesses that pay CCL on their qualifying energy consumption. There will be no direct impact on individuals. As such, we do not expect that there will be a differential impact on different equality groups.				
Impact on business including third sector	<p>CCAs are available to 5,000 target units (a single facility or group of facilities) across 54 energy intensive sectors.</p> <p>CCAs reduce the rate of CCL levied on energy consumed by these facilities by 80 per cent (up to and including 31 March 2011) and 65 per cent (from 1 April 2011). As a result of this change the reduction on electricity will return to 80 per cent from 1 April 2013, reducing electricity bills for these facilities.</p> <p>There will be some one-off familiarisation costs and administration costs associated with the change to the level of CCL discount for electricity. The total of these costs is negligible.</p>				
Operational impact (£m) (HMRC or other)	Introducing a different level of reduced rate for electricity will result in a small increase in the cost of administering the tax for HMRC.				
Other impacts	The proposed changes should not have any adverse impacts upon				

	<p>competition as it is not expected to:</p> <ul style="list-style-type: none"> • directly limit the number or range of suppliers; • indirectly limit the number or range of suppliers; • limit the ability of suppliers to compete; or • limit suppliers' incentives to compete vigorously. <p>Some small businesses may be affected by the proposals in so far as the transitional compliance costs might represent a slightly higher burden relative to larger business as a percentage of their fixed operating costs. However, the CCA arrangements for the smaller businesses should be less complex than those of larger businesses. This should mean that less time is spent on the transitional compliance burdens and therefore we would not expect them to incur any material disadvantage implementing this change relative to larger businesses.</p> <p>CCAs will continue to incentivise participating industry to improve energy efficiency and reduce carbon emissions in support of the Government's environmental objectives.</p>
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Monitoring and evaluation

The changes will be monitored and reviewed as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Duty on High and Lower Strength Beers

Who is likely to be affected?

Manufacturers, importers, distributors and consumers of beer with a strength exceeding 7.5 per cent alcohol by volume (abv) or a strength between 1.2 per cent abv and 2.8 per cent abv.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to provide for a new duty on beer exceeding 7.5 per cent abv that is produced in or imported into the UK. This new duty will be known as High Strength Beer Duty (HSBD) and is to be levied in addition to the existing general beer duty. The rate of duty for HSBD will be 25 per cent of the general beer duty rate at the time of introduction. The impact of this change on retail prices is equivalent to 25 pence on a 500ml can of beer at 9 per cent abv.

The legislation will also change the taxation of lower strength beer by introducing a reduced rate of general beer duty for lower strength beer, that is beer exceeding 1.2 per cent abv and not exceeding 2.8 per cent abv. The new reduced rate of general beer duty for lower strength beer will be equivalent to 50 per cent of the general beer duty rate at the time of introduction. The impact of this change on retail prices is equivalent to a reduction of 18 pence on a pint of beer at 2.8 per cent abv.

Small Brewery Beer relief will still be available on general beer duty payable on beer above 7.5 per cent abv. However, Small Brewery Beer relief will not apply to HSBD and no further relief will be applied to the reduced rate for lower strength beers.

Beer brewed for home consumption will continue to be exempt from general beer duty and HSBD.

Policy objective

The purpose of this measure is to tackle problem drinking by encouraging industry to produce, and drinkers to consume, lower strength beer.

The new high strength beer duty is intended to reduce the availability and affordability of “super strength” lagers associated with problem drinking. The reduced rate for lower strength beer will help to give responsible drinkers a wider choice of products.

Background to the measure

- The June 2010 Budget announced that the Government would review alcohol taxation to tackle problem drinking without unfairly penalising responsible drinkers, pubs or local industry.
- The findings of this review were announced on 30 November 2010 as part of a Government-wide package of measures to help tackle problem drinking. The Economic Secretary to the Treasury announced the changes to the duty on high and lower strength beer in a Written Ministerial Statement.
- Draft Finance Bill clauses for this measure were published for consultation on 9 December 2010. A Tax Information and Impact Note was published alongside the draft legislation.

- This Tax Information and Impact Note updates the Note published on 9 December to give the date of implementation and the applicable rates of duty.

Detailed proposal

Operative date

Both HSBD and the reduced rate for lower strength beers will have effect on and after 1 October 2011.

Current law

The charge to excise duty on beer is contained in section 36(1) of the Alcoholic Liquor Duties Act 1979 (ALDA). Beer duty is charged according to alcoholic strength, in particular by the number of hectolitres/degrees of alcoholic strength by volume. No duty is charged on beer of a strength of 1.2 per cent or less. Sections 36D and 36F of ALDA provide for reduced rates for small brewery beer.

Proposed revisions

Finance Bill 2011 will amend ALDA, providing for a new duty charge on high strength beer. It will also amend ALDA, to create a reduced rate of the existing duty for beer of a strength exceeding 1.2 per cent abv and not exceeding 2.8 per cent abv. Secondary legislation will follow to make consequential amendments to existing excise regulations in respect of the administration and collection of the new duty.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
	Increased revenues from the new high-strength beer duty roughly offsets the costs of the new reduced rate on lower strength beers.				
Economic impact	This measure is likely to result in a move to produce and consume lower strength beers. No other significant economic impacts are expected.				
Impact on individuals and households	Those individuals and households who consume beer products over 7.5 per cent abv will be adversely affected while those who consume beer products with a strength between 1.2 and 2.8 per cent abv should pay less in duty.				
Equalities impacts	It is considered that these proposals have no significant impacts on protected groups.				
Impact on business including third sector	The measures will impose a negligible additional administrative burden and one-off cost to business. The current procedures for declaring and paying general beer duty will apply to the new high strength beer duty.				
Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will incur costs for this measure of approximately £300,000 to pay for necessary system changes to account for the new tax.				

Other impacts	<p>The reduction in consumption of high strength beer resulting from these measures is likely to have a health benefit.</p> <p>Small breweries will not be significantly impacted upon, as beers over 7.5 per cent abv represent only 2 per cent of their total production.</p> <p>There is no adverse impact on competition as all producers and importers of beer with a strength exceeding 7.5 per cent abv are liable to the new duty for high strength beers.</p>
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Monitoring and evaluation

The effectiveness of the measures will be evaluated by monitoring the price and range of products available to consumers at a strength of over 7.5 per cent abv and at or below 2.8 per cent abv. Revenue receipts from beer products will also be monitored to show any move from the consumption of high strength beers.

Further advice

If you have any questions about this change, please contact Ian Bebbington on 0161 827 0803 (email: ian.bebbington@hmrc.gsi.gov.uk) or Paul Manson on 0161 827 0357 (email: paul.manson@hmrc.gsi.gov.uk).

Anti Avoidance Measures

Preventing Avoidance: Sale of Lessor Companies

Who is likely to be affected?

Companies carrying on a business of leasing plant or machinery alone or in partnership.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to withdraw the option for a company with a leasing business to elect out of the charge (the “sale of lessor company charge”) that may arise on a change of ownership.

Changes will also be made to the sale of lessor company charge to ensure that it continues to have the intended effect.

Policy objective

This measure supports the Government’s objective of a fairer tax system by:

- ensuring that corporation tax is not avoided through a change of ownership of a leasing company, and
- withdrawing the option to elect out of the sale of lessor company charge.

Background to the measure

- The measure is a response to disclosures of tax avoidance schemes and was announced at Budget 2011.
- There has been no prior consultation on the measure.
- Draft legislation and an Explanatory Note were published on Budget day 23 March 2011.

Detailed proposal

Operative date

The measure will have effect when:

- there is a change in the ownership of the lessor company or a change in a partner company’s interest in the leasing business on or after 23 March 2011; or
- there is a transfer of a business of leasing plant or machinery on or after 23 March 2011 where under the current law the assets would be treated as sold at market value.

Where a company has previously elected or now elects out of the charge in respect of a change of ownership prior to 23 March 2011, the measure will affect the tax treatment of disposals of assets and transfers of assets into or out of the company on or after 23 March 2011.

Current law

The sale of lessor company charge legislation aims to ensure that the full amount of the profits of the leasing business are brought into charge over the lifetime of the leases, as commercial profits from some leases may arise before they are taxed. Without the rules, a change of ownership of the company could result in taxable profits never being effectively taxed, if losses or other reliefs of the new owner can offset them when they come into charge.

The legislation aims to bring profits that are deferred for tax purposes into charge at the time of the sale. A matching relief prevents double taxation of these profits in later periods

Provision for an election to opt out of the charge was added in December 2009 to deal with the exceptional circumstances arising in the financial crisis.

As a consequence of electing out of the charge the profits of the company are ring fenced so as to ensure that tax is paid on the deferred profits over the remaining lifetimes of the leases.

Disclosures have shown that in some circumstances the legislation may fail to identify a company that is carrying on a business of leasing plant or machinery or fail to capture the full amount of the deferred profits at risk and that the election may have been abused.

Proposed revisions

The changes in the measure will ensure that:

- the full value of the company's interest in leased plant or machinery is taken into account in determining the scope of the sale of lessor company legislation; and
- that the right plant or machinery assets are reflected in the calculation of the income amount.

Where a company has elected out of the charge the changes will mean that whenever there is a disposal event involving plant or machinery assets the full value of the asset will be taken into consideration when calculating the disposal value.

The option to elect is withdrawn for changes of ownership on or after 23 March 2011.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+£25m	+£20m	+£20m	+£15m	+£15m
Economic impact	The changes are not anticipated to have a significant effect on the overall UK economy. This is because they are intended to remove tax avoidance opportunities and only a small number of businesses are expected to be affected by the removal of the option to elect out of the sale of lessors rules.				
Impact on individuals and households	The measure affects only companies and therefore there is no expected impact on individuals or households.				

Equalities impacts	The measure only impacts on the tax treatment of companies and therefore is not expected to impact on any of the equality groups.
Impact on business including third sector	<p>The measure ensures that previously enacted legislation remains effective in preventing lessor companies from avoiding tax on their profits. Withdrawing the election puts the rules back as they were before the financial crisis.</p> <p>The changes will affect a relatively small number of lessor companies that would have elected out of the charge or sought to try to avoid the intended effect of the sale of lessor company provisions. The vast majority of the companies affected will be members of large groups. The number of small companies affected is expected to be negligible.</p> <p>The impacts on businesses' administrative burdens are expected to be negligible.</p>
Operational impact (£m) (HMRC or other)	There will be no additional costs to HM Revenue & Customs.
Other impacts	<p>The changes merely ensure that the original legislation works as intended.</p> <p>Removing the opportunities to avoid tax will have a positive impact on competition by preventing the avoider obtaining an unfair advantage.</p>

Monitoring and evaluation

The policy will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this measure, please contact Jo Brindley on 020 7147 2571 (email: jo.brindley@hmrc.gsi.gov.uk).

Preventing Avoidance: Stamp Duty Land Tax

Who is likely to be affected?

The measure will affect those who seek to avoid paying Stamp Duty Land Tax (SDLT) on the purchase of an interest in land.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to make three changes to ensure or put beyond doubt that certain SDLT avoidance schemes are ineffective. The changes affect:

- the relationship between the rules on sub-sales and the Alternative Finance reliefs;
- the definition of a 'financial institution' for the purposes of the SDLT Alternative Finance reliefs; and
- the way the consideration is determined where land is exchanged.

Policy objective

The measure supports the Government's objective of a fairer tax system by ensuring that SDLT is not avoided.

Background to the measure

- This measure was announced at Budget 2011.
- Due to the risk of forestalling, no formal consultation has been undertaken. However, a limited, confidential discussion has taken place with some external stakeholders.
- Draft legislation and an Explanatory Note were published on Budget day 23 March 2011.

Detailed proposal

Operative date

The changes will have effect on or after 24 March 2011, subject to the details of the commencement provisions. If transactions or arrangements span 24 March 2011 then careful consideration of the commencement provisions will be necessary, but, broadly speaking, where transactions or arrangements were entered into before 24 March 2011 but completed afterwards, the old rules will apply.

Current law

All references are to the Finance Act 2003. The current law is at section 45(3), various parts of sections 71A-73B, and paragraph 5(3) of Schedule 4.

Section 45(3) is part of the rules for 'sub-sales'. There is an exception at the end of section 45(3). It specifies that the rules are not applicable where they are combined with one of the Alternative Finance reliefs (section 73(3)) in a way which would remove any SDLT charge on the purchase of an interest in land.

Sections 71A(8), 72(7), 72A(8) and 73(5)(a) all specify the meaning of 'financial institution' for the purposes of the Alternative Finance reliefs. The definition used includes banks, building societies and insurance companies. An additional way to qualify as a 'financial institution' is to hold a Consumer Credit Licence.

Paragraph 5(3) of Schedule 4 sets out what the chargeable consideration should be where a major interest in land is exchanged for another interest in land. The chargeable consideration is determined by the market value of the interest acquired.

Proposed revisions

Legislation will be introduced in the Finance Bill 2011 to make the following changes:

- the exception in section 45(3) (see above) will be extended to all the SDLT Alternative Finance reliefs;
- for the purposes of the SDLT Alternative Finance reliefs, it will no longer be possible to qualify as a 'financial institution' just by holding a Consumer Credit Licence; and
- the chargeable consideration for exchanges involving a major interest in land in paragraph 5 of Schedule 4 will be changed to be the greater of (a) the market value of the interest acquired, and (b) what the chargeable consideration would be under the normal rules for consideration.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+ 30	+ 30	+ 40	+ 40	+ 50
Economic impact	No significant economic effect is anticipated.				
Impact on individuals and households	These measures will have no impact on compliant individuals and householders. They will only affect those who seek to avoid paying an appropriate amount of Stamp Duty Land Tax on the acquisition of land.				
Equalities impacts	We do not anticipate any adverse equalities impact. Two of the proposed changes relate to reliefs for 'Alternative Finance' products i.e. financial products designed to be compliant with Islamic religious law. However, the changes will not restrict the availability of the reliefs except where they are being misused to avoid tax.				
Impact on business including third sector	We do not anticipate any additional costs for compliant businesses or the third sector because these measures will only affect those who enter into tax avoidance arrangements.				
Operational impact (£m) (HMRC or other)	There will not be any material costs or other operational impacts of these changes.				
Other impacts	We have considered other potential impacts of these changes and have not identified any. These changes will only affect those who seek to avoid paying an appropriate amount of Stamp Duty Land Tax.				

Monitoring and evaluation

Receipts from SDLT are monitored as a matter of course. This change is expected to have a small impact as a proportion of overall receipts. It will not be possible therefore to separately identify and track the effect of the change.

Further advice

If you have any questions about this change, please contact Jeremy Schryber on 020 7147 2788 (email: jeremy.schryber@hmrc.gsi.gov.uk).

Preventing Avoidance: Corporate Gains Degrouping Charge

Who is likely to be affected?

A small number of groups of companies seeking to avoid tax on chargeable gains on the disposal of assets.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to prevent groups of companies avoiding corporation tax on chargeable gains by using complex arrangements that seek to exploit a perceived flaw in the degrouping charge rules.

Degrouping charge rules ensure tax is paid on a gain arising when an asset has been 'enveloped' by transferring it from one group company to another which is then sold with no gain arising on the sale.

The measure removes any doubt about the effect of the current rules by making clear that a degrouping charge will arise where disposals include an intermediate step to which an exception to the charge has applied (the "associated companies exception").

Policy objective

This measure supports the Government's objective of a fairer tax system by ensuring that corporation tax on chargeable gains is not avoided.

Background to the measure

- This measure was announced at Budget 2011 and legislation will be introduced in Finance Bill 2011.
- There has been no prior consultation on the measure.
- Draft legislation and an Explanatory Note were published on Budget day 23 March 2011.

Detailed proposal

Operative date

The measure will have effect where companies leave a group on and after 23 March 2011.

Current law

Under section 179 of the Taxation of Chargeable Gains Act 1992 (TCGA), if a company leaves a group holding an asset acquired from a fellow group member within the previous six years, any gain or loss that had been deferred under section 171 of TCGA on that asset acquisition is brought into charge.

The charge is subject to an exception known as the "associated companies exception" where both the transferee and transferor companies leave the group together, and both

companies are part of the same sub-group from the time of the transfer until they leave the original group.

The current legislation at section 179(2A) imposes a degrouping charge where a company has benefited from the exception above and subsequently leaves another group which is under the same control as the original group. It addresses arrangements that seek to exploit the associated companies exception by putting an artificial intermediate stage into a disposal. Some companies however have claimed that the degrouping charge imposed by section 179(2A) is itself subject to the associated companies exception which, if correct, would render it ineffective.

Proposed revisions

Finance Bill 2011 will amend the rule in section 179(2A) which is aimed at preventing exploitation of the associated companies exception.

The changes introduced by this measure:

- Ensure, as at present, that a degrouping charge may arise in circumstances where a company has benefited from the associated companies exception and subsequently leaves another group which is under the same control as the original group. The change is to make it clear that where this charge applies, it cannot itself be subject to the associated companies exception.
- In addition, the rule will also apply a degrouping charge where the connection between the two groups mentioned above is subsequently broken.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
	This measure will protect against future losses.				
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	There is no direct impact on individuals and households as this measure concerns companies that are part of a group.				
Equalities impacts	This is a corporation tax measure and is therefore unlikely to have any impact on any equality group.				
Impact on business including third sector	<p>The measure will provide greater certainty to companies and ensure that a degrouping charge cannot be avoided by complex transactions within a group prior to a disposal of a company holding valuable assets.</p> <p>Many groups rely on the associated companies exception to prevent a degrouping charge when they dispose of a company. Those not seeking to abuse the relief will be unaffected by this measure. It is expected that no more than two or three large corporate groups will be impacted by the changes.</p> <p>A claim can be made under the new relief being introduced to the degrouping charge, to ensure there is no double charge to tax.</p>				

Operational impact (£m) (HMRC or other)	There will be a negligible reduction in the costs to HMRC.
Other impacts	The impact on small firms has also been considered. This measure applies to groups of companies, and in practice is not expected to impact any small company or group. It is unlikely that any firms with fewer than 20 full time equivalent employees will be affected. A competition assessment has been carried out and the changes have a positive impact levelling the playing field and enhancing competition.

Monitoring and evaluation

The policy will be monitored through information received from company tax returns and tax administrative data and through regular communication with the business sectors affected by the measure.

Further advice

If you have any questions about this change, please contact Philip Donlan on 020 7147 2633 (email: philip.donlan@hmrc.gsi.gov.uk).

Disguised Remuneration

Who is likely to be affected?

Employers, directors, and employees who use third party arrangements, commonly involving trusts and other vehicles, to avoid, reduce, or defer liabilities to income tax on rewards of an employment or to avoid restrictions on pensions tax relief.

General description of the measure

A new income tax charge will apply to third party arrangements used by employers where they provide what is in substance reward to employees. The charge will be based on the full benefit of a sum of money paid or assets provided.

This charge will apply where a third party provides an employee with reward, recognition or a loan in connection with the employee's employment. Third party arrangements that are not tax-avoidance will be excluded, in as far as this is possible without creating additional avoidance risks, from the effect of this measure. Examples include genuine deferred remuneration arrangements common in the financial service sector and which last less than five years and genuine commercial arrangements for the provision of designated employee car ownership schemes.

Third party intermediary arrangements are also used in addition to, or instead of, registered pensions to remunerate individuals above the annual and lifetime allowances, and the legislation applies equally to these vehicles.

The new income tax charge will be based on the full amount provided of:

- a sum of money made available; or
- on the higher of the cost or market value where an asset is used to deliver the reward or recognition, for example where the asset in question is transferred or otherwise made available for an employee's use and benefit as if the employee owned the asset.

The amount concerned will count as a payment of employment income and the employer will be required to account for PAYE accordingly.

Policy objective

The measure protects revenues and supports the Government's objective of a fairer tax system by ensuring that:

- income tax and NICs on employment income are not avoided or deferred; and
- contributions to unregistered pension schemes do not benefit from tax advantages on pension savings beyond the annual and lifetime allowances available in registered pensions schemes.

Background to the measure

- The June Budget 2010 announced that legislation would be introduced from April 2011 to tackle arrangements using trusts and other vehicles to reward employees which seek to avoid, defer or reduce tax liabilities.
- The Government also confirmed that the scope of the legislation would include Employer Financed Retirement Benefit Schemes (EFRBS), in order to protect

revenues and in keeping with the restriction of pensions tax relief through the reduced annual and lifetime allowances for tax-privileged pension saving announced on 14 October 2010.

- The annual allowance will be reduced to £50,000 from April 2011 and the lifetime allowance will be reduced to £1.5m from April 2012.
- On 9 December 2010 the Government published for consultation a draft Schedule to enact this measure. A Tax Information and Impact Note was published alongside the draft legislation. All documents are available on the HM Treasury and HM Revenue & Customs (HMRC) websites.
- The Government has listened to comments and concerns raised as part of this consultation and on 21 February 2011 published on the HMRC website a series of Frequently Asked Questions (FAQs) addressing the main themes raised by respondents.
- To reflect concerns that the legislation was broad and that arrangements which were outside the scope of the policy intention were inadvertently caught, the Government has amended the legislation to limit impacts on employers and individuals where it is possible to identify arrangements that cannot be used for avoidance purposes. This includes, in as far as this is possible without creating additional avoidance risks, the protection of rewards provided by group companies, share incentive arrangements and genuine deferred remuneration arrangements. In addition the Government intends to protect investment income and gains, and to exclude existing pension savings.
- Amended legislation will be introduced in Finance Bill 2011 together with a new Explanatory Note explaining how the amended draft schedule will operate.
- This Tax Information and Impact Note updates and replaces the Note published on 9 December 2010 to show the effect of changes including an updated summary of impacts.

Detailed proposal

Operative date

The legislation will have effect on and after 6 April 2011 and applies to rewards which are earmarked for an individual employee or otherwise made available on and after that date.

In addition, anti-forestalling provisions apply to the payment of sums (including loans) and the provision of readily convertible assets for the purposes of securing the payment of sums (including loans) where the sum is paid or the asset is provided between 9 December 2010 and 5 April 2011 where, if paid or provided on or after 6 April 2011, they would be caught by the legislation.

The anti-forestalling charge will arise on 6 April 2012 if sums paid have not been repaid, or readily convertible assets used to secure the payment of a sum have not been returned, before that date or not otherwise charged to tax under section 62 of ITEPA 2003. Any sum paid to which these anti-forestalling provisions apply, less a deduction for any amount which has been repaid, will count as employment income and the employer will be required to account for income tax under PAYE as if the amount concerned was a payment made on 6 April 2012. The value of any readily convertible asset provided (to which the anti-forestalling provisions apply) will also count as employment income, subject to the operation of PAYE by the employer as if the amount concerned was a payment made on 6 April 2012.

Current law

The measure is mostly concerned with Parts 2 to 7 of ITEPA. Part 11 of ITEPA, which provides for the operation of PAYE, is also affected. Section 6(1) of ITEPA provides that the charge to tax on employment income is a charge to tax on “general earnings” and “specific employment income”. Specific employment income means any amount that counts as employment income, which is explained in ITEPA section 7(4) and (6).

Existing casework and litigation

Some of the types of transaction which will be chargeable to tax under this measure (including the earmarking of funds held in a discretionary trust) are not accepted by HMRC as effective in avoiding tax under the current law. HMRC will continue to challenge such transactions under the current law, including in litigation where necessary.

Proposed revisions

Where trusts and other intermediate vehicles are used in arrangements aimed at providing value to an individual for what is in substance a reward or recognition in connection with the individual's employment, or a loan in connection with the employee's employment, new Part 7A of ITEPA will provide for a new employment income charge to apply in the following ways:

- sums or assets that are earmarked for employees by trusts or other intermediaries will be treated as though the amount of the sum or the value of the asset concerned is a payment of PAYE income provided by the employee's employer to the employee;
- loans provided to employees by trusts and other intermediaries will be treated as though the value of the loan provided is a payment of PAYE income provided by the employee's employer to the employee;
- assets provided to employees by trusts and other intermediaries will be regarded for tax purposes as a payment of PAYE income by the employer where certain conditions specified in new Part 7A are met; and
- sums or assets that are earmarked by the employer with a view to a trust or other intermediary providing retirement benefits to the employee will be treated as though the amount of the sum or value of the asset concerned is a payment of PAYE income provided by the employee's employer to the employee.

New Part 7A of ITEPA will not however apply to payments chargeable to tax as pension income.

National Insurance Contributions (NICs)

Regulations will be brought forward shortly to apply NICs to amounts chargeable to tax to under this measure.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	+750	+760	+730	+770	+760
Economic impact	The measure is not expected to have significant economic impacts.				
Impact on individuals and households	<p>In relation to the arrangements known to HMRC, there are approximately 5,000 employers who are currently using these schemes, with an estimated 50,000 employees thought to be indirectly benefiting. The take up is likely to be wider than this as there has been extensive marketing and widening accessibility of these arrangements over the last few years. Given the nature and complexity of the arrangements that this measure seeks to address, it is expected that most employees affected will be higher rate or additional rate tax payers.</p> <p>This legislation will mean that employees benefiting from such schemes will have to pay more tax and NICs – in line with those employees for whom these arrangements have not been implemented. However, we do not expect there to be any significant administrative or compliance cost to individuals and households from this change because the income tax charge will be collected through PAYE via their employers.</p>				
Equalities impacts	The measure targets tax avoidance behaviours rather than particular types of individual or business. The Government has no evidence to suggest that the measure will have any adverse equalities impacts.				
Impact on business including third sector	<p>The objective of this legislation is to prevent the avoidance or deferral of income tax and NICs on employment income. It will impact on employers and intermediaries who use trusts or loans to reward employees with a view to avoiding or deferring paying tax and NICs.</p> <p>The data which HMRC has on known arrangements suggests that there is a broad range of employers who have implemented these arrangements – around 5,000, but usage is thought to have grown rapidly in recent years. The type of businesses thought to be involved is broad, ranging from large employers to single-employee limited companies. Employers in the financial services, (particularly banking, insurance and asset management), real estate and retail sectors have implemented these arrangements.</p> <p>The Government believes that only a minority of employers have implemented these arrangements and although the legislation creates a new income tax charge it is not expected to have a material impact on the tax obligations of the vast majority of compliant businesses. The administrative burden of the measure is therefore thought to be negligible.</p> <p>Some small businesses will be affected by the proposal if they are using these remuneration arrangements to reward employees. To exclude small businesses from the legislation would create unfairness and further opportunities for tax avoidance.</p> <p>On the assumption that most businesses will discontinue the use of these arrangements, compliance costs to business overall are thought to be insignificant.</p>				

	<p>There will be some compliance costs for those currently operating, and planning to operate, EFRBS pension arrangements. The cost will be in terms of the legal fees for the transfer of policies and the dissemination and familiarisation costs of the rule changes. These costs will of course vary across businesses, depending on the historical nature of the arrangement. It is estimated that there are only relatively small numbers of such schemes in operation. However, changes to pension tax relief being introduced in April 2011 would have been likely to trigger some increased take-up.</p> <p>There will be some further impacts on intermediaries and professional pension specialists who advise on these schemes, as with any rule change of this kind. This may cause further cost to businesses through consultation, seeking advice and reorganisation of their pension and remuneration arrangements under the new rules.</p>
Operational impact (£m) (HMRC or other)	It is expected that over time the measure will reduce the cost of the resource HMRC currently uses to intervene in similar schemes. However, there will be resource implications in producing guidance for customers and for HMRC employees along with any necessary staff awareness or training in connection with the new measure.
Other impacts	No significant additional impacts to those discussed above have been identified.

Monitoring and evaluation

The policy will be monitored through disclosures of new avoidance schemes to circumvent the measure, and through regular communication with taxpayers and practitioners affected by the measure and HMRC's risk management and interventions functions.

Further advice

If you have any questions about this change, please contact HMRC on 020 7147 0175 (email: pa.harris@hmrc.gsi.gov.uk).

Loan Relationship and Derivative Contracts (Disregard) Regulations

Who is likely to be affected?

Companies who use loan relationships and derivative contracts to reduce their exposure to foreign exchange movements that arise as a result of the company owning foreign currency assets.

General description of the measure

Secondary legislation will be introduced to allow companies to be taxed on the basis of their economic outcome in three circumstances, where companies:

- issue foreign currency preference share capital to raise foreign currency finance;
- invest directly in foreign currency partnerships or in foreign currency assets through a partnership; or
- agree to sell foreign currency shares and receive the proceeds at some future date.

Policy objective

The changes will allow tax to follow the economic outcome in three particular circumstances. This is intended to improve the competitiveness of the UK tax system by aligning tax with economic outcomes.

Background to the measure

- Draft regulations for loan relationships and derivative contracts which reduce a company's exposure to foreign exchange movements as a result of issuing foreign currency preference shares, were shared with the Foreign Exchange Working Group in February 2011. These will be published on HM Revenue & Customs' (HMRC) website for comment.
- The remaining draft regulations in relation to the future sale proceeds of foreign currency shares and investment in foreign currency partnerships will be shared with the Foreign Exchange Working Group and published on HMRC's website for comment in the first half of 2011.

Detailed proposal

Operative date

- The changes to the Loan Relationship and Derivative Contracts (Disregard and Bringing into Account) Regulations 2004 (SI2004/3256) (the "Disregard Regulations") in respect of significant changes in the net asset value of foreign currency shareholdings and companies who issue foreign currency preference shares will operate for accounting periods beginning on or after 1 July 2011.
- The remaining changes in relation to the future disposal proceeds of foreign currency shares and companies' investment in foreign currency partnerships will operate for accounting periods beginning on or after 1 January 2012.

Current law

The amounts brought into account for tax purposes in relation to a company's loan relationships and derivative contracts are those recognised in determining the company's profit or loss for the period. This is in accordance with generally accepted accounting practice, and includes foreign exchange gains and losses.

The Disregard Regulations 2004 provide that in certain circumstances the debits and credits on a company's loan relationships and derivative contracts are not brought into account for tax purposes until some later time. The foreign exchange gains and losses on the loan relationship or derivative contract are 'matched' with the equal and opposite foreign exchange gains and losses on the foreign exchange asset and are not brought into account until the foreign exchange asset is disposed of.

The current rules on matching of own share capital do not provide for tax to follow the economic outcome where companies invest in foreign currency assets through a partnership or where a company sells foreign currency shares but expects to receive the proceeds at a later date.

Proposed revisions

The changes will be via secondary legislation.

The changes to the Disregard Regulations will allow companies to replicate for tax purposes their economic position in the following situations:

- Matching of own share capital - the new rules will allow companies to ignore exchange gains and losses on loan relationships and derivative contracts where:
 - the loan relationship or derivative contract reduces the company's foreign exchange exposure in relation to its own foreign currency preference shares issued to non-connected entities and which are accounted for as liabilities.

The changes will also allow wider matching in limited circumstances through an elective clearance procedure. The changes will apply for accounting periods beginning on or after 1 July 2011.

- Matching of foreign currency partnership assets - the new rules will allow a company to defer exchange gains and losses on its loan relationships and derivative contracts where:
 - the loan relationship or derivative contract reduce the company's foreign exchange exposure in relation to the underlying foreign currency assets in the partnership until either the partnership disposes of the assets or the company disposes of its interest in the partnership.

The changes will apply for accounting periods beginning on or after 1 January 2012.

- Matching deferred proceeds on the sale of foreign currency shares - the new rules allow a company to match the full disposal proceeds and defer the resulting exchange gains and losses until the company receives the disposal proceeds. The changes will apply for accounting periods beginning on or after 1 January 2012.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
Economic impact	It is expected that the economic impact will be minimal. The primary aim of the measure is to provide greater clarity and certainty to businesses affected by this legislation on their current position.				
Impact on individuals and households	There will be no impact on individuals and households as the measure only applies to companies.				
Equalities impacts	The measure will have no impact on the equality of protected groups because it only applies to companies.				
Impact on business including third sector	The Disregard Regulations only apply where companies invest in foreign currency assets so will only apply to larger groups. Small firms are unlikely to invest in foreign currency assets so will be unaffected by the changes. Similarly small firms entities and the third sector are unlikely to invest in foreign currency assets, so will be unaffected by the changes. Overall there will be a negligible (beneficial) impact to those affected.				
Operational impact (£m) (HMRC or other)	This measure will have negligible impact on HMRC. The measure will require changes to guidance which will be undertaken by HMRC staff as part of their normal duties.				
Other impacts	<p>A Competition Assessment will not be required as the measure does not directly or indirectly limit suppliers, nor does it reduce their ability or incentives to compete.</p> <p>Full guidance will be provided to customers on implementing the measure.</p>				

Monitoring and evaluation

There is unlikely to be any monitoring information on this measure easily available as the deferred debits and credits as a result of the Disregard Regulations are not separately identified on the Company Tax Return. As a consequence it will not be feasible to evaluate this measure formally. However the Foreign Exchange Working Group (comprising representatives from the major accountancy and law firms and the Banking and Energy Sectors) will be asked to provide feedback on the changes.

Further advice

If you have any questions about this change, please contact Fiona Hay on 020 7147 2543 (email: fiona.hay@hmrc.gsi.gov.uk).

Tax Administration

Provisional Collection of Taxes Act (1968): Amendments to Section 1

Who is likely to be affected?

No one is expected to be affected as there is no change in the amount of tax paid or its collection.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to amend the Provisional Collection of Taxes Act 1968 (PCTA) to ensure that, following a change to spring to spring parliamentary sessions, there is no change in its practical effect.

Policy objective

The Government is maintaining the practical effect of the PCTA following the move to spring to spring sessions, ensuring that appropriate safeguards are in place and allowing for sufficient time for parliamentary scrutiny of the Finance Bill.

Background to the measure

- *The Coalition: our programme for government* set out the Government's intention to establish fixed-term Parliaments. This is being introduced through the Fixed-term Parliaments Bill (FTP Bill).
- The FTP Bill sets the date of the next General election at 7 May 2015. As announced by the Government on 13 September 2010, there will be associated changes to the parliamentary calendar so that sessions run from spring to spring. It is expected that parliamentary sessions will end no later than the end of May each year.
- This requires changes to the PCTA in order to maintain its practical effect.

Detailed proposal

Operative date

This measure will be brought into effect by Treasury order after the FTP Bill receives Royal Assent, or the Finance Bill receives Royal Assent (whichever is later). The changes will take effect from the day stated in the order.

Current law

The Provisional Collection of Taxes Act 1968 gives temporary statutory force to resolutions of the House of Commons which renew, vary or abolish certain taxes and duties. The principal practical application of this is to allow the Government to collect taxes on a provisional basis after the Budget, but before Royal Assent to the annual Finance Bill.

Currently the PCTA provides that:

- a. in a single session, it is not possible for a resolution to have the same statutory effect as another resolution that has already had statutory effect in that session;

- b. resolutions cease to have effect under specific conditions, including at the end of a session (when Parliament is prorogued) and when Parliament is dissolved;
- c. a bill containing the substance of the resolution must be read a second time within 30 days after the day the resolution is passed or it will lose statutory force; and
- d. a resolution can have statutory effect until a specified date or for a specified period (depending when the resolution is passed). The current maximum period for which resolutions can have statutory effect is six months and five days.

Proposed revisions

The PCTA will be amended so that:

- a. a resolution will be allowed to have the same statutory effect as an earlier resolution in the same session, so long as the earlier resolution was not passed in the same calendar year;
- b. resolutions will no longer lose statutory effect at the end of a session, as long as the bill is to be carried over into the next session (although the condition that resolutions will lose statutory effect when Parliament is dissolved will remain unchanged);
- c. where the House of Commons does carry-over the bill, then that bill must be re-introduced in the first 30 sitting days of the new session or the resolution will lose statutory effect; and
- d. in order to allow time for equivalent parliamentary scrutiny there will now be a maximum period of seven months during which resolutions continue to have statutory effect.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	There will be no economic impacts as a result of this change.				
Impact on individuals and households	The way in which taxes are collected and legislated will remain unchanged, so there will be no impact on individuals or households.				
Equalities impacts	It is expected that there will be no practical effect on those who pay or collect taxes and duties, and there will therefore be no impact on any equality group.				
Impact on business including third sector	The way in which taxes are collected and legislated will remain unchanged, so there will be no impact on businesses or the third sector.				

Operational impact (£m) (HMRC or other)	There will be no operational impact on HM Revenue & Customs (HMRC). Taxes will continue to be collected in the same way they are now.
Other impacts	No additional impacts have been identified.

Monitoring and evaluation

The changes will be monitored and reviewed as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact Robert Sanford on 020 7147 2362 (email: robert.sanford@hmrc.gsi.gov.uk).

Mutual Assistance Recovery Directive

Who is likely to be affected?

Individuals and businesses owing taxes and duties within the EU.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to enable the UK to implement the Mutual Assistance Recovery Directive (MARD) agreed by EU Finance Ministers during 2010. Under this Directive EU Member States can provide each other with assistance in the recovery of tax debts and duties, which includes service of documents and exchanging information in connection with the recovery of claims.

This legislation will replace and repeal the existing legislation implementing the current MARD which was originally introduced in 1976 and consolidated in 2008 following a number of revisions. The new Directive has fundamentally modernised and expanded the scope of the existing Directive.

Policy objective

This measure fulfils the UK's EU obligations by implementing the Mutual Assistance Directive. This provides reciprocal arrangements for recovering and enforcing tax debts and for the exchange of information across the EU. This will improve tax compliance, making the tax system fairer.

Background to the measure

- Discussion on a new Directive took place between Member States throughout 2009.
- The Directive was adopted under Articles 113 and 115 of the functioning of the European Union, by the EU Economic and Financial Affairs Council on 16 March 2010.
- It was published in the Official Journal of the European Union on 31 March 2010.
- Legislation transposing the Directive will be published as part of Finance Bill 2011.

Detailed proposal

Operative date

National legislation implementing the Directive must be published before 31 December 2011.

The Directive becomes fully applicable on 1 January 2012 and the UK legislation transposing the Directive and setting out the detailed rules will come into force on that date.

Current law

The existing MARD was implemented through the provisions of section 134 of and Schedule 39 to the Finance Act (FA) 2002, and Statutory Instrument 2004/674. This legislation sets out the roles and responsibilities of the various bodies involved in

mutual assistance, as well as some detail on the process of sending out and dealing with incoming requests.

Proposed revisions

The current legislation does not provide for the introduction of a new Directive, so new primary powers are needed to introduce the Directive and to permit the detailed rules not covered by the directly applicable EU Implementing Regulation to be covered in subsidiary legislation.

These provisions will permit the UK to fully engage in mutual assistance with other Member States to ensure all taxes due are properly collected and relevant information is exchanged.

The new MARD covers all entities established and persons residing in the EU. Among other things, it:

- extends the scope of the Directive to include all national taxes and duties, local taxes and motor taxes;
- permits Member States to provide for exchange of information without request on refunds (except VAT);
- provides for tax officials from one Member State to attend or participate in administrative enquiries in another Member State;
- permits information exchanged to be used more widely than for the purposes set out in the Directive itself, subject to certain restrictions; and
- permits a range of national bodies to engage in the mutual assistance process under the general oversight of a Central Liaison Office.

All of these elements will be legislated under this proposal.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
		negligible	negligible	negligible	negligible
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure does not increase the incidence of taxation so does not impose any new burdens or costs on individuals or households.				
Equalities impacts	This measure is designed to improve cross-border collection of tax. It does not increase the incidence of taxation or place any new burdens on any particular group of taxpayers so has no different impact on any equality group.				
Impact on business including third sector	The Directive is designed to better safeguard the financial interests of Member States and the neutrality of the internal market. It places no additional burdens or compliance costs on business or civil society groups and does not alter the incidence of taxation.				

Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) already deals with mutual assistance for national taxes, so there are no significant costs for HMRC in implementing this Directive for national taxes. There should be revenue benefits from improved recovery of tax debts. There will be additional costs associated with setting up and maintaining mutual assistance arrangements for taxes other than national taxes, which are brought within the scope of recovery assistance for the first time. These cannot be quantified until the new arrangements are established and claims begin to flow between Member States.
Other impacts	No significant impacts have been identified; this measure has no particular impact on competition or small firms as it is designed to ensure all entities pay the tax they owe regardless of where they reside or where their assets are held within the EU.

Monitoring and evaluation

The Directive requires certain statistical information on debts received and sent out, on sums recovered and information exchanged. This information must be recorded annually and passed to the European Commission, which itself will report every five years to the European Parliament on mutual assistance matters. Systems are already in place to record this information.

As this legislation transposes an EU Directive, any evaluation of the underlying policy will be undertaken by the European Commission in conjunction with Member States.

Further advice

If you have any questions about this change, please contact Robert Horwill on 020 7147 2447 (email: robert.horwill@hmrc.gsi.gov.uk).

The Taxation of Index-Linked Gilt-Edged Securities

Who is likely to be affected?

Companies within the charge to corporation tax that may in future hold new types of index-linked gilt-edged securities.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to amend existing rules so that gilt-edged securities whose return is calculated by reference to an index of prices published by the Office for National Statistics are taxed in the same way as gilt-edged securities linked to the retail prices index.

Policy objective

This measure is intended to remove potential tax barriers that might inhibit companies from holding gilt-edged securities linked to the consumer prices index (CPI). It also enables companies to get the same tax treatment for gilt-edged securities that may be linked to any other price index published by the Office for National Statistics, ensuring these products are taxed on the same basis.

Background to the measure

- This change was announced at Budget. There has been no previous consultation.
- Changes to the rules for revaluing and indexing certain types of pensions, effective from 2011, may lead to a demand from pension funds for gilt-edged securities linked to CPI or other indices of prices.
- The change announced in this measure ensures that if the government decides to issue a gilt-edged security linked to an index of prices other than the retail prices index (RPI) it will be taxed in the same way as current gilt-edged securities linked to the RPI.

Detailed proposal

Operative date

The legislation will have effect in respect of index-linked gilt-edged securities issued on and after the day on which Finance Bill 2011 receives Royal Assent.

Current law

The current law is set out in section 399 of the Corporation Taxes Act 2009. Section 399(4) currently defines index-linked gilt-edged securities to be “any gilt-edged securities under which the amounts of payments are determined wholly or partly by reference to the retail prices index”. The inflation uplift in the return from the gilt is identified by reference to the RPI and this amount is excluded from the charge to corporation tax.

Currently this exclusion would not apply to gilt-edged securities whose return might be based on a non-RPI index of prices.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to amend the current rules. The amended legislation will provide that index-linked gilt-edged securities includes those “under which the amounts of the payments are determined wholly or partly by reference to an index of prices published by the Office for National Statistics”. This will ensure that gilt edged securities linked to the CPI will have the same tax treatment as those linked to RPI.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	The economic impact is nil. The measure is providing for the taxation treatment applied to index-linked gilt-edged securities to be the same regardless of the measure used to calculate the inflation uplift profits.				
Impact on individuals and households	This measure applies only for companies within the charge to corporation tax and therefore it has no impact on individuals and households. It is not envisaged that there will be any additional costs to the companies concerned.				
Equalities impact	This measure applies only for companies within the charge to corporation tax and will not impact on equality groups.				
Impact on businesses and third sector	Where companies have liabilities which increase in line with the “general level of prices” they will be able to hold assets providing a return matching such liabilities, with comparable tax treatment to that currently afforded to securities linked to the RPI. There will be no impact on the third sector.				
Operational impact (£m) (HMRC or other)	Nil. This measure extends existing tax treatment of gilt-edged securities linked to a price index to a wider class of indices published by the Office for National Statistics: the only operational impact is a need to make minor changes to guidance.				
Other impacts	Nil. The extension of tax treatment currently applying only to RPI-linked gilt edged securities to CPI-linked gilt edged securities removes barriers to those who issue index linked gilt-edged securities. It is unlikely there are any small firms impacted by this measure, as any that are will already be operating the legislation and the measure does not represent a change to the system but a widening of a definition.				

Monitoring and evaluation

It is not proposed to monitor this measure, the amendment provides for future changes that can be envisaged.

Further advice

If you have any questions about this change, please contact Andrew Gribble on 020 7147 0177 (email: andrew.gribble@hmrc.gsi.gov.uk).

Charities: Transitional Relief on Distributions: Repeal of Redundant Relief

Who is likely to be affected?

No one is expected to be affected by the withdrawal of this relief. The relief was available to charities until 5 April 2006. The legislation is now obsolete.

General description of the measure

Repayable tax credits on distributions by companies to shareholders were withdrawn from 1999-2000. A transitional relief was introduced for charities on distributions received between 6 April 1999 and 5 April 2004. The relief allowed charities to continue to claim repayments of tax on distributions on a reducing basis. The final date for making a claim under this provision was 5 April 2006. The relief is now obsolete and is being repealed.

Policy objective

This change supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal redundant legislation.

Background to the measure

- On 20 July 2010 the Chancellor and the Exchequer Secretary established the Office of Tax Simplification (OTS) to provide the Government with independent advice on simplifying the UK tax system.
- One of the first tasks of the OTS was to carry out a review of all reliefs, allowances and exemptions, for businesses and individuals, for all taxes administered by HM Revenue & Customs to identify reliefs and exemptions that could be simplified or repealed.
- This measure covers one of the redundant reliefs and exemptions that OTS has recommended for repeal.
- There has been no consultation on the repeal of this relief as the relief is obsolete.

Detailed proposal

Operative date

This legislation will be repealed with effect from the date of Royal Assent to the Finance Bill 2011.

Current law

The provisions relating to transitional relief on distributions for charities are at section 35 of, and Schedule 5 to, the Finance (No.2) Act 1997 but they are obsolete.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to withdraw the relief and to make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12 nil	2012-13 nil	2013-14 nil	2014-15 nil	2015-16 nil
Economic impact	The measure will have no economic impact.				
Impact on individuals and households	This legislation only applies to charities and it expired in 2004. Therefore no one will be affected by the withdrawal of this relief.				
Equalities impacts	As the relief is obsolete and can no longer be claimed the repeal will not have an impact on any equality group.				
Impact on business including third sector	This relief only applies to charities. However, it expired in 2004 and therefore there is no impact on charities or the third sector.				
Operational impact (£m) (HMRC or other)	There will be no operational impact. There is no need to make changes to returns or guidance.				
Other impacts	Removing it from the statute has no other impacts because this relief is obsolete.				

Monitoring and evaluation

No monitoring or evaluation of this measure is required as it relates to redundant legislation.

Further advice

If you have any questions about this change, please contact the Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

Millennium Gift Aid: Repeal of Redundant Relief

Who is likely to be affected?

No one is expected to be affected by the withdrawal of this relief. The relief was available to donors and charities until 31 December 2000. The legislation is now obsolete.

General description of the measure

Relief on gifts of money by individuals to charities for relief in poor countries ("Millennium Gift Aid") was given for gifts made between 31 July 1998 and 31 December 2000. The relief has not been available on gifts made after that date and so is now obsolete and is being repealed.

Policy objective

This change supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal redundant legislation.

Background to the measure

- On 20 July 2010 the Chancellor and the Exchequer Secretary established the Office of Tax Simplification (OTS) to provide the Government with independent advice on simplifying the UK tax system.
- One of the first tasks of OTS was to carry out a review of all reliefs, allowances and exemptions, for businesses and individuals, for all taxes administered by HM Revenue & Customs to identify reliefs and exemptions that could be simplified or repealed.
- This measure covers one of the redundant reliefs and exemptions that OTS has recommended for repeal.
- There has been no consultation on the repeal of this relief as the relief is obsolete.

Detailed proposal

Operative date

This legislation will be repealed with effect from the date of Royal Assent to the Finance Bill 2011.

Current law

The provisions relating to Millennium Gift Aid are at section 48 of the Finance Act 1998 but they are obsolete.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to withdraw the relief and to make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	This measure will have no economic impact.				
Impact on individuals and households	This legislation only applies to charities and it expired in 2000. Therefore no one will be affected by the withdrawal of this exemption.				
Equalities impacts	As the relief is obsolete and can no longer be claimed the repeal will not have an impact on any equality group.				
Impact on business including third sector	This relief only applies to charities. However, it expired in 2000 and therefore there is no impact on charities or the third sector.				
Operational impact (£m) (HMRC or other)	There will be no operational impact. There is no need to make changes to returns or guidance				
Other impacts	Removing it from the statute has no other impacts because this relief is obsolete.				

Monitoring and evaluation

No monitoring or evaluation of this measure is required as it relates to redundant legislation.

Further advice

If you have any questions about this change, please contact the Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

Payroll Giving Supplement: Repeal of Redundant Relief

Who is likely to be affected?

No one is expected to be affected by the withdrawal of this relief. The supplement paid to charities on donations made under payroll giving has not been available after 5 April 2005 and the legislation is obsolete.

General description of the measure

A 10 per cent supplement on donations made under payroll giving was paid to charities between 6 April 2000 and 5 April 2003. This was subsequently extended by a year, to 5 April 2004. The supplement has not been payable on any donations made after 5 April 2004. The relief is now obsolete and is being repealed.

Policy objective

This change supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal redundant legislation.

Background to the measure

- On 20 July 2010 the Chancellor and the Exchequer Secretary established the Office of Tax Simplification (OTS) to provide the Government with independent advice on simplifying the UK tax system.
- One of the first tasks of OTS was to carry out a review of all reliefs, allowances and exemptions, for businesses and individuals, for all taxes administered by HM Revenue & Customs to identify reliefs and exemptions that could be simplified or repealed.
- This measure covers one of the redundant reliefs and exemptions that OTS has recommended for repeal.
- There has been no consultation on the repeal of this relief as the relief is obsolete.

Detailed proposal

Operative date

This legislation will be repealed with effect from the date of Royal Assent to the Finance Bill 2011.

Current law

The provisions relating to the 10 per cent payroll giving supplement are at section 38 of Finance Act (FA) 2000 and section 146 of FA 2003 but they are obsolete.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to withdraw the relief and to make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	The measure will have no economic impact.				
Impact on individuals and households	This legislation only applies to charities and it expired in 2004. Therefore no one will be affected by the withdrawal of this exemption.				
Equalities impacts	As the relief is obsolete and can no longer be claimed the repeal will not have an impact on any equality group.				
Impact on business including third sector	This relief only applies to charities. However, it expired in 2004 and therefore there is no impact on charities or the third sector.				
Operational impact (£m) (HMRC or other)	There will be no operational impact. There is no need to make changes to returns or guidance.				
Other impacts	Removing it from the statute has no other impacts because this relief is obsolete.				

Monitoring and evaluation

No monitoring or evaluation of this measure is required as it relates to redundant legislation.

Further advice

If you have any questions about this change, please contact the Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

National Savings Bank Ordinary Account Interest: Repeal of Redundant Relief

Who is likely to be affected?

No one is expected to be affected by the withdrawal of this relief as these accounts have been withdrawn since 2004.

General description of the measure

The measure will withdraw the annual exemption from tax of the first £70 interest arising on National Savings and Investment Ordinary Accounts.

Ordinary Accounts were withdrawn by National Savings and Investment in 2004 and so this relief is no longer required.

Policy objective

This change supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal redundant legislation.

Background to the measure

- On 20 July 2010 the Chancellor and the Exchequer Secretary established the Office of Tax Simplification (OTS) to provide the Government with independent advice on simplifying the UK tax system.
- One of the first tasks of the OTS was to carry out a review of all reliefs, allowances and exemptions for businesses and individuals, for all taxes administered by HM Revenue & Customs, to identify reliefs and exemptions that could be simplified or repealed.
- This measure covers one of the redundant reliefs and exemptions that the OTS has recommended for repeal.
- There has been no consultation on the repeal of this relief as the relief is obsolete.

Detailed proposal

Operative date

The legislation will have effect on and after the date that the Finance Bill receives Royal Assent.

Current law

The exemption is currently in section 691 Income Tax (Trading and Other Income) Act 2005. The legislation exempts from tax the first £70 of interest arising on National Savings and Investment Ordinary Accounts. It is an annual exemption.

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to repeal the current legislation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	This measure will have no economic impact.				
Impact on individuals and households	When Ordinary Accounts were withdrawn by National Savings and Investment in 2004 customers were asked to move their deposit into another account. Those customers that did not do this had their deposits moved to a National Savings and Investment Residual Account which pays a nominal amount of taxable interest. Therefore no-one will be affected by the withdrawal of this exemption.				
Equalities impacts	As no-one currently holds Ordinary Accounts the repeal will not have an impact on any equality group.				
Impact on business including third sector	There will be no impact as the Ordinary Account was withdrawn in 2004.				
Operational impact (£m) (HMRC or other)	There will be no operational impact on HMRC. Minor changes will be needed to Notes accompanying tax returns and to guidance.				
Other impacts	There will be no impact on small firms because the Ordinary Account was withdrawn in 2004. There will be no impact on Competition as the measure will not directly or indirectly limit the range of suppliers or their ability to compete.				

Monitoring and evaluation

This policy may be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact our Self Assessment Contact Centre on 0845 900 0444.

Stamp Duty: Repeal of Redundant Reliefs and Exemptions

Who is likely to be affected?

No one is expected to be directly affected by these changes, which remove provisions that are now redundant.

General description of the measure

Finance Bill 2011 will repeal stamp duty legislation which provides exemptions for:

- certain assignments by seamen of wages in payment of contributions to certain bodies representing the interests of or providing relief for seamen;
- certain instruments relating to National Savings; and
- instruments relating to the sale or transfer of ships or vessels.
- Since 2003, stamp duty is chargeable only on instruments relating to stock or marketable securities. Instruments relating to the above transactions are no longer chargeable to stamp duty, so the exemptions are unnecessary.

Policy objective

These changes support the Government's objective to simplify the tax system and are part of a package of measures which will repeal redundant legislation.

Background to the measure

- On 20 July 2010 the Chancellor and Exchequer Secretary established the Office of Tax Simplification (OTS) to provide the Government with independent advice on simplifying the UK tax system.
- One of the first tasks of the OTS was to carry out a review of all reliefs, allowances and exemptions, for businesses and individuals, for all taxes administered by HM Revenue & Customs to identify reliefs and exemptions that could be simplified or repealed.
- This measure covers three of the redundant reliefs and exemptions that the OTS has recommended for repeal.
- There has been no consultation on the repeal of these reliefs as the reliefs are obsolete.

Detailed proposal

Operative date

This legislation will be repealed with effect from the date of Royal Assent to the Finance Bill 2011.

Current law

The current law is set out in:

- section 45 of the Finance Act 1944 (assignments by seamen);
- section 31 of Finance Act 1953 (instruments relating to National Savings); and
- paragraph 24(b) of Schedule 13 to the Finance Act 1999 (instruments relating to the sale of ships or vessels).

Proposed revisions

Legislation will be introduced in Finance Bill 2011 to repeal the current legislation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
Economic impact	These changes will have no economic impact as they relate to redundant legislation.				
Impact on individuals and households	These changes will have no impact on individuals and households as they relate to redundant legislation.				
Equalities impacts	These changes will have no impact on different equality groups as they relate to redundant legislation.				
Impact on business including third sector	These changes will have no impact on business as they relate to redundant legislation.				
Operational impact (£m) (HMRC or other)	These changes will not have an impact on HM Revenue & Customs' running costs.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

No monitoring or evaluation of this measure is required as it relates to redundant legislation.

Further advice

If you have any questions about this change, please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk).

B Rates and Allowances

Budget announcements of main rates and allowances for the tax year 2011-12. This Annex also includes all announcements made at June 2010 Budget and subsequently.

PERSONAL TAX AND BENEFITS

Income tax

The June Budget 2010 announced the main rates and allowances for income tax for 2011-12, including an increase in the personal allowance for those aged under 65 of £1,000 and a £1,400 reduction in the basic rate limit. The NICs Upper Earnings and Profits limit will be reduced by £2,400 so that they remain aligned with the income tax higher rate threshold (the sum of the personal allowance and basic rate limit). These are set out in the table below.

At Budget 2011, the Government announced that:

- the personal allowance for under 65's will increase by £630 bringing it to £8,105; and
- The basic rate limit will fall by £630, taking it from £35,000 in 2011-12 to £34,370 in 2012-13.

Income tax bands of taxable income - £ per year		
	2010-11	2011-12
Basic Rate ¹	0-37,400	0 – 35,000
Higher Rate	37,401 -150,000	35,001 – 150,000
Additional Rate	Over 150,000	Over 150,000

¹ There is a starting rate for savings income only. If an individual's taxable non-savings income exceeds the starting rate limit, then the 10% starting rate for savings will not be available for savings income. The starting rate limit for 2010-11 is £2,440 and for 2011-12 it is £2,560.

Income tax rates	2010-11	2011-12
Basic Rate	20%	20%
Higher Rate	40%	40%
Additional Rate	50%	50%
Dividend Ordinary Rate for dividends otherwise taxable at the basic rate (effective rate with tax credit)	10% (0%)	10% (0%)
Dividend Upper Rate for dividends otherwise taxable at the higher rate (effective rate with tax credit)	32.5% (25%)	32.5% (25%)
Dividend Additional Rate for dividends otherwise taxable at the additional rate (effective rate with tax credit)	42.5% (36.1%)	42.5% (36.1%)

Special Rates for Trustees' Income		
	2010-11	2011-12
Standard rate on first £1000 of income which would otherwise be taxable at the special rates for trustees.	Up to 20% depends on the type of income	Up to 20% depends on the type of income
Trust rate	50%	50%
Dividend trust rate	42.5%	42.5%

Income tax allowances - £ per year		
	2010-11	2011-12
Personal allowance*		
Age under 65 ¹	6,475	7,475
Age –related allowance (65-74) ^{1, 2}	9,490	9,940
Age –related allowance (75+) ^{1,2}	9,640	10,090
Income limit for under 65 personal allowance	100,000	100,000
Income limit for age-related allowances	22,900	24,000
Married couples allowance ^{2, 3}		
Maximum amount of married couples allowance	6,965	7,295
Minimum amount of married couple's allowance ⁴	2,670	2,800
Blind Persons Allowance	1,890	1,980

¹This allowance reduces where the income is above £100, 000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.

²These allowances reduce where the income is above the income limit for age-related allowances (£24,000) by £1 for every £2 of income above the limit until they reach the level of the personal allowance for those aged under 65.

³Available to people born before 6 April 1935. Tax relief for this allowance is given at 10 per cent.

⁴This is also the maximum relief for maintenance payments where at least one of the parties was born before 6 April 1935.

National Insurance Contributions

The June Budget 2010 announced the main rates and thresholds for national insurance contributions (NICs) for 2011-12. The other values were confirmed in December 2010. These are set out in the table below.

Employee & employer - rates & thresholds -£ per week unless stated	2010-11	2011-12
Lower Earnings Limit (LEL) for Class 1 NICs	97.00	102.00
Upper Earnings Limit (UEL) for Employees' (Primary) Class 1 NICs	844.00	817.00
Upper Accrual Point (UAP)	770.00	770.00
Primary Threshold	110.00	139.00
Secondary Threshold	110.00	136.00
Employee`s (primary) Class 1 contribution rates		
2010-11 weekly earnings from £110.01 to £844.00 Earnings Limit	11%	N/A
2010-11 weekly earnings above £844.00	1%	N/A
2011-12 weekly earnings from £139.01 to £817.00	N/A	12%
2011-12 weekly earnings above £817.00	N/A	2%
Employee`s contracted out rebate		
For both salary related (COSR) and money purchase (COMP) schemes between LEL & UAP	1.6%	1.6%
Married women`s reduced rate for (primary) class 1 contribution rates*		
2010-11 weekly earnings from £110.01 to £844.00 Earnings Limit	4.85%	N/A
2010-11 weekly earnings above £844.00	1%	N/A
2011-12 weekly earnings from £139.01 to £817.00	N/A	5.85%
2011-12 weekly earnings above £817.00	N/A	2%
Employer`s (secondary) Class 1 contribution rates		
2010-11 weekly earnings above £110.00	12.8%	N/A
2011-12 weekly earnings above £136.00	N/A	13.8%
Employer`s contracted out rebate -		
Employers contracted our rebate – salary related schemes (COSR) between LEL and UAP	3.7%	3.7%
Employers contracted our rebate- money purchase schemes (COMP) between LEL and UAP	1.4%	1.4%

*The reduced rate applies to women married before 6 April 1977 who have elected to pay a reduced rate of class 1 contributions.

Self employed and others - rates and thresholds (£ per week unless stated)		
Class 2 National insurance contributions*	2010-11	2011-12
Self employed- class 2 NICs	2.40	2.50
Small earnings annual exception level –class 2 NICs	5,075	5,315
Volunteer development workers –class 2 NICs	4.85	5.10
Share fishermen –class 2 NICs	3.05	3.15
Class 3 National insurance contributions		
Voluntary contributions	12.05	12.60
Class 4 National Insurance contributions		
2010-11 annual profits below Lower Profits Limit £5,715	Nil	N/A
2010-11 annual profits above Lower Profits Limit £5,715 but below Upper Profits Limit £ 43,875	8%	N/A
2010-11 annual profits above Upper Profits Limit £ 43,875	1%	N/A
2011-12 annual profits below Lower Profits Limit £7,225	N/A	Nil
2011-12 annual profits above Lower Profits Limit £7,225 but below Upper Profits Limit £42,475	N/A	9%
2011-12 annual profits above Upper Profits Limit £42,475	N/A	2%

*Class 2 NICs are paid by all self-employed persons. Those with profits less than, or expected to be less than, the level of the small earnings exception may apply for exemption from paying Class 2 contributions.

Working and Child Tax Credits, Child Benefit and Guardians Allowance

June Budget 2010 announced the rates and thresholds for tax credits for 2011-12. The remaining amounts were confirmed in December 2010. These are set out in the table below. No further changes to tax credits for 2011-12 have been announced in Budget 2011.

Working and Child Tax Credits		
£ per year (unless stated)	April 2010	April 2011
Working Tax Credit		
Basic element	1,920	1,920
Couple and lone parent element	1,890	1,950
30 hour element	790	790
Disabled worker element	2,570	2,650
Severe disability element	1,095	1,130
50+ Return to work payment (16-29 hours)	1,320	1,365
50+ Return to work payment (30+ hours)	1,965	2,030
Childcare element of the Working Tax Credit		
Maximum eligible cost for one child	£175 per week	£175 per week
Maximum eligible cost for two or more children	£300 per week	£300 per week
Percentage of eligible costs covered	80%	70%

Working and Child Tax Credits (continued)		
£ per year (unless stated)	April 2010	April 2011
Child Tax Credit*	545	545
Family element	2,300	2,555
Child element	2,715	2,800
Disabled child element	1,095	1,130
Severely disabled child element		
Income thresholds and withdrawal rates		
First income threshold	6,420	6,420
First withdrawal rate (per cent)	39%	41%
Second income threshold	50,000	40,000
Second withdrawal rate (per cent)	6.67%	41%
First threshold for those entitled to Child Tax Credit only	16,190	15,860
Income disregard	25,000	10,000

Child Benefit		
£ per week	April 2010	April 2011
Eldest/only child	20.30	20.30
Other children	13.40	13.40
Guardians Allowance		
£ per week	April 2010	April 2011
Guardians Allowance	14.30	14.75

CAPITAL, ASSETS AND PROPERTY

On 14 October 2010, the Government announced changes to the lifetime allowance and annual allowance for tax-privileged pension saving. The allowance limits for 2011-12 are set out below. The Government has also announced that the lifetime allowance will be £1.5 million in 2012-13.

Pensions Savings- tax relief	2010-11 allowance limit	2011-12 allowance limit
Lifetime allowance	£1.8 million	£1.8million
Annual allowance	£255,000	£50,000

Budget 2011 announced that the entrepreneurs' relief lifetime limit of gains will increase from £5 million to £10 million from 6 April 2011.

Capital Gains Tax		
Tax Year	2010-11	2011-12
Rates for individuals	Gains before 23 June: 18% Gains on or after 23 June: 18% / 28% (note 2)	18% / 28% (note 4)
Rates for trustees and personal representatives	Gains before 23 June: 18% Gains on or after 23 June: 28% (note 3)	28%
Annual Exempt Amount (AEA) for individuals and personal representatives (note 1)	£10,100	£10,600
Annual Exempt Amount (AEA) for most trustees	£5,050	£5,300
Rate on gains subject to Entrepreneurs' Relief	10% (note 3)	10%

Capital Gains Entrepreneurs' Relief	2010-11		2011-12
	6 April – 22 June	23 June – 5 April	
Entrepreneurs' relief lifetime limit of gains	£2,000,000	£5,000,000	£10,000,000

Notes

1. **Personal representatives** are entitled to the annual exempt amount for the tax year in which the individual dies and the next two years.
2. **Individuals** gains from 23 June 2010 are charged at 18% up to the limit of the basic rate income tax band (if any), and at 28% on gains above that limit.
3. **Tax Year 2010-11:** Where **Entrepreneurs' Relief** applies, gains before 23 June 2010 are reduced by 4/9 and charged at 18%; qualifying gains on or after 23 June 2010 are charged at 10% (with no 4/9 reduction).
4. **Tax Year 2011-12: Rates for Individuals** 18% up to the limit of the basic rate income tax band (if any) and 28% on gains above that limit.
5. **Companies** are not within the charge to Capital Gains Tax. Corporation Tax rules apply.

June Budget 2010 confirmed that the inheritance rate nil rate band will remain frozen until 2014-15.

Inheritance Tax	2010-11	2011-12
Rate	40%	40%*
Nil Rate band	£325,000	£325,000

*Budget 2011 announced that from April 2012, a reduced rate of IHT of 36% will be introduced where 10 per cent or more of the net estate is left to charity.

The cash value of ISA limits was confirmed in December 2010. No further changes have been announced at Budget 2011.

Individual Savings Account	2010-11	2011-12
Cash value of ISA limit	£10,200, up to £5,100 of which can be saved in cash	£10,680, up to £5,340 of which can be saved in cash

No changes to the main rates and thresholds for Stamp Duty Land Tax have been announced at Budget 2011. The Government has announced changes to the SDLT rules for bulk purchases of residential properties from Royal Assent to Finance Bill 2011.

Stamp Duty Land Tax				
Rate	Threshold 2010-11		Threshold 2011-12	
	Residential	Non-residential	Residential	Non-residential
0%	£0 – 125,000	£0 – 150,000	£0 – 125,000	£0 – 150,000
1%	£125,001 – 250,000	£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	£250,001 – 500,000
4%	Over £500,000	Over £500,000	£500,001 - £1,000,000	Over £500,000
5%	n/a	n/a	Over £1,000,000	n/a

Stamp Duty and Stamp Duty Reserve Tax		
Band	2010-11	2011-12
Standard rate	0.5%	0.5%
Higher rate	1.5%	1.5%

BUSINESS AND FINANCIAL SERVICES

The June Budget 2010 announced a reform of corporation tax, including changes to rates and allowances. These are set out below. **Budget 2011 announces further changes to corporate tax from April 2011:**

- The main rate of corporation tax will be reduced by a further 1%, in addition to the reductions announced at the June Budget. This will take the rate from 28% to 26% in April 2011.
- The Supplementary Charge on profits from UK oil and gas production will increase from 20% to 32% from 24 March 2011
- The Bank Levy rate will increase to 0.078 from January 2012.
- The R&D tax credit SME rate will increase from 175% to 200%, with a further increase to 225% in April 2012, subject to State aid approval.
- The rate of income tax relief available through the Enterprise Investment Scheme will increase to 30%.

Corporation tax - rates			
Level of profits	Financial Year 2010	Financial Year 2011	Financial Year 2012
£0 - £300,000 - small profits rate	21%	20%	TBA
£300,001 - £1,500,000	Marginal rate	Marginal rate	Marginal rate
Marginal rate fraction	7/400 th	3/200 th	TBA
£1,500,001 or more – main rate	28%	26%	25%
North sea oil and gas ring fenced profits*	See below	See Below	See Below
Open ended investment companies and authorised unit trusts**	See below	See below	See Below

*For North Sea oil and gas ring fenced profits the main rate is 30% and the small profits rate is 19%. The marginal relief ring fenced fraction is 11/400ths.

**For Open ended investment companies and authorised unit trusts the applicable corporation tax rate is 20%.

Corporation tax - allowances and reliefs			
	Financial Year 2010	Financial Year 2011	Financial Year 2012
Plant and machinery: Main rate expenditure	20%	20%	18%
Plant and machinery: Special rate expenditure	10%	10%	8%
Annual investment allowance	100,000	100,000	25,000
Energy saving and water efficient products	100%	100%	100%
R&D tax credits SME scheme	175%	200% (Increased rate is subject to State aid approval, and will not be applied until approval is received)	225% (Subject to State aid approval).
R&D tax credits Large companies scheme	130%	130%	130%
Film tax relief	100% (limited budget film 80% (large budget film)	100% (limited budget film 80% (large budget film)	100% (limited budget film 80% (large budget film)

Bank Levy				
	1 Jan 11- 28 Feb 11	1 Mar11 –30 April 11	1 May 11–31 Dec 11	1 Jan 12 Onwards
Short-term chargeable liabilities	0.05%	0.1%	0.075%	0.078%
Long-term chargeable equity and Liabilities	0.025%	0.05%	0.0375%	0.039%

UK oil and gas taxes		
	2010-11	2011-12
Petroleum revenue tax	50%	50%
Ring fence corporation tax*	See below	See below
Supplementary charge	20%	32% on or after 24 March 2011

*For North Sea oil and gas ring fenced profits the main rate is 30% and the small profits rate is 19%. The marginal relief ring fenced fraction is 11/400ths.

Business rates		
	2010-11	2011-12
England standard multiplier	41.4p	43.3p
England small business multiplier	40.7p	42.6p

EXCISE DUTIES

Budget 2011 confirms that alcohol duty rates will increase by 2 percent above inflation on 28 March 2011. The rates are set out in the table below. Budget 2011 also confirms changes to beer duty regime announced to come into effect in October 2011. Including:

- A new additional duty on high-strength beers (above 7.5 per cent abv) to be 25% of the general beer duty rate; and
- A reduced rate of duty on lower strength beers (at or below 2.8 % abv and above 1.2% abv) to be 50 per cent of the general beer duty rate.

Alcohol duty			
	Duty rate from 29 March 2010	Duty rate from 30 June 2010	Duty rate from 28 March 2011
	Rate per litre of pure alcohol		
Spirits	23.80	23.80	25.52
Spirits-based RTDs	23.80	23.80	25.52
Wine and made-wine: Exceeding 22% abv	23.80	23.80	25.52
	Rate per hectolitre per cent of alcohol in the beer		
Beer	17.32	17.32	18.57
	Rate per hectolitre of product		
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	36.01	33.46	35.87
Still cider and perry: Exceeding 7.5% - less than 8.5% abv.	54.04	50.22	53.84
Sparkling cider and perry: exceeding 1.2% - less than 5.5% abv.	36.01	33.46	35.87
Sparkling cider and perry: Exceeding 5.5% - less than 8.5% abv.	217.83	217.83	233.55
Wine and made-wine: Exceeding 1.2% - not exceeding 4% abv.	69.32	69.32	74.32
Wine and made-wine: Exceeding 4% - not exceeding 5.5% abv.	95.33	95.33	102.21
Still wine and made-wine: Exceeding 5.5% - not exceeding 15% abv.	225.00	225.00	241.23
Wine and made-wine: Exceeding 15% - not exceeding 22% abv.	299.97	299.97	321.61
Sparkling wine and made-wine: Exceeding 5.5% - less than 8.5% abv.	217.83	217.83	233.55
Sparkling wine and made-wine: 8.5% - not exceeding 15% abv.	288.20	288.20	308.99

Budget 2011 confirms that tobacco duty rates will increase by 2 percent above inflation. Budget 2011 also announced that:

- The specific and ad valorem duty on cigarettes will be rebalanced .
- The duty on hand-rolling tobacco will increase the duty by an additional 10 per cent.

These changes will come into effect from 6pm on 23 March 2011. The rates are set out in the table below.

Tobacco duty				
Tobacco product	From 6pm 24 March 2010	Ad valorem element	From 6pm 23 March 2011	Ad valorem element
Cigarettes	£119.03 per 1000 cigarettes	24% of retail price	£154.95 per 1000 cigarettes	16.5% of retail price
Cigars	£180.28/kg	n/a	£193.29/kg	N/A
Hand rolling tobacco	£129.59/kg	n/a	£151.90/kg	N/A
Other smoking tobacco and chewing tobacco	£79.26/kg	n/a	£84.98/kg	N/A

Budget 2011 confirmed that gaming duty bands will increase in line with inflation for accounting periods starting on or after 1 April 2011 and all rates of amusement machine licence duty will be increased in line with inflation from 4pm on 25 March 2011.

Gambling duty		
	2010-11	2011-12
Bingo duty		
Percentage of bingo promotion profits	20%	20%
General betting duty		
Percentage of 'net stake receipts' (essentially the gross profits from bookmaking) for fixed odds bets and totalisator bets on horse or dog races	15%	15%
Percentage of 'net stake receipts' for financial spread bets	3%	3%
Percentage of 'net stake receipts' for all other spread bets	10%	10%
Lottery duty		
Percentage of the price paid or payable on taking a ticket or chance in a lottery.	12%	12%
Remote gaming duty		
Percentage of remote gaming profits	15%	15%
Pool betting duty		
Percentage on net pool betting receipts	15%	15%

Gambling duty (continued)			
Amusement machine licence duty			
Band	Description	12 month premises based licence –old rate	12 month premises based licence – new rate*
A	A gaming machine that does not fall into any other category	£5805	£6110
B1	A gaming machine in respect of which the amount required to play the game once does not exceed £2, and the value of the prize that may be won in any one game does not exceed £4,000 in money or as a non-monetary prize.	£2905	£3055
B2	A gaming machine in respect of which the amount required to play the game once does not exceed £100, and the value of the prize that may be won in any one game does not exceed £500 in money or as a non-monetary prize.	£2285	£2405
B3	A gaming machine in respect of which the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £500 in money or as a non-monetary prize.	£2285	£2405
B4	A gaming machine in respect of which the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £250 in money or as a non-monetary prize.	£2075	£2185
C	A gaming machine in respect of which the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £70 in money or as a non-monetary prize; and A gaming machine in respect of which the amount required to play the game once does not exceed 5p.	£860	£905
*12 month premises based licence – new rates apply to licence applications received by HMRC after 4pm on 25 March 2011.			

Gaming duty					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	£1,975,000	£1,361,500	£2,385,000	£5,033,500	Remainder
New Figures for accounting periods beginning on or after 1 April 2011					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	£2,067,000	£1,425,000	£2,496,000	£5,268,000	Remainder

Insurance premium Tax		
	January 2011-April 2011	April 2011-12
Standard rate	6%	6%
Higher rate	20%	20%

June Budget 2010 confirmed that climate change levy rates will increase in line with inflation in 2011-12, as set out in the table below. Budget 2011 announced that climate change levy rates will also increase in line with inflation in 2012-13.

Climate Change Levy				
Commodity	Rates from 1 April 2009	Rates from 1 April 2011	Rates from 1 April 2012	
Electricity	£0.00470 per kilowatt hour	£0.00485 per kilowatt hour	£0.00509 per kilowatt hour	
Natural gas (Great Britain)	£0.00164 per kilowatt hour	£0.00169 per kilowatt hour	£0.00177 per kilowatt hour	
Natural gas (Northern Ireland)	£0.00 (exempt)	£0.00059 per kilowatt hour	£0.00062 per kilowatt hour	
Liquefied petroleum gas	£0.01050 per kilogram	£0.01083 per kilogram	£0.01137 per kilogram	
Any other taxable commodity	£0.01281 per kilogram	£0.01321 per kilogram	£0.01387 per kilogram	

Budget 2011 announced that the aggregates levy will be frozen at £2.00 per tonne from 1 April 2011, with the planned increase to £2.10 deferred to 1 April 2012.

Aggregates levy		
	From 1 April 2009	From 1 April 2012
Aggregates levy	£2.00/tonne	£2.10/tonne

June Budget 2010 announced an £8 increase in the standard rate of landfill tax from 1 April 2012. No further changes to the rates were announced at Budget 2011.

Landfill tax			
	2010-11	2011-12	From 1 April 2012
Standard rate	£48/tonne	£56/tonne	£64/tonne
Lower rate	£2.50/tonne	£2.50 /tonne	£2.50 /tonne

Budget 2011 announced that an increase of APD rates by RPI in April 2011 will be deferred until April 2012.

Air passenger duty				
Bands (approximate distance in miles from the UK)	Reduced rate (lowest class of travel)		Standard rates (other than the lowest class of travel)	
	From 1 Nov 09	From 1 Nov 10	From 1 Nov 09	From 1 Nov 10
Band A (0 – 2000 miles)	£11	£12	£22	£24
Band B (2001 – 4000 miles)	£45	£60	£90	£120
Band C (4001 – 6000 miles)	£50	£75	£100	£150
Band D (over 6000 miles)	£55	£85	£110	£170

Budget 2011 announced that:

- the planned 1-pence-per litre Fuel Duty escalator will be abolished;
- the RPI increase deferred to January 2012;
- and there will be an additional 1 pence cut in the rate of fuel duty from 6pm on 23rd March.

The 2012-13 RPI increase will be deferred from April 2012 to August 2012.

Fuel duty - Pence per litre (unless stated)			
	Current	On and after 6pm 23 March	On and after 1 January 2012
Light oils			
Unleaded petrol	58.95	57.95	60.97
Light oil (other than unleaded petrol or aviation gasoline)	68.67	67.67	70.69
Aviation gasoline (Avgas)	38.35	37.70	39.66
Light oil delivered to an approved person for use as furnace fuel	10.88	10.70	11.26

Fuel duty - Pence per litre (unless stated) (Continued)			
	Current	On and after 6pm 23 March	On and after 1 January 2012
Heavy oils			
Heavy oil (Diesel)	58.95	57.95	60.97
Marked gas oil	11.33	11.14	11.72
Fuel oil	10.88	10.70	11.26
Heavy oil other than fuel oil, gas oil or kerosene used as fuel.	10.88	10.70	11.26
Kerosene to be used as motor fuel off road or in an excepted vehicle	11.33	11.14	11.72
Biofuels			
Bio-ethanol	58.95	57.95	60.97
Biodiesel	58.95	57.95	60.97
Biodiesel for non road use	11.33	11.14	11.72
Biodiesel blended with gas oil not for road fuel use for non road use	11.33	11.14	11.72
Road fuel gases			
Road fuel Natural gas including biogas	26.15/kg	24.70/kg	29.07/kg
Liquefied petroleum gas(LPG)	33.04/kg	31.61/kg	37.34/kg

Budget 2011 announced that from 1 April 2011, VED rates will increase in line with RPI inflation and Heavy Goods Vehicle rates will be frozen.

Vehicle Excise Duty bands and rates for cars registered on or after March 2001 (graduated VED)				
VED band	CO₂ emissions (g/km)	2010-11	2011-12²	
		Standard Rate¹	Standard Rate¹	First Year Rate¹
A	Up to 100	£0	£0	£0
B	101-110	£20	£20	£0
C	111-120	£30	£30	£0
D	121-130	£90	£95	£0
E	131-140	£110	£115	£115
F	141-150	£125	£130	£130
G	151-165	£155	£165	£165
H	166-175	£180	£190	£265
I	176-185	£200	£210	£315
J	186-200	£235	£245	£445
K ³	201-225	£245	£260	£580
L	226-255	£425	£445	£790
M	Over 255	£435	£460	£1000

¹Alternative fuel discount: 2010-11 onwards £10 for all cars

²2011-12 rates take effect from 1st April 2011

³Includes cars emitting over 225g/km registered before 23 March 2006

Vehicle Excise Duty bands and rates for private and light good vehicles registered before March 2001 (pre-graduated VED)		
Engine size	2010-11	2011-12
1549cc and below	£125	£130
Above 1549cc	£205	£215

No changes to the main rates of VAT have been announced at Budget 2011. VAT thresholds have been increased in line with inflation. Budget 2011 also confirmed that VAT fuel scale changes will be revalorised with effect from 1 May 2011, as set out in the tables below.

Value Added Tax (VAT)		
	January 2011-April 2011	April 2011-12
Standard rate	20%	20%
Reduced rate	5%	5%
Zero rate	0%	0%
Exempt	n/a	n/a

Value Added Tax (VAT) – Registration and Deregistration thresholds		
	From April 2010	From April 2011
VAT -registration threshold	70,000	73,000
VAT-deregistration threshold	68,000	71,000

Value Added Tax (VAT) – Fuel scale charges

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2011.

CO₂ band	VAT fuel scale charge 12 month period, £	VAT on 12 month charge, £	VAT exclusive 12 month charge, £
120 or less	630.00	105.00	525.00
125	945.00	157.50	787.50
130	1,010.00	168.33	841.67
135	1,070.00	178.33	891.67
140	1,135.00	189.17	945.83
145	1,200.00	200.00	1,000.00
150	1,260.00	210.00	1,050.00
155	1,325.00	220.83	1,104.17
160	1,385.00	230.83	1,154.17
165	1,450.00	241.67	1,208.33
170	1,515.00	252.50	1,262.50
175	1,575.00	262.50	1,312.50
180	1,640.00	273.33	1,366.67
185	1,705.00	284.17	1,420.83
190	1,765.00	294.17	1,470.83
195	1,830.00	305.00	1,525.00
200	1,890.00	315.00	1,575.00
205	1,955.00	325.83	1,629.17
210	2,020.00	336.67	1,683.33
215	2,080.00	346.67	1,733.33
220	2,145.00	357.50	1,787.50
225 or more	2,205.00	367.50	1,837.50

Value Added Tax (VAT) – Fuel scale charges

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2011.

CO₂ band	VAT fuel scale charge 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	157.00	26.17	130.83
125	236.00	39.33	196.67
130	252.00	42.00	210.00
135	268.00	44.67	223.33
140	283.00	47.17	235.83
145	299.00	49.83	249.17
150	315.00	52.50	262.50
155	331.00	55.17	275.83
160	346.00	57.67	288.33
165	362.00	60.33	301.67
170	378.00	63.00	315.00
175	394.00	65.67	328.33
180	409.00	68.17	340.83
185	425.00	70.83	354.17
190	441.00	73.50	367.50
195	457.00	76.17	380.83
200	472.00	78.67	393.33
205	488.00	81.33	406.67
210	504.00	84.00	420.00
215	520.00	86.67	433.33
220	536.00	89.33	446.67
225 or more	551.00	91.83	459.17

Value Added Tax (VAT) – Fuel scale charges			
Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2011.			
CO₂ band	VAT fuel scale charge 1 month period, £	VAT on 1 month charge, £	VAT exclusive 1 month charge, £
120 or less	52.00	8.67	43.33
125	78.00	13.00	65.00
130	84.00	14.00	70.00
135	89.00	14.83	74.17
140	94.00	15.67	78.33
145	99.00	16.50	82.50
150	105.00	17.50	87.50
155	110.00	18.33	91.67
160	115.00	19.17	95.83
165	120.00	20.00	100.00
170	126.00	21.00	105.00
175	131.00	21.83	109.17
180	136.00	22.67	113.33
185	141.00	23.50	117.50
190	147.00	24.50	122.50
195	152.00	25.33	126.67
200	157.00	26.17	130.83
205	162.00	27.00	135.00
210	168.00	28.00	140.00
215	173.00	28.83	144.17
220	178.00	29.67	148.33
225 or more	183.00	30.50	152.50

Where the CO₂ emission figure is not a multiple of 5, the figure is rounded down to the next multiple of 5 to determine the level of the charge. For a bi-fuel vehicle which has two CO₂ emissions figures, the lower of the two figures should be used. For cars which are too old to have a CO₂ emissions figure, you should identify the CO₂ band based on engine size, as follows:

If its cylinder capacity is 1,400cc or less, use CO₂ band 140;

If its cylinder capacity exceeds 1,400cc but does not exceed 2,000cc, use CO₂ band 175;

If its cylinder capacity exceeds 2,000cc, use CO₂ band 225 or above.

C List of abbreviations used in this document

DECC	Department for Energy and Climate Change
NPV	Net Present Value
CO ₂	Carbon Dioxide
CPI	Consumer Prices Index
Defra	Department for environment, food and rural affairs
EEA	European Economic Area
ESC	Extra Statutory Concession
	Employer Supported Childcare
EU	European Union
FA	Finance Act
HMRC	Her Majesty's Revenue & Customs
ISA	Individual Savings Account
ITTOIA	Income Tax (Trading and Other Income) Act
NICs	National Insurance Contributions
OBR	Office of Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
OTS	Office of Tax Simplification
PAYE	Pay as you earn
PV	Present Value
RPI	Retail Prices Index
SME	Small and medium enterprise
UK	United Kingdom
US	United States
VAT	Value Added Tax
VED	Vehicle Excise Duty

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