

autumn statement
and tax update
2011



contents

growth proposals

National infrastructure plan
Credit easing measures for SMEs
Youth unemployment
Housing package
Employment rights changes

business tax

Controlled foreign companies
Patent box
Tax relief for venture capital investment
Seed enterprise investment scheme
Research and development
Capital allowances changes
Real estate investment trusts
Other measures

personal tax

Tax allowances and bands
Statutory residence test
Charitable donations
Non-UK domiciliaries investing in UK
Overseas pension schemes
Other measures

indirect taxes

Cost sharing exemption
Machine games duty
Other measures

anti-avoidance

Capital allowances
Asset-backed pension contributions

rate and allowance changes

1

2

7

8

9

10

Cuts to boost growth

The Autumn Statement was expected to be gloomy and, although the economic forecasts were significantly downgraded, the Chancellor did manage to announce some measures aimed at boosting growth. Amongst the mountain of paper published subsequently with the draft Finance Bill for 2012, there are also some points of good news.

Following extensive feedback on the likely problems with the proposed statutory residence test, the Government has given itself another year to get it right which should be good news in the long run. Delays to the abolition of some reliefs and in the scheduled fuel duty increase are also welcome. In addition, changes to the rules for EIS companies and VCTs have proved to be less draconian than originally suggested, and the proposals for CFCs have been significantly altered. The long-awaited relaxation of the rules for REITs was confirmed without any complications.

Whether this receptive response to consultation feedback signifies a change of approach by the Treasury or simply reflects the dire state of the economy remains to be seen, but most of the amendments to the Government's initial proposals appear to be favourable to businesses and investors.

growth proposals

NATIONAL INFRASTRUCTURE PLAN

The Government will be investing £5bn in major infrastructure projects to kick start the national plan but this is to be financed from restructuring existing budgets and clamping down on tax avoidance rather than by additional borrowing. The Government hopes that a further £20bn of investment funds, for a long list of suggested projects, will come from UK pension funds under an accord signed with pension bodies.

CREDIT EASING MEASURES FOR SMEs

The Government is to act as guarantor for £20bn of new bank lending to businesses with an annual turnover of up to £50m under a revamped National Loan Guarantee Scheme. The intention is that by lowering the risks of such lending for banks, the interest rates on guaranteed loans should be less for the borrowing businesses. The scheme is intended to start early in 2012 and run until the end of 2013 by which time the total borrowing it supports could be extended to £40bn.

In addition to the National Loan Guarantee Scheme it has been announced that the current small business rate relief will continue for a further six months from 1 October 2012. Businesses will also have the opportunity to defer 60% of the increase in their 2012/13 business rates and repay this over the next two years. Further funding of £35m will be made available to SMEs to help them use the services of UK Trade & Industry (UKTI) and an extra £10m of funding will help mid-sized businesses access UKTI's export support services.

YOUTH UNEMPLOYMENT

A range of measures were announced including:

- job subsidies of £2,275 each for businesses which take on an 18-24 year-old from the Work Programme from April 2012
- apprenticeship incentive payments of £1,500 each for employers in England taking on 16-24 year-olds (supporting an extra 20,000 placements in 2012/13)
- 250,000 work experience placements (up to eight weeks) for unemployed 18-24 year-olds (starting with 50,000 extra places in 2012/13).

HOUSING PACKAGE

Supporting the proposed house builders' indemnity fund, the Government will underwrite a scheme allowing up to 100,000 buyers with just a 5% deposit to buy a newly built home from spring 2012. There will also be a £400m fund to support completion of partially built housing projects with the developer application process to start by the end of 2011. Further funding will be available for infrastructure projects to support new developments and to help bring empty properties back into use as affordable housing. Plans for the Green Deal on building insulation have been made more attractive by adding an upfront 'cash back' offer to participating households starting in July 2013.

EMPLOYMENT RIGHTS CHANGES

Red tape and regulation in employment law have been identified as disincentives to taking on employees and the Department of Business, Innovation and Skills is considering and consulting on a number of changes including:

- Dismissals - setting the employee qualifying period for unfair dismissal claims at two years and considering a new compensated no-fault dismissal scheme for small employers.
- Employment tribunal system – streamlining procedures by May 2012 with individuals having to pay a fee to take a claim to tribunal.
- Introducing 'protected conversations' – allowing employers to discuss poor performance and other issues with an employee without these being used in subsequent tribunal hearings.
- Simplifying the current TUPE regulations, the rules for compromise agreements and the new Agency Workers Regulations.
- Collective redundancies – reducing the current 90 day notice period for statutory consultations.

business tax

CONTROLLED FOREIGN COMPANIES

Draft legislation has been published setting out a newly redesigned CFC regime that is likely to be effective for accounting periods beginning on or after the date of Royal Assent to Finance Bill 2012 (subject to further consultation).

The aim of the regime is to charge UK corporation tax on profits which have been artificially diverted from the UK and realised by companies (CFCs) that are resident outside – but controlled by companies resident in – the UK. Only those business profits that have been artificially diverted (and fail to meet the so-called gateway test) will be subject to the charge (rather than the whole of the CFC's profits as under the current regime). To be taxable, such profits must meet **all three** of the following tests:

- the majority of the profits derive from activities managed by personnel in the UK
- there a substantial mismatch between the profits earned overseas and the activities carried on in the UK
- this mismatch arises from arrangements which would not have been entered into by independent companies.

There will be a separate gateway test for non-trading finance income which seeks to tax only those profits that fall within one of the following three categories:

- financing income which would meet each of the tests referred to above regarding business profits
- profits derived from funds invested directly or indirectly from the UK
- loans made by a CFC to a connected UK resident company where it is reasonable to assume that there are tax reasons for making the loan rather than a distribution.

If the profits pass through the finance income gateway, then a claim can be made to tax only 25% of those profits (so the effective tax rate suffered on them will be only 5.75% by the year 2014). The

Government is currently considering whether the taxable amount can be limited to the aggregate net borrowing costs of the UK members of the group. For example, if chargeable financing profits are £400m and UK group members have net borrowing costs of £60m this would reduce the CFC charge to apply to profits of only £60m, rather than £100m.

Where the finance profits are no more than 5% of a CFC's total trading and property income (calculated under UK tax principles) they will in general be treated in the same way as its business profits. There will be separate rules for trading finance profits earned by banks and insurance companies.

In addition, profits arising in CFCs may be exempted by reference to the characteristics of the CFC itself (entity level exemptions) which are similar to, but more generous than, current exemptions. These will include:

- a low profits exemption excluding all CFCs earning less than £500,000 of trading profits and £50,000 of investment income per annum
- an excluded territories exemption for companies resident in territories with a headline rate of more than 75% of the UK main corporation tax rate
- a temporary period exemption for companies becoming CFCs as a result of corporate acquisitions and reorganisations (not yet included in the draft legislation)
- a low profit margin exemption, excluding those CFCs with profits of no more than 10% of relevant operating expenditure (including the cost of goods to be delivered to the CFC's territory of residence but excluding intra-group expenditure).

A group will be free to focus on either the gateway test or the entity level exemptions in determining how much of its overseas subsidiaries' profits are exempt from the charge. There will also be gateway safe harbour tests but these are not yet fully formed and appear to be more complicated than the gateway and entity level tests.

PATENT BOX

Following consultation, the Government has announced enhancements to its proposed patent box regime that is due to take effect from 1 April 2013: a number of issues remain open for consultation.

The patent box is designed to tax worldwide profits of UK companies from qualifying intellectual property (IP) at a rate of 10%. This rate will be phased in over a five year period from 1 April 2013 onwards.

The patent box will apply to existing as well as new IP, and to acquired IP provided the group has further developed it or the product which incorporates it. Qualifying IP includes patents granted by the UK Intellectual Property Office, the European Patent Office, other EU Member States (with comparable examination practices) and some other protected rights.

The regime will be available in some cases to companies with rights to IP owned by another party (for example, a company with European licensing rights to a particular piece of IP owned by another group company, or company with rights to IP developed in collaboration with another company or a University).

Various forms of income and profits will be eligible. The rules for calculating eligible income are to be simplified, though some complications will remain to ensure that only profits genuinely derived from IP ownership and exploitation are taxed at the reduced rate. For example, there will be special rules to deal with patent income embedded in services and products. Similarly, profits attributable to routine activities will be excluded, based on a deemed 10% mark-up on certain defined costs.

TAX RELIEF FOR VENTURE CAPITAL INVESTMENT

A significant number of changes are included in the draft Finance Bill relating to enterprise investment schemes (EIS) and venture capital trusts (VCT). Except where otherwise stated, the changes will have effect in respect of shares issued on or after 6 April 2012.

Relaxing the connection test for EIS

An individual who is connected to a company is not entitled to EIS relief in respect of any shares issued by that company. One of the tests of connection is that the individual must not possess or be entitled to acquire more than 30% of the loan capital and issued share capital of the company.

For shares issued on or after 6 April 2012, loan capital will be disregarded such that the amended 30% test will only apply where the individual possesses or is entitled to acquire more than 30% of the ordinary share capital, issued share capital or voting power in the company issuing the shares or any of its subsidiaries.

Increase to thresholds

Subject to state aid approval, the changes summarised in the table below will be introduced.

Condition	Current limit	New limit
Max number of EIS employees	49	249
Max gross assets of EIS company	£7m before share issue, £8m after	£15m before share issue, £16m after
Max annual amount company can raise under EIS and VCT	£2m	£10m

The annual amount that an individual can invest in EIS shares and obtain the associated reliefs will increase from £500,000 to £1m.

Type of shares qualifying for relief

At present, shares issued under an EIS must not be entitled to any present or future preferential rights to dividends. Under the new rules, the shares will be able to carry preferential dividend rights providing their amount and the date that they are payable is not dependent on a decision of the company, the holder or anyone else and that the shares are not cumulative.

Refocusing the schemes

EIS or VCT relief will be denied where the relevant

share issue arose under disqualifying arrangements. An arrangement is disqualifying if:

- the main or one of the main purposes of the arrangement is to ensure that one or more persons obtain tax relief either under the EIS or VCT scheme, and
- either all or most of the monies raised by the share issue are paid to or for the benefit of a party to the arrangement, or
- in the absence of the arrangement, it would be reasonable to expect that the business would be carried on as part of another business.

These measures are therefore likely to affect those arrangements where:

- the EIS company issuing shares under the scheme is complicit in the arrangements to secure the tax relief, or
- if the EIS company had not been set up, or the share subscription monies not raised, the activities financed by the share issue would have been carried on by another party.

In addition, relief will not be available where the monies raised are used for the purposes of acquiring existing shares in another company, other than in a company that was, immediately before or after the acquisition, a 90% qualifying subsidiary. This is to exclude shares issued under management buy-outs from qualifying as that is thought to breach EU state aid guidelines. In such situations, it will be essential that the funds raised from shares subscribed for by management are used for the purposes of a qualifying activity carried on in the MBO vehicle, rather than to purchase the shares of the existing trading company (unless it becomes a qualifying 90% subsidiary).

Finally, a company which has a trade which consists substantially in the generation or export of electricity in respect of which it receives a feed-in tariff under a UK Government or similar overseas scheme will no longer qualify as an EIS company. This will apply where shares are issued on or after 6 April 2012 and also between 23 March 2011 and 6 April 2012 unless the subsidised generation or export begins before 6 April 2012. Trades carried on by community benefit

societies and Northern Irish industrial and provident societies are not affected by this change.

VCT measures

An existing rule prevents any VCT from investing more than £1m in any particular company as part of its qualifying holdings. This restriction will be removed in respect of any shares or securities issued on or after 6 April 2012 except where, at the time of the issue of the shares or securities:

- the company issuing them or any of its qualifying subsidiaries was a member of a partnership or a party to a joint venture
- the qualifying trade was carried on in partnership or by the parties to the joint venture, and
- the other partners or parties include at least one other company.

In such cases, the maximum amount that can be invested in the company is £1m divided by the number of companies who are partners or parties to the joint venture (including the company itself).

SEED ENTERPRISE INVESTMENT SCHEME

A new relief will be available to investors in small, early stage companies in respect of shares issued on or after 6 April 2012. Known as the Seed Enterprise Investment Scheme (SEIS) it will provide the following favourable tax incentives:

- income tax relief for the investor worth 50% of the amount invested
- an exemption from capital gains tax on gains on shares within a SEIS
- for 2012/13 only, an exemption from tax on gains realised from the disposal of assets in that year where the gains are reinvested through a SEIS in the same year.

Investments must be made into companies that are less than two years old and carrying on (or proposing to carry on) a new business, have fewer than 25 employees and gross assets of less than £200,000. The following conditions will also apply:

- the money raised by the SEIS must be utilised by the company within three years

- 75% of the money must be utilised before the company can raise money under an EIS or VCT
- qualifying investors must have a stake of less than 30% in the company, but directors will not be excluded provided they do not break this 30% test
- the definition of eligible shares will be the same as under the EIS rules
- the company can raise up to £150,000 under SEIS (in total, not per year).

RESEARCH AND DEVELOPMENT

A number of improvements have been proposed to simplify the R&D tax relief regime and to make it more effective. These include the introduction of an 'above the line' tax credit for all eligible companies from 1 April 2013. The Government anticipates that this will increase the visibility of the relief in company accounts, attract increased amounts of R&D to the UK and provide relief for loss making companies. It will open a new consultation at Budget 2012 on the design of the credit.

Other areas which will continue to be consulted on include:

- a reform of the rules for relief where R&D work is subcontracted to a third party
- simplifying the definition of qualifying indirect activities on which relief can be claimed.

The draft Finance Bill also includes previously announced measures to take effect from 1 April 2012 as follows:

- an increase in the rate of relief for SMEs from 200% to 225%
- the removal of Vaccine Research Relief
- the removal of the cap on R&D repayable tax credits limiting them to the total PAYE and NIC liability of the company during the year
- the removal of the £10,000 minimum annual spending requirement
- changes to the definition of an 'externally provided worker'

- a specific measure to ensure that companies in administration or liquidation are not eligible for R&D tax relief (because they are not a 'going concern').

CAPITAL ALLOWANCES CHANGES

The draft legislation on fixtures, softened considerably following consultation, outlines that from April 2012:

- Where a business or company purchases a second hand building which includes fixtures, it must make a claim for capital allowances in respect of those fixtures before they are sold on, disposed of or transferred to another person (so that a company or business cannot make a claim for assets it no longer owns).
- Within two years of the acquisition of a building, both the purchaser and the seller must agree a purchase price attributable to the fixtures which they must then notify HMRC of by way of a joint election (which is currently optional). If the parties cannot agree the attribution figures, the matter must be referred (by either party) to the Tribunal if this appears material to the tax liability of either (currently it must be material to both).

In addition, a new measure is proposed on the interaction between the fixtures rules and the business premises renovation allowances (BPRA) scheme. From April 2012, if a taxpayer sells a building on which BPRA has been claimed within seven years and, as a result, allowances claimed on expenditure on fixtures are clawed back, the purchaser will be entitled to claim capital allowances on those fixtures instead. It has also been confirmed that the current BPRA relief at 100% will continue until April 2017.

From April 2012, expenditure on solar panels will be treated as special rate expenditure for capital allowances purposes. Where such expenditure is not covered by the annual investment allowance it will only attract capital allowances at 8%. In addition, where there is expenditure on plant and machinery which is used to generate electricity and the business receives a feed-in tariff payment in respect of that expenditure (in the same year or in later years), no enhanced capital allowances (100% relief upfront) may be claimed. The same rule applies in respect of

incentives received under the renewable heat incentives scheme as a result of heat generated, or gas or fuel produced by the plant and machinery concerned. However, where this consists of a combined heat and power system, the restriction will only apply to expenditure incurred from April 2014.

The Government plans to introduce enhanced capital allowances in the following enterprise zones:

- the Black Country
- Humber
- Liverpool
- North Eastern
- Sheffield
- Tees Valley.

Businesses based in these zones will qualify for 100% capital allowances on investment in plant and machinery from April 2012 to March 2017.

REAL ESTATE INVESTMENT TRUSTS

The Government has confirmed it will be making a number of changes to make converting to REIT status much easier and more attractive from the date of Royal Assent to Finance Bill 2012. As previously proposed, these include:

- removing the current 2% conversion charge
- allowing all REITs admitted to trading on a recognised stock exchange (including AIM and PLUS exchanges or overseas) to qualify
- allowing a three year grace period for converting companies to meet the non-close company rule
- specifically exempting unit trusts, open-ended investment companies, pension schemes and insurance companies from the non-close company rule (meaning that they will be able to own REITs)
- allowing cash to be classed as a qualifying asset for the 75% 'balance of business' test
- excluding the costs of obtaining loan finance and accounting costs from the financing cost ratio (the calculation of the maximum loan interest a qualifying REIT can pay in relation to its tax exempt activities).

OTHER MEASURES

Land remediation relief, offering 150% relief on costs incurred in clearing contamination from land and buildings will not now be abolished. However, the flat conversion allowance, offering 100% relief on costs incurred in bringing flats above shops back in to residential use, is abolished from after 5 April 2013.

Amendments are being made to the distributions legislation from the date of Royal Assent to Finance Bill 2012 to ensure that the transfer of assets or liabilities at under or over value between UK resident companies can be treated as a distribution for the purposes of corporation tax in all cases. This will be a welcome clarification as such distributions are generally exempt from tax.

The Accounting Standards Board announced in October 2010 that it intends to significantly change what constitutes UK Generally Accepted Accounting Practice (GAAP) in 2012. Some of these changes will result in affected companies making one-off accounting adjustments on transition. It is proposed that such adjustments will be brought within the remit of existing tax rules which ensure that, on a change of accounting policy, income is taxed once and expenditure allowed once.

The bank levy increases from 1 January 2012: the rate will become 0.088%. It will also rise in future to ensure that tax of at least £2.5bn is raised each year.

Extra Statutory Concession (ESC) C16 currently provides for capital treatment where a company makes distributions to its shareholders in anticipation of it being struck off. This is intended to mirror the tax treatment for distributions made during a formal liquidation. Capital treatment means that the distribution is treated as the proceeds of a disposal of the underlying shares rather than as a dividend. Unless the recipient is a basic rate taxpayer, this normally results in the shareholder paying less tax on the distribution. ESC C16 will be given legislative effect for distributions made on or after 1 March 2012. Changes will also be introduced to ensure that capital treatment is only allowed where total distributions made by the company in anticipation of the striking off do not exceed £25,000.

personal tax

TAX ALLOWANCES AND BANDS

The allowance for individuals aged under 65 will be £8,105 for 2012/13 but the benefit of this increase for higher and additional rate taxpayers will be offset by a reduction in the basic rate tax band to £34,370. The annual exempt amount for capital gains made by individuals will be frozen at £10,600 for 2012/13. Other rate and allowance changes are shown from page 10 onwards.

STATUTORY RESIDENCE TEST

The legislation to introduce a statutory residence test for individuals has been delayed and will not take effect until 6 April 2013 (draft legislation is expected to be published with Budget 2012).

CHARITABLE DONATIONS

A reduced rate of inheritance tax (IHT) is to apply for deaths occurring on or after 6 April 2012 where 10% or more of a deceased's net estate (after the deduction of all IHT exemptions, reliefs and the nil rate band) is left to charity. In such cases, the current rate of 40% will be reduced to 36%.

It has been confirmed that individuals who give 'pre-eminent objects' (broadly nationally important works of art) will receive a reduction in their income tax or capital gains tax liabilities of 30% of the object's value (subject to a maximum value of £30m). The reduction can be taken in the year of the gift or allocated to that year and any of the following four tax years in any proportion that the donor chooses. Similar rules apply to companies making such gifts.

NON-UK DOMICILIARIES INVESTING IN UK

From 6 April 2012 non-UK domiciled individuals who bring or transfer (remit) foreign funds to the UK to invest in certain qualifying companies may do so without incurring UK tax charges regardless of the source of the funds remitted. Investments can either be by way of loans to, or acquisition of shares in, the company.

Qualifying companies are unlisted commercially trading companies (with at least 80% trading activities) and can

include companies that develop or let commercial properties. Companies letting residential properties will also qualify provided the letting and other non-trading activity constitutes less than 20% of the trade.

Provided that the funds are invested in a qualifying company within 45 days of entering the UK any untaxed foreign income and capital gains comprised in those funds will not be treated as remitted to the UK and, therefore, will not trigger a UK tax charge. When the investments are later disposed of (or value realised from them) the resulting funds must be sent offshore or reinvested in another qualifying company within 45 days to retain the original remittance exemption.

There are measures to allow HMRC to extend the grace period in exceptional circumstances (not defined) on disposal. However, certain disqualifying events are also defined, including where a company fails to commence a qualifying trade within two years of receiving invested funds. Where value is received as a result of a disqualifying event, the 45 day repatriation period commences on the day the investor became (or ought reasonably to have become) aware of the event.

OVERSEAS PENSION SCHEMES

A qualifying recognised overseas pension scheme (QROPS) is a pension scheme established outside the UK that is largely similar to a UK registered pension scheme. The Government is concerned that QROPS are used to bypass some of the UK rules (in particular 100% lump sums) once the pensioner has been non-UK resident for at least five tax years. Therefore, the QROPS qualifying conditions will be tightened so that schemes will no longer qualify where:

- the scheme is not recognised for tax purposes in its country of establishment
- non-residents have a relief that is not available to residents of the country of establishment.

As a result, some schemes which currently qualify as QROPS will cease to do so. Different conditions will also apply to certain New Zealand schemes.

The new rules mandate that any payment out of the transferred funds within 10 years of the transfer will have to be reported – currently, reporting is only needed when the member is UK resident or has been UK resident at any time in the previous five tax years. The regulations also expand the categories of information that HMRC may request from a QROPS and reduce the reporting time limit to 60 days.

OTHER MEASURES

From April 2012, for those non-UK domiciliaries that have been UK resident for at least twelve of the

preceding fourteen tax years, the remittance basis charge will be increased to £50,000 a year.

Individuals, trustees and the personal representatives of deceased persons will not suffer tax on capital gains made on withdrawing funds from foreign currency bank accounts after 5 April 2012.

The 2013 Champions League final will take place in the UK but employees and contractors of an overseas football team taking part will not be liable to UK tax on their earnings in connection with the final.

indirect tax

COST SHARING EXEMPTION

Charities and other VAT exempt organisations will benefit from a new exemption for services shared between them which should allow such organisations to generate substantial cost savings. EU law already allows 'non-taxable' organisations, such as charities and exempt businesses, to save VAT by forming associations to share costs – similar arrangements will finally be allowed in the UK from April 2012.

The exemption exists to mitigate the VAT costs where a small or medium-sized entity, which undertakes non-taxable activities, buys in services that larger organisations would carry out in-house (such as IT, accountancy and legal services). The exemption envisages smaller organisations clubbing together to form an association to buy in or provide these services to its members. The association then shares the cost of the services to its member organisations, without having to charge VAT on these recharges.

MACHINE GAMES DUTY

Businesses in the leisure sector will need to consider the impact on their business of Machine Games Duty (MGD), which will be introduced on 1 February 2013. MGD will be charged on the net takings from dutiable machines, and will replace both Amusement Machine Licence Duty (AML) and VAT. The rate of MGD is yet to be announced, although there are to be two rates; a standard rate, and a lower rate for machines

with lower levels of stakes and prizes. Transitional measures will be introduced for the withdrawal of AML, which will have effect from when Finance Bill 2012 receives Royal Assent. MGD will have a significant impact on the amount of VAT that businesses will be able to reclaim as many will become 'partly exempt' for the first time.

OTHER MEASURES

The low value consignment relief from VAT for goods costing up to £15 imported from non-EU territories will be removed from 1 April 2012.

The current rates of air passenger duty will be extended to flights in business jets from 1 April 2013.

The 3.02 pence per litre fuel duty increase due to take effect on 1 January 2012 is deferred to 1 August 2012.

The current relief from stamp duty land tax for first time buyers (on property purchases up to £250,000) will end on 24 March 2012 as planned. However, the relief for the purchase of residential property in disadvantaged areas will remain for purchases made before 6 April 2013 (when it will be abolished).

Companies participating in climate change agreements will be able to claim a climate change levy discount on electricity of 90% from 1 April 2013.

anti-avoidance

CAPITAL ALLOWANCES

New rules will apply to relevant transactions between connected persons, transactions where the sole or main expected benefit is the obtaining of capital allowances and to sale and lease back arrangements. A relevant transaction is the sale of plant or machinery, a hire purchase or assignment of a hire purchase, or similar arrangement. These rules provide for:

- a restriction on the expenditure on which allowances may be claimed to the lower of market value, the original purchase cost to the seller, or the original purchase cost to a person connected with the seller, and
- an exclusion of that expenditure from annual investment and first year allowances.

The sole or main benefit test for transactions between unconnected persons will be replaced with a main purpose test. Following representations, this test has been modified to ensure that it only catches transactions or arrangements that involve avoidance. The legislation will also be amended to clarify the meaning of an assignment of a hire purchase or similar arrangement to ensure that a novation of such a contract would be caught.

A new definition of market value for the purposes of restricting expenditure eligible for allowances under these rules had previously been proposed. This change will no longer be implemented. However, where the asset in question is acquired in a transaction to obtain tax advantages, eligible expenditure will be limited in a way that cancels out the tax advantage sought (by restricting the amount of allowances, their timing, or both).

An exception to these rules exists where (unused) plant or machinery is bought from a manufacturer or supplier of plant or machinery in the ordinary course of its (the supplier's) business. The Government perceived that this exception was being abused and so, with effect from 12 August 2011, this exception cannot be used to make any related expenditure eligible for the annual investment or first year allowances. However, from April 2012, the exception can again be used, but not in respect of transactions with an avoidance purpose.

ASSET-BACKED PENSION CONTRIBUTIONS

Asset-backed pension contributions (ABPCs) have in recent years helped large employers with defined benefit pension schemes tackle large scheme deficits without damaging short term cash flow. A typical arrangement involves the company committing to a stream of cash payments to the pension fund over a set period guaranteed with security over an asset currently in its fixed asset portfolio. More complex structures involving transfer of the property have also been developed where the company claims tax relief upfront for the value of the transferred property and again for the actual rental payments.

The Government has published legislation aimed at restricting the tax relief (from 29 November 2011 onwards) for employers to the fair value of the asset received by the pension scheme. Relief on new payments into existing arrangements will also be blocked so, for all arrangements ending on or after 29 November 2011, tax relief will be restricted to the total cash payments made by the company to the pension scheme.

rate and allowance changes

INCOME TAX

Main personal reliefs	2011/12	2012/13
Personal allowance		
Basic ¹	£7,475	£8,105
Income limit for personal allowance	£100,000	£100,000
Age 65-74 ^{1 2}	£9,940	£10,500
Age 75 ^{1 2}	£10,090	£10,660
Married couple's allowance ^{2 3}	£7,295	£7,705
Age allowance income limit	£24,000	£25,400
Blind person	£1,980	£2,100

Notes: ¹ From 2010/11 the personal allowance reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age. For 2012/13, once income reaches £116,210 the personal allowance is reduced to nil.

² These allowances reduce where income is above the age related income limit – by £1 for every £2 of income above the limit. Previously, it was never less than the basic personal allowance or minimum amount of married couple's allowance. However, from 2010/11, the personal allowance for people aged 65 and over will be reduced below the basic personal allowance where the income is above £100,000.

³ Tax relief for married couple's allowance is given at 10% only where either spouse was born before 6 April 1935. This is also the maximum relief for maintenance payments where at least one of the parties was born before 6 April 1935.

Rates	2011/12		2012/13	
	Taxable income	Tax on band	Taxable income	Tax on band
10% *	£0-2,560	£256	£0-2,710	£271
20%	£0-35,000	£7,000	£0-34,370	£6,874
40%	£35,001-£150,000	£46,000	£34,371-£150,000	£46,252
50%	Over £150,000	Excess	Over £150,000	Excess

Notes: * 10% starting rate for savings income only. If non-savings income is above this limit then the 10% starting rate for savings will not apply. The rates applicable to dividends are the 10% ordinary rate, the 32.5% dividend upper rate, and the dividend additional rate of 42.5%.

Company car benefits-in-kind												
	Zero emission cars	CO ₂ emissions in grams per kilometre ^{1 2}										
		Up to 75	99	100	110	120	125	130	150	180	220	230+
2011/12	0%	5%	10%	10%	10%	10%	15%	16%	20%	26%	34%	35%
2012/13 to 2014/15	0%	5%	10%	11%	13%	15%	16%	17%	21%	27%	35%	35%

Notes: ¹ For each 5 grams per kilometre above 125 (2011/12) or 100 (2012/13) grams per kilometre increase % by 1%.

² 3% supplement if car runs solely on diesel (subject to maximum of 35%).

Reliefs and incentives annual limits	2011/12	2012/13
Enterprise Investment Scheme ¹	£500,000	£1m
Venture Capital Trust ¹	£200,000	£200,000
Individual Savings Accounts		
Total overall investment / stocks & shares mini ISA limit	£10,680	£11,280
Cash-only mini ISA	£5,340	£5,640
Gift Aid and Payroll Giving scheme	no limit	no limit

Notes: ¹ Tax relief restricted to 30% for investor.

CAPITAL GAINS TAX

Annual exemption	2011/12	2012/13
Individuals	£10,600	£10,600
Trusts ^{1 2}	£5,300	£5,300

Notes: ¹ Trusts for the disabled have the full individual exemption.

² The annual exemption is divided by the number of trusts set up since 6 June 1978, up to a maximum of 10.

PENSION CONTRIBUTIONS

Maximum contribution	2011/12	2012/13
Individual – 100% of annual relevant earnings up to a maximum of	£50,000 ^{5 6}	£50,000 ⁶
Employer – unlimited, but triggers a charge on individual if 'total pension inputs' ^{1 2} exceed	£50,000 ^{5 6}	£50,000 ⁶
Individual's lifetime allowance ^{2 3}	£1,800,000	£1,500,000 ⁴

Notes: ¹ Total pension inputs include both individual's contributions and employer's contributions.

² Statutory formulae are used to calculate deemed pension inputs and fund value for individuals who are members of occupational schemes.

³ If an individual's fund exceeds the lifetime allowance at the time benefits are drawn, the excess will be subject to a tax charge at an effective rate of up to 55%.

⁴ A 'fixed protection' option will be available to those not already protected but an election must be made before 6 April 2012.

⁵ This limit applies from 14 October 2010 for pension input periods that straddle both 14 October 2010 and 5 April 2011.

⁶ When pension contributions in the three prior tax years have been less than £50,000 in a year, it is possible to carry forward this unused relief to allow contributions of more than £50,000 to be made without incurring a tax charge.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 – Not contracted-out 2012/13		
Monthly pay ¹	Employee ²	Employer ³
Up to £624 (LEL)	Nil	Nil
£624 (ST) - £633 (PT)	Nil ⁴	13.8%
£633 (ST) - ££3,541 (UEL)	12%	13.8%
Over £3,541	2%	13.8%

Notes: ¹ The limits are defined as LEL – lower earnings limit; PT – primary threshold; ST – secondary threshold and UEL – upper earnings limit.

² The contracted-out rebate for primary contributions in 2012-13 is 1.4% of earnings between the LEL and the upper accrual point (UAP) of £770 for contracted-out salary-related schemes (COSRS). Contracting out for money purchase schemes (COMPS) will be abolished on 5 April 2012.

³ The contracted-out rebate for secondary contributions is 3.4% of earnings between the LEL and UAP for COSRS.

⁴ No NICs are actually payable but a notional Class 1 NIC is deemed to have been paid in respect of earnings between LEL and PT to protect contributory benefit entitlement.

NATIONAL INSURANCE CONTRIBUTIONS

Class 2 - self-employed	
2011/12	2012/13
£2.50 per week, where earnings are £5,315 per annum and over	£2.65 per week, where earnings are £5,595 per annum and over

Class 3 - voluntary	
2011/12	2012/13
£12.60 per week	£13.25 per week

Class 4 - profits per annum			
2011/12		2012/13	
£7,225-£42,475	9%	£7,605-£42,475	9%
Over £42,475	2%	Over £42,475	2%

CORPORATION TAX

	From April 2011	From April 2012
Small companies' rate (SCR)	20%	20%
SCR limit	£300,000	£300,000
SCR marginal rate limit	£1,500,000	£1,500,000
Fraction in SCR marginal rate band	3/200	1/80
Marginal rate	27.5%	26.25%
Full rate	26%	25%

Note: The main rate of corporation tax will be reduced to 24% in 2013-14 and 23% in 2014-15.

LANDFILL TAX

	From 1 April 2011	From 1 April 2012
Active waste per tonne	£56	£64
Inert waste per tonne	£2.50	£2.50

AIR PASSENGER DUTY RATES

Band and approximate journey in miles from the UK:	In the lowest class of travel (reduced rate) from:		In other than the lowest class of travel (standard rate) from:	
	1 Nov 2010	1 April 2012	1 Nov 2010	1 April 2012
Band A (0-2000)	£12	£13	£24	£26
Band B (2001-4000)	£60	£65	£120	£130
Band C (4001-6000)	£75	£81	£150	£162
Band D (over 6000)	£85	£92	£170	£184

CAPITAL ALLOWANCES

Allowance	From April 2010	From April 2012	Notes
Annual investment allowance – available to all businesses for general plant and machinery and integral features (not cars).	100% on first £100,000 of costs.	100% on first £25,000 of costs	Annual limit is pro-rated for periods straddling April 2012.
General plant and machinery	20% ¹	18% ^{1 4}	Hybrid rates for existing pools where period straddles April.
Short life assets – for assets with an expected useful life of less than 4 years – extended to 8 years for assets bought after 1 April 2011.	20% ¹	18% ^{1 4}	Balancing allowances can be claimed where assets disposed of within time limits – giving relief on full value by disposal date.
Long life assets ²	10% ¹	8% ¹	Long life assets and integral features are combined in one pool.
Integral features ² – includes: lifts; escalators; central heating systems; air conditioning systems; electrical lighting; power and water systems.	10% ¹	8% ¹	Hybrid rates for existing pools where period straddles April.
Industrial/agricultural buildings allowances	1% to 5 April 2011 Second hand fraction ¼	Nil since 6 April 2011	Abolished from April 2011. Apportioned for accounting periods straddling April 2011.
Energy and water-efficient plant and machinery ³	100%	100%	Claim in preference to AIA to preserve the AIA.
Cars with low CO ₂ emissions	100%	100%	Cars emitting no more than 110g/km
Other business cars	CO ₂ emissions <160g/km 20% CO ₂ emissions >160g/km 10%	No change announced to date.	Old rules continue for 5 years for cars purchased before April 2009.
Goods vehicle making zero CO ₂ emissions when driven	100%	100%	Continues until 31 March 2015.

¹ Where annual expenditure exceeds the annual investment allowance limit.

² Long-life assets and IFs are combined in one pool.

³ These take precedence over AIA and do not use up the annual limit.

⁴ 100% first year allowances available in certain enterprise zones.

For more information on any of the issues covered
please get in touch with your usual PKF contact.

PKF (UK) LLP

Alton
01420 566800

Birmingham
0121 212 2222

Bristol
0117 9100 700

Cardiff
029 2064 6200

Derby
01332 372936

Edinburgh
0131 347 0347

Glasgow
0141 429 5900

Great Yarmouth
01493 382500

Guildford
01483 564646

Ipswich
01473 320700

Lancaster
01524 383 954

Leeds
0113 228 0000

Leicester
0116 250 4400

Lincoln
01522 531441

Liverpool
0151 237 4500

London
020 7065 0000

Manchester
0161 832 5481

Northampton
01604 634 843

Norwich
01603 615 914

Nottingham
0115 960 8171

Sheffield
0114 276 7991

St Asaph
01745 585345

ASSOCIATED FIRMS

Dublin
PKF O'Connor, Leddy
and Holmes
00 353 1 496 1444

Guernsey
PKF (Chanel Islands)
Limited
01481 727927

Isle of Man
PKF (Isle of Man) LLC
01624 652000

OR VISIT US ON-LINE AT WWW.PKF.CO.UK

This document has been prepared as a general guide. It is not a substitute for professional advice. Neither PKF (UK) LLP nor its partners or employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document.

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487. A list of members is available at Farringdon Place, 20 Farringdon Road, London, EC1M 3AP, the registered office. Certain of the services described in this document may be provided through PKF Financial Planning Limited. Both PKF (UK) LLP and PKF Financial Planning Limited are authorised and regulated by the Financial Services Authority for investment business and insurance mediation activities.

PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

PKF (UK) LLP operates a code of conduct to ensure that all types of data are managed in a way which complies with the Data Protection Act 1998. If you do not wish to be informed about the services we offer and forthcoming events, please contact your local office. All rights reserved. © PKF 2011. All rights reserved.