



Budget Alert – March 23, 2011

Message from Richard Brooks
Head of Tax - Global Trust

From George Osborne's second Budget as Chancellor, a number of key themes have emerged. It would appear that the main desire of the Coalition government is to make the UK more attractive to businesses and entrepreneurs by establishing a low and more equitable tax system. This is in contrast to what was perceived by many as a high tax environment under the previous Labour government which may have acted as a disincentive to investment and the creation of jobs and greater wealth.

The expected changes to the non-domiciled tax system have been realised. The Chancellor has increased the remittance basis charge from £30,000 to £50,000 for non-domiciled individuals who have been resident in the UK for twelve years or more. Mr Osborne has announced there will be a simplification of the complex remittance rules for Income Tax and Capital Gains Tax and an exemption from tax for remittances to the UK which are used to invest in UK businesses. He also clearly stated that there would be no further changes to the non-domiciled rules in this Parliament and that he also indicated that he valued non-domiciliaries in the UK. Finally, he stated that the 50% personal Income Tax rate was temporary and would be reduced at an appropriate time.

There was also welcome news that a proper statutory residence test is to be introduced to determine whether an individual is tax resident in the UK as this is an area that has been very unclear for years.

The Chancellor emphasised the Government's commitment to curtailing tax avoidance and highlighted particularly the issue in relation to disguised remuneration. This will have effects on Employee Benefit Trusts and certain pension arrangements. Stamp Duty avoidance schemes were also highlighted as an area where new legislation will be introduced.

This Budget is again long and complex but it looks fair and well considered and clearly designed to signal the intention to re-establish the UK as a top international business location. This is demonstrated clearly by the changes to reduction in Corporation Tax and the Controlled Foreign Company (CFC) tax regime.

As tax advisers, we began to be concerned when Mr Osborne announced that forty three tax exemptions would be abolished, but our anxieties were allayed when on further scrutiny the Budget documentation revealed them to be obscure and largely irrelevant. I am sure no one will miss the exemption from Income Tax for an employee provided lunch where the employee has cycled into work that day.

My conclusion is that this was a good and well thought out Budget which will improve the international standing of the UK whilst being fair and certain to its tax-paying citizens.

Richard Brooks
Head of Tax

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Review of non-domicile taxation

The Government confirmed in the June 2010 Budget that it would review the taxation of non-domiciled individuals. The current rules can act as a disincentive to inward investment. The Government will therefore introduce the following reforms:

- Remove the tax charge when non-domiciled individuals 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-domiciled individuals to remove undue administrative burdens; and
- Increase the current £30,000 annual charge to £50,000 for non-domiciled individuals who have been UK resident for 12 or more years and who wish to be taxed on 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 and will issue a consultation document in June 2011. 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.

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 2011 and intends to implement the measure from April 2012.

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.

CPI indexation of National Insurance contribution rates, limits and thresholds

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 Prices Index instead of the Retail Prices Index:

- the class 1 lower earnings limit
- the class 1 primary threshold
- the rate of class 2 NICs payable by the self employed
- the class 2 small earnings exception
- the rate of class 3 NICs payable by those wishing to fill gaps in their contribution record; and
- the class 4 lower profits limit, which is the level of profits at which the self employed begin to pay class 4 NICs.

The annual levels of the class 1 upper earnings limit and the class 4 upper profits limit will continue to be aligned with the income tax higher rate threshold.

CPI indexation: Annual ISA subscription limit

From 2012/13, the annual ISA subscription limit will be increased on an annual basis by reference to the Consumer Prices Index instead of the Retail Prices Index.

The Consumer Prices Index 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 Consumer Prices Index is negative, the limit will remain unchanged.

CPI indexation: Capital Gains Tax annual exempt amount

Legislation will be introduced in Finance Bill 2012 to provide that the capital gains tax annual exempt amount will rise in line with the Consumer Prices Index instead of the Retail Prices Index. Parliament will still be entitled to override automatic indexation and set a different figure. This change will apply for 2012/13 and subsequent years.

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 of the amount subscribed for shares with effect from April 6, 2011, subject to State Aid Approval.

The increase in the rate of EIS income tax relief will have effect for shares issued on or after April 6, 2011. The aim of this measure is to help smaller, riskier UK companies to compete for finance.

Wider changes to EIS and Venture Capital Trusts (VCT) are planned for Finance Bill 2012.

Subject to State Aid Approval, legislation will be introduced in Finance Bill 2012 making the following changes to the EIS and VCT which will have effect on and after April 6, 2012:

- an increase in the thresholds for the size of qualifying company for both EIS and
- VCTs to fewer than 250 employees (currently fewer than 50 employees) and to the company having no more than £15 million of gross assets before the
- investment (currently no more than £7 million);
- an increase in the maximum annual amount that can be invested through both EIS and VCTs in an individual company to £10 million (currently £2 million); and
- an increase in the annual amount that an individual can invest through EIS from £500,000 to £1 million

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 April 6, 2012. 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. Shares issued before March 23, 2011 will not be affected.

Entrepreneurs' Relief: Increase in the Lifetime Limit

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 for qualifying disposals on or after April 6, 2011.

Subject to satisfying certain conditions, gains on qualifying business disposals by individuals and certain trustees are eligible for entrepreneurs' relief, which reduces the rate of Capital Gains Tax on the qualifying gains to 10 per cent.

- Entrepreneurs' relief was introduced in April 2008.
- The amount of an individual's gains that can qualify for the relief is subject to a lifetime limit.
- The lifetime limit was originally £1 million. This was subsequently increased to £2 million for qualifying disposals on or after April 6, 2010 and to £5 million for qualifying disposals on or after June 23, 2010.

- The lifetime limit 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 Capital Gains Tax at the same rates as other chargeable gains (18 per cent and 28 per cent).
- For trustees, the lifetime limit is that of the beneficiary of the settlement who meets the conditions for the trustees to claim the relief.
- Where individuals or trustees make qualifying gains above the prevailing limit before April 6, 2011, no additional relief will be allowed for the excess. But if they make further qualifying gains on or after April 6, 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.

Income Tax personal allowances for those aged under 65 for 2012/13

The personal allowance for those aged under 65 will increase from £7,475 to £8,105. This increase is the next step towards the Government's long term commitment to increase the personal allowance to £10,000.

There will be a corresponding reduction in the basic rate limit from £35,000 to £34,370.

Inheritance Tax

Allowance and reduced rate

The inheritance tax (IHT) nil rate band remains frozen at £325,000 until April 2015.

The Government has also announced that a reduced rate of IHT will apply where 10% or more of a deceased's net estate (after all deductions) is left to charity. The new rate of 36% will apply where death occurs on or after April 6, 2012. The Government will issue a consultation document on the detailed implementation of this proposal before the summer

Furnished holiday lettings

Legislation will be introduced in the Finance Bill 2011 to revise the tax rules for furnished holiday lettings 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 furnished holiday letting business.
- UK losses can relieve UK furnished holiday letting income only. A similar treatment will apply to EEA losses.

- From April 2012, to qualify in a year a property must be available to be let for at least 210 days and actually let for at least 105 days.
- Businesses meeting this threshold in one year may elect to be treated as having met it in the following two 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.

Single payment scheme and Capital Gains Tax rollover relief

Assets chargeable to capital gains tax include rights such as entitlements to payments under the EU single payments scheme. Business asset rollover relief defers capital gains tax when proceeds from disposing of old qualifying assets are reinvested in new qualifying assets. Qualifying assets currently include single payment scheme entitlements under a 2003 EU directive which was abolished in 2009.

Legislation will be introduced to restore the availability of capital gains rollover relief for entitlement to payments under the single payments scheme. The legislation will revise the list of qualifying assets to ensure that, whatever EU directive they fall under, single payment scheme entitlements will continue to be eligible for rollover relief.

Self Assessment (SA) donate

SA donate was introduced in 2005 and enabled self assessment taxpayers who were due a repayment of tax from HMRC to donate the repayment to a charity of their choice and to also apply Gift Aid to the donation. SA donate has not been well used and is to be withdrawn in relation to repayments of tax in respect of tax returns for 2011/12 onwards and also for tax returns for years up to and including 2010/11 where the repayment is made on or after April 6, 2012.

The resources saved by withdrawing SA donate will be used to support an online claims system for Gift Aid.

Gift Aid benefit limits

The maximum value of the benefits that individuals and companies may receive as a result of making a donation to charity of more than £10,000 under Gift Aid is to be increased from £500 to £2,500. The new limit will be subject to the existing rule that the benefit must not exceed five per cent of the gift.

This measure is intended to encourage people to give more to charity. It will also enable charities to thank their larger donors in a more generous way without the donations being disqualified from Gift Aid.

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

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.

Junior Individual Savings Accounts

Individual Savings Accounts (ISAs) are currently available to individuals aged 18 or over who are resident and ordinarily resident in the UK. For 2010/11 it is possible to invest up to £10,200 a year in an ISA (of which £5,100 can be cash). From April 6, 2011 these limits will be increased in line with the annual percentage increase in the Retail Price Index. Currently, up to £5,100 a year can be invested in cash ISAs (but not stocks and shares ISAs) by those who are 16 or over at the end of the tax year but under 18. ISAs are free of income tax and capital gains tax.

On October 26, 2010 the Government announced that it would introduce a new tax-advantaged account for saving for children, to be known as a Junior Individual Savings Account (Junior ISA). Legislation to provide for the Junior ISA will be introduced in Finance Bill 2011.

- It is expected that Junior ISAs will be available from autumn 2011 for any UK resident child under the age of 18 who does not currently hold a Child Trust Fund (CTF). This follows the government's ending of eligibility for the CTF from January 3, 2011.
- Junior ISAs will be free of tax and will have many features in common with existing ISA products. They will be available as a cash or stocks and shares product.
- Draft legislation to be published on March 31, 2011 alongside the Finance Bill 2011 will set out the proposed account features and processes for Junior ISAs.

Junior ISAs will be designed so that they can be offered as a Sharia Compliant product.

Corporation Tax

Corporation Tax Main Rate

The June 2010 Budget announced four annual 1% drops in the Corporation Tax main rate from 28% for the Financial Year beginning April 1, 2010 to 24% for the Financial Year beginning April 1, 2014.

In today's Budget it was announced the Corporation Tax main rate for the Financial Year beginning April 1, 2011 would drop by 2% to 26 % to be followed by three further 1% cuts to 23% for the Financial Year beginning April 1, 2014.

This will affect 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 the £1.5 million who pay tax at the main rate.

The reduction in the Corporation Tax main rate for the Financial Year 2011 will have effect from April 1, 2011.

Corporation Tax small profits rate

In today's Budget it was also announced that there would be a reduction in the small profits rate of Corporation Tax from 21% to 20% for the Financial Year beginning April 1, 2011.

This will affect incorporated businesses which have profits between £0 and £300,000.

The reduction in the small profits rate for the Financial Year 2011 will have effect from April 1, 2011.

Reform of associated company rules as they apply to the small profits rate of Corporation Tax

Today's budget proposed legislation to simplify the Corporation Tax small profits rate.

The measure will ensure that companies are not held to be associated, thus lowering the profit threshold at which they fall within the main rate of Corporation Tax, by mere accident of circumstance but only where the level of commercial interdependence between the companies makes it appropriate to do so. The reform of the rules is to take effect from April 1, 2011.

Consultation on developing Corporation Taxation to Northern Ireland

The UK Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and will shortly

publish a consultation paper, on March 24, 2011, including looking at mechanisms for developing the rate of Corporation Tax to the Northern Ireland Executive.

Capital Allowances

Writing Down Allowances

As announced in the June 2010 Budget the rate of writing down allowance will be reduced to 18% with effect from April 2012.

Short Life Assets

Currently businesses investing in certain plant and machinery can elect for those assets to be treated as Short Life assets. This effectively allows the expenditure incurred on the assets to be written off over a period of four years. The current four year period is being increased to eight years and will have effect from:

- April 1, 2011 for businesses who are liable to Corporation Tax
- April 6, 2011 for businesses who are liable to Income Tax

Research and Development – SMEs

Tax relief in respect of qualifying R&D expenditure given to SMEs (small or medium sized enterprises) is to be increased from 175% to 200% with effect from April 1, 2011.

Subject to State Aid approval further legislation is proposed in the Finance Bill 2012 to increase the tax relief by a further 25% to a maximum of 225%. Other proposed revisions are to simplify the rules for claiming R&D credits including:

- abolishing the rule limiting SME's R&D tax credit to the amount of PAYE and NIC paid by the company
- abolishing the £10,000 minimum expenditure condition
- changes will be made to the rules regarding the tax relief given for work carried out by subcontractors under the large company scheme.
- Vaccine Research Relief will be reduced to 20% from April 2011 and will not be available for SMEs from April 2012

Annual Investment Allowance

The annual investment allowance is being reduced from £100,000 to £25,000 with effect from April 2012.

Enterprise Zones

21 new Enterprise Zones are proposed by the Government. It will consider, in a limited number of cases, the scope for introducing enhanced capital allowances to support Enterprise Zones in certain areas, particularly where there is a strong focus on high value manufacturing.

Controlled Foreign Companies

Interim CFC reform

An exemption will apply for certain intra group trading transactions where there is little connection with the UK, including CFCs with a main business of intellectual property exploitation.

A statutory exemption will be introduced 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.

An alternative to the current de minimis exemption will be introduced, 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.

These changes will potentially affect any UK company with overseas subsidiaries, and will have effect for accounting periods beginning on or after January 1, 2011.

In addition, the current transitional rules for superior and non-local holding companies will be extended until July 2012.

It is intended that these changes will benefit UK corporate groups by making the CFC regime easier to operate and more competitive in the global marketplace.

Full CFC reform

The Government proposes to introduce further measures in Finance Bill 2012 which will further reform the regime.

The system will be mainly entity based and will operate by bringing into charge only the proportion of overseas profits that have been artificially diverted from the UK.

The new rules will also include a finance company partial exemption that will result in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements. The rate will therefore be 5.75% by 2014.

Taxation of foreign branches

New legislation will allow a company to make an irrevocable election for all its foreign branches to be exempt from UK Corporation Tax on their profits.

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.

There will be certain restrictions to these exemptions to prevent abuse. Not all life insurance, air transport and shipping businesses will be eligible.

These changes will affect UK businesses operating outside the UK through foreign branches and are designed to improve alignment in tax treatment of foreign branches and subsidiaries ensuring that there is no competitive disadvantage to companies that use a branch structure.

Bank Levy

The Government announced the introduction of the Levy in the June 2010 Budget. The purpose of the Levy was to ensure that banks should make a fair contribution in proportion to the level of risks they pose to the financial system.

The Levy is based on the balance sheet of UK banks and building societies and the UK subsidiaries of foreign banks. On February 8, 2011 the Government announced 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.

In today's Budget it was announced there will be a further increase in the rates of the Levy with effect from January 1, 2012.

The increase in the rate from 2012 will be used to offset the reduction in the Corporation Tax rate announced in today's Budget.

OECD Transfer Pricing Guidelines

The OECD approved in July 2010 publication of the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

The change to the definition means that UK legislation will reflect the recently updated version of these guidelines. This provides certainty for business and ensures any potential for double taxation is minimised.

It was proposed after an extensive period of consultation that the measure would have effect for accounting periods beginning on or after April 1, 2011 and, for Income Tax purposes, for the tax year 2011/12 and subsequent years.

Today's Budget confirmed that these measures would still go ahead.

Disguised Remuneration

On December 9, 2010 the Government published a draft Schedule to enact the Disguised Remuneration legislation as a consultation document.

At the end of the consultation period, the Government published a series of Frequently Asked Questions addressing some of the concerns of respondents that the legislation was too wide and inadvertently caught arrangements outside the scope of the policy intentions.

Amended legislation will be issued on March 31, 2011.

The charge will apply where employees (including ex-employees) receive payments or loans from the trustees or the provision of assets.

The charge will be based on the full value of the sum of money provided to the employee, which will include the face value of a loan or the higher of cost and market value of an asset provided. The amount conferred will be treated as a payment of employment income and the employer will be required to account for PAYE.

The legislation will have effect on and after April 6, 2011 and applies to rewards which are earmarked for an employee or otherwise made available on and after that date.

Anti-forestalling provisions apply to certain payment of sums including loans and the provision of readily convertible assets between December 9, 2010 and April 5, 2011.

The anti-forestalling charge will arise on April 6, 2012 if sums have not been repaid or assets returned by that date.

Regulations will shortly be brought in to apply NIC to amounts chargeable to tax under these measures.

Anti-Avoidance Measures

Tax treaties

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 (including individuals, trustees and companies) who use tax avoidance schemes and overseas residents who enter into arrangements to improperly use the UK's double taxation treaties. The draft clauses are expected to be published in the autumn.

Disclosure of tax avoidance schemes

A package of five measures improving the disclosure of tax avoidance schemes (DOTAS) regime took effect on January 1, 2011. The package included refinements to remove known loopholes and the Government intends to

implement further changes to the descriptions of schemes which must be disclosed in 2011/12. These further changes will primarily target:

- 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 disclosure scheme will also be extended to include IHT, as it applies to transfers of property into trust, with effect from April 6, 2011. In relation to this, we are still waiting for HMRC to publish a list of known schemes and arrangements which will not require disclosure as they are covered by the 'grandfathering' rule in Regulation 2 of the IHT DOTAS. We do not yet know the full extent of these changes to IHT planning.

Response to the Office of Tax Simplification (OTS) review of IR35

The Government has considered the three options on IR35 set out in the OTS's report on its review of small businesses published on March 10, 2011. The Government has decided to retain IR35 as it receives substantial tax revenue from these anti-avoidance provisions and instead to achieve simplification by making improvements to the way in which the provisions are administered

Loan Relationship and Derivative Contracts

Disregard Regulations

Secondary legislation is proposed to assist companies who have exposure to exchange rate fluctuations which are subject to corporation tax under loan relationship rules.

It is intended that the tax charges relating to any currency changes will align with the economic objective of the company, rather than being assessed under generally accepted accounting principles.

The aim of the secondary legislation is to improve the competitiveness of the UK tax system.

Review of HMRC powers, deterrents and safeguards security

PAYE and National Insurance contributions

Draft Finance Bill 2011 clauses were published for consultation on December 9, 2010. These clauses provide HMRC with the power to make regulations enabling them to require a security from employers for PAYE and NIC that is seriously at risk of non-payment. A response document in relation to the consultation will be published on March 31, 2011.

Mutual Assistance Recovery Directive

Information Exchange

Legislation is to be introduced in Finance Bill 2011 to enable the UK to implement the Mutual Assistance Recovery Directive as agreed by European Union finance ministers in March 2010.

The Directive enables member states to provide each other with assistance in the recovery of tax debts and duties. This includes exchanging information in connection with the recovery of claims.

The legislation implementing the Directive must be published before December 31, 2011 and the Directive becomes fully applicable on January 1, 2012.

Preventing Avoidance

Corporate Gains Degrouping Charge

The proposed legislation targets companies seeking to avoid corporation tax on capital gains using complex arrangements whereby assets are transferred between associated companies within a group, and then the companies cease to be part of that group.

The aim of the revised legislation is to ensure that the degrouping charge is levied at some point even where companies have added artificial steps to try to avoid the degrouping charge.

The revised legislation takes effect from March 23, 2011 and has not been subject to consultation.

Stamp Duty Land Tax (SDLT)

It is proposed that draft legislation will be included in Finance Bill 2011 to ensure that certain SDLT avoidance schemes are ineffective. There are three main schemes that are being targeted; two schemes that use legislation that was originally enacted to enable Muslims to purchase property under Sharia law using alternative finance and the third scheme involves the level of chargeable consideration for SDLT purposes where a major interest in land is exchanged for another interest in land.

The legislative changes proposed are not intended to prevent the purchase of property by those seeking to be compliant with Sharia law. Only those who are seeking to avoid paying SDLT are targeted.

The changes proposed will take effect from March 24, 2011 to prevent a window of planning opportunity arising. Transactions which were entered into before this date may be subject to different rules.

Sale of Lessor Companies

A lessor company is one which carries on the business of leasing plant or machinery. The sale of lessor company charge legislation aims to ensure that the full amount of the profits of a leasing business is brought into charge to tax over the lifetime of the leases. This charge is levied on the sale or transfer of a lessor business.

In December 2009, the Government brought in legislation that enabled lessor companies to elect out of the charge on sale or transfer. This has resulted in certain companies trying to avoid corporation tax.

The legislation is therefore to be revised to ensure that the original legislation takes effect as it was intended. Furthermore, the Government has withdrawn the option to elect for the sale of lessor company charge not to be applied. The changes are to take effect where there is a sale or transfer of a business after March 23, 2011.

Real Estate Investment Trusts (REITs)

The Government has announced it will commence an informal consultation with the industry and the representative body on the REITs legislation to reduce the barriers to entry and investment and to reduce the regulatory burden for existing and future REITs.

The consultation will seek views on various matters including, abolishing the conversion charge for companies joining the REIT regime, allowing cash to be a "good" asset for the purposes of the REIT balance of business asset test and redefining "financing costs" for the REIT interest cover test to give certainty regarding this requirement.

The proposed legislation will be included in Finance Bill 2012.

VAT: Low Value Consignment Relief (LVCR)

As speculated in the Jersey Evening Post recently the UK Government has taken this year's Budget as an opportunity to look at the current relief. With effect from November 1, 2011 the LVCR threshold, below which goods imported from outside the EU are VAT-free, will be reduced from £18 to £15.

Perhaps of more concern however the Government have also announced that they will 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. Jersey will need to watch developments.

The UK Government will return to the issue of the appropriate level of the LVCR threshold in the 2012 Budget if discussions with the European Commission do not produce a workable solution to the problem.

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We have a number of specialist directors and senior managers dealing with taxation who would be happy to assist you. In the first instance, please contact:

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UK Tax Tables 2011 / 2012

Income Tax Reliefs

| | Principal Reliefs £ |
|--|------------------------|
| Persons under age 65 | |
| Personal allowance | 7,475 |
| Persons aged 65 to 74 | |
| Personal allowance | 9,940 |
| Persons aged 75 and over | |
| Personal allowance | 10,090 |
| Married couple's allowance* | 7,295 |
| Married couple's allowance* - minimum amount | 2,800 |
| Income limit for age-related allowance | 24,000 |
| <i>* relief is restricted to 10% of figure quoted</i> | |
| <i>Personal allowances are abated by £1 for every £2 of income over £100,000</i> | |
| Other Reliefs | |
| Blind person | 1,980 |

Pension Contributions

| | £ |
|--|-----------|
| Maximum annual contribution | |
| Individual – 100% of relevant earnings up to a maximum of ¹ | 50,000 |
| Employer – unlimited, but trigger tax charge on individual if 'total pension inputs' ^{1,2} are over | 50,000 |
| Individual's lifetime allowance^{2,3,4} | 1,800,000 |

¹ Total pension inputs include both individual's contributions and employer's contributions. Contributions can be carried back to previous three pension input periods if unused.

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 The lifetime allowance will decrease to £1,500,000 from 2012 / 2013

Income Tax Rates

| Taxable income bands | Rate (%) | Tax on band (£) |
|----------------------|----------|-----------------|
| Up to £35,000 | 20 | 7,000 |
| £35,001 to £150,000 | 40 | 46,000 |
| Over £150,000 | 50 | |

Tax on savings income other than dividends is taxable at 10% on first £2,560, 20% from £2,561 to £35,000, 40% from £35,001 to £150,000 and 50% for taxable income above that. If an individual's taxable non savings income is above £2,560 then the 10% savings rate is not applicable. A 32.5% rate will apply on UK dividend income where taxable income is between £35,001 and £150,000 and a 42.5% rate where taxable income is above £150,000.

The Income Tax rate for discretionary and accumulation trusts up to the first £1,000 is taxed at no more than the basic rate, thereafter, the rate is 50% for ordinary income and 42.5% for dividend income.

Corporation Tax

| | |
|---|-----|
| Main rate (profits > £1,500,000)* | 26% |
| Small profits rate (profits < £300,000) | 20% |

* Limits are reduced proportionately for the number of associated companies.

The main rate of corporation tax will reduce by 1% for each of the next three years such that the rate will be 23% from April 2014.

Close investment-holding companies are liable to corporation tax at the main rate.

Marginal relief is given at 3/200 for profits between £300,001 and £1,500,000.

Inheritance Tax

Rates on cumulative transfers

First £325,000 at nil %

Excess at 40%

Exemptions

| | | |
|---|---|-------|
| Annual gifts per donor | £ | 3,000 |
| Small gifts per donee | | 250 |
| For marriage | | |
| - parent | | 5,000 |
| - grandparent | | 2,500 |
| - other | | 1,000 |
| Gifts to individuals and certain trusts made more than seven years before death | | |

Charge on gifts within seven years of death

| Intervening years | 0-3 | 3-4 | 4-5 | 5-6 | 6-7 |
|-------------------|-----|-----|-----|-----|-----|
| % of full charge | 100 | 80 | 60 | 40 | 20 |

Capital Gains Tax

| | |
|---|-----|
| Standard rate | 18% |
| Higher rate | 28% |
| Rates for trustees and personal representatives | 28% |

Annual Exemptions

| | | |
|-------------|---|--------|
| Individuals | £ | 10,600 |
| Trusts | | 5,300 |

Stamp taxes

Transfers of land and buildings (consideration paid)

| Rate | Residential in disadvantaged areas (Value of total consideration) | Residential not in disadvantaged areas (Value of total consideration) | Non-residential (Value of total consideration) |
|------|--|--|---|
| 0% | £0 - £150,000 | £0 - £125,000 | £0 - £150,000* |
| 1% | £150,001 - £250,000 | £125,001 - £250,000 | £150,001 - £250,000 |
| 3% | £250,001 - £500,000 | £250,001 - £500,000 | £250,001 - £500,000 |
| 4% | £500,001 - £1million | £500,001 - £1million | Over £500,000 |
| 5% | Over £1million | Over £1million | - |

* If the annual rent is more than £1,000 then the 1% rate will apply.

First time buyers can claim relief from SDLT on residential transactions up to £250,000 between March 25, 2010 and March 24, 2012.

New leases (lease duty)

| Rate | Net Present Value (NPV) of rent | | |
|------|-----------------------------------|---------------------------------------|-----------------|
| | Residential in disadvantaged area | Residential not in disadvantaged area | Non-residential |
| | Slice of NPV | | |
| 0% | £0 - £150,000 | £0 - £125,000 | £0 - £150,000 |
| 1% | Over £150,000 | Over £125,000 | Over £150,000 |

The rate of stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5%.

Value Added Tax

Standard rate 20% (1/6 VAT inclusive price)

Registration limit from April 1, 2011: £73,000 of annual taxable turnover

The information contained herein, is believed to be accurate at the time of writing and is intended for general guidance only. If you would like to receive a copy of our pocket size UK Tax Tables leaflet when available, kindly send an email with your name and postal address to annie.lemerrer@rbc.com.