



## Budget 2011 – Tax alert

Although this was definitely not “a Budget for the wealthy”, it is certainly fair to say that the Budget announcements contain a number of proposals that are likely to be of interest to individuals looking to make investments on a tax efficient basis. The Chancellor’s restatement of the Government’s intention for the 50% tax rate to be temporary is also welcome for those with higher incomes, although a date for its abolition is noticeable by its absence.

Non-doms will be relieved by the commitment to make no further changes to their tax regime for the rest of this Parliament, but will be disappointed (although not surprised) by the increase in the remittance basis charge after 12 years of residence. It is good to see that the Government has resisted some of the more extreme demands for the restriction of the tax benefits of being non-UK domiciled, and that it has recognised the importance to the UK as a whole of the intellectual, cultural and financial contribution made by non-doms.

This alert focuses on the impact of the Budget on individuals, so changes to corporation tax are not included. However, the Chancellor has chosen to reduce corporation tax rates by 2% rather than the previously proposed 1%, and there are also a range of announcements clearly intended to encourage investment by UK companies. The big corporate losers are oil and gas companies, and the banks (through the extension of the Banking Levy). The Chancellor will believe that these sectors can be squeezed without a loss of business overseas: politically, of course, and fairly or not, banks and oil companies are unlikely to be the subject of much public sympathy!

### EIS and VCT relief

With effect from April 6, 2011, EIS income tax relief has been increased from 20% to 30% and the annual investment limit will double from £500,000 to £1m next April. In relation to both EIS and VCTs, the thresholds for the maximum size of company that will qualify and the maximum amount that can be invested into a single company will also be increased. All these proposals are subject to approval from the European Union.

### Entrepreneurs’ relief

In another boost to business, the Chancellor has again increased the lifetime limit for capital gains to which entrepreneurs’ relief will apply. From April 6, 2011, the relief will now reduce the effective tax rate on qualifying gains to 10% up to a lifetime limit of £10m. This is a considerable increase from the £1m limit which applied when entrepreneurs’ relief was introduced in April 2008.

## Charitable giving

Reforms will be introduced to encourage the wealthy to donate more to charity under the gift aid scheme.

Individuals and companies can be encouraged to make charitable donations by being offered a benefit in return, for example, free tickets to an event or free advertising. These are currently limited for donations in excess of £1,000, to a maximum of 5% of the donation and an overall cap of £500. From April 6, 2011, the overall cap will be increased to £2,500, subject to a maximum of 5% of the donation.

Individuals will also be given an additional incentive to donate to charity on their death, in the form of a reduction in the inheritance tax rate on their estate. If individuals leave 10% or more of their estates to charity, the rate applicable to the balance of the estate will be reduced from 40% to 36%.

In line with the aim of reducing the complexity of the tax system generally, the Self Assessment donate scheme is to be withdrawn and replaced by an online system for gift aid claims.

## Anti-avoidance

### Disguised Remuneration

The Chancellor confirmed today his intention to tackle ‘Disguised Remuneration’ with the introduction of new legislation aimed at employers using third party arrangements to avoid, defer or reduce tax payable on benefits provided to employees, with employee benefit trusts being particularly targeted. Where the provision of a benefit falls within the new rule, the value of the benefit received will be subject to employment taxes.

The legislation has effect from April 6, 2011 and applies to any rewards which are earmarked or made available to employees after that date. However, cash payments (including loans or the provision of security for loans) advanced to an employee or connected person from December 9, 2010 are already liable to tax – unless repaid by April 6, 2012.

The majority of the detail is contained in the draft Finance Bill which was published in December 2010. Following the publication of ‘Frequently Asked Questions’ in February, we expect to receive the final version of the legislation shortly.

### SDLT

The Government has continued its attack on Stamp Duty Land Tax avoidance schemes by introducing legislation effective from March 24, 2011 targeting three specific schemes.

## UK residence

A new statutory residence test will apply from April 2012. Although it is not yet known exactly how residence will be determined and therefore whether the new test will dramatically affect any current non-residents, it will be extremely helpful to have some certainty in what has long been a very grey area.

## The taxation of non-UK doms

From April 2012, the remittance basis charge will:

- Be increased to £50,000 for non-doms who have been UK resident for 12 or more years
- Remain at £30,000 for non-doms who have been UK resident for at least 7 of the past 9 years and fewer than 12 years.

Non-doms will be able to remit foreign income and gains to the UK to invest in UK businesses without suffering a tax charge.

## Personal tax rates

As previously announced, the personal tax allowance for 2011/12 will be increased by £1,000 to £7,475 and there will be a £1,400 reduction in the basic rate band so that higher rate tax payers will not benefit from the increase. There is also to be a further increase of £630 for 2012/13 bringing the allowance to £8,105. The corresponding reduction in the basic rate band will be £630 so there will be some benefit for higher rate tax payers.

## Pensions

No new announcements were made in relation to pensions, except for the proposed simplification of the State Pension scheme with state retirement age increasing as life expectancies improve. This was hardly surprising, as major changes have already been announced, including the reduction in the annual contribution allowance from £255,000 to £50,000, the re-introduction of the ability to carry forward unused allowances for up to 3 years, and the reduction of the lifetime pension allowance from £1,800,000 to £1,500,000.

## Junior ISAs

As part of the Government's desire to encourage saving, it will be possible to open a Junior ISA for UK resident children under the age of 18 from the autumn of this year, provided they do not have a Child Trust Fund.

## Inheritance tax

Although there had been rumours of sweeping changes to inheritance tax in this Budget, none were announced and it was confirmed that the nil rate band would remain frozen until April 2015.

## Fuel rates

In light of current high oil prices, Mr Osborne announced an immediate reduction in fuel duty by 1p per litre. The fuel duty escalator that was introduced in 2009 to increase fuel duty by RPI + 1p per litre has been scrapped and replaced by the "fair fuel stabilizer". The proposal is that fuel duty will increase by RPI when oil prices are high, with the extra 1p per litre kicking in only when prices are low.

## Enterprise Zone Relief

To stimulate regional development, the Government has revived the 1980's policy of "Enterprise Zones" with the announcement of the creation of 21 new Enterprise Zones. The location of 11 of the zones has been confirmed with the rest to follow in the summer. Businesses that relocate to the zones will be offered a variety of benefits including 100% discount on business rates for 5 years and simplified planning procedures.

## National Insurance Contributions (NIC)

NIC was originally introduced as a means to fund pensions and medical care, but for many years has formed part of the general pool of Government tax revenues. NIC has its own, very complex, rules, which do not always work in the same way as income tax regulations, so there can be cases where the same income can be taxed in two different ways, duplicating costs and multiplying complexity.

Previous Governments have avoided dealing with the anomalies of NIC, in part at least because all political parties have seen raising NIC rates as a way to increase revenues without having to admit to increasing income tax. Today the Chancellor grasped the nettle, and promised to consult on merging NIC and income tax over the next few years.

This initiative is very much to be welcomed, but it will be difficult to achieve. For example, if the income tax rate was simply increased by the NIC rate, investment income and pensions would suddenly suffer a 10% tax increase!

## Repeal of reliefs

Following a detailed review, 43 tax reliefs are to be abolished, subject to further consultation. Most of these are already obsolete. Millennium Gift Aid relief, which, as the Chancellor pointed out, will not be effective again for another 989 years will be abolished, as will tax relief on the first £70 of certain National Savings interest and relief on luncheon vouchers!

## Tax strategy

The Chancellor had some interesting comments on the Government's philosophy on the management of the tax system. The Office of Tax Simplification has been created specifically to reduce the amount of tax legislation, and the first results of this review have been seen today with the repeal of over 100 pages of legislation. It is the Government's ambition for taxes to be certain and predictable, and in a document called "Tackling Tax Avoidance" the Treasury sets out a protocol designed to ensure that all changes to tax legislation are made on a transparent and fair basis.

The Government's strategy also focuses on trying to deal with tax avoidance by making legislation less pedantic, and more principles based. By doing this, and by attacking specific forms of tax avoidance, the Treasury hopes to increase tax revenues by £1bn a year for the next 4 years.

There is a long way to go before we can say for sure what difference these proposals will make, and experience suggests that over time tax legislation always seems to get more, not less, complicated. However, a simpler tax system really would benefit everyone, and the Government's first steps in this direction are welcome.

**RBC International Wealth Planning**

Riverbank House  
2 Swan Lane  
London  
EC4R 3BF

**RBC International Wealth Planning**

4th Floor,  
The Quadrangle  
Imperial Square  
Cheltenham  
Glos, GL50 1PZ

**Louise Somerset**

RBC International Wealth Planning  
+44 (0)1242 548 448  
louise.somerset@rbc.com

**Andrew Robins**

RBC International Wealth Planning  
+44 (0) 1242 548 403  
andrew.s.robins@rbc.com

**Rachel de Souza**

RBC International Wealth Planning  
+44 (0) 20 7029 7756  
rachel.desouza@rbc.com  
rbcicwp@rbc.com

**RBC Regent Tax Consultants Limited**

La Motte Chambers  
St Helier  
Jersey  
Channel Islands, JE1 1PB

**Richard Brooks**

RBC Regent Tax Consultants Limited  
+44 (0) 1534 501 520  
richard.brooks@rbc.com

**Ann Wylie**

RBC Regent Tax Consultants Limited  
+44 (0) 1534 501 309  
ann.wylie@rbc.com

**Mark Power**

RBC Regent Tax Consultants Limited  
+44 (0) 1534 501 308  
mark.power@rbc.com

taxenquiries@rbc.com

[www.rbcwminternational.com](http://www.rbcwminternational.com)



This publication has been issued by RBC International Wealth Planning and RBC Regent Tax Consultants Limited.

RBC International Wealth Planning is the trading name of RBC Wealth Planning International Limited. Registered Office: La Motte Chambers, St Helier, Jersey, Channel Islands, JE1 1PB, registered company number FC023283

RBC Regent Tax Consultants Limited, registered office: La Motte Chambers, St Helier, Jersey, Channel Islands, JE1 1PB. Registered company number 70896

The summary contained herein has been carefully prepared based upon information that is believed to be accurate at the time of writing and is intended for general guidance only. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors. On any specific matter you are advised to take professional advice.

Telephone calls to RBC may be recorded for training and evaluation purposes.

® Trademark of Royal Bank of Canada. ™ Trademark of Royal Bank of Canada. Used under licence.