

Budget Alert

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RBC International Wealth Planning

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Budget Alert – April 2009

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With the UK economy suffering from the most severe recession for over 60 years, the 2009 Budget could be said to be a “make or break Budget” for the Labour Government in their final year before the next UK General Election. The recession has caused a significant drop in tax revenues and the Government is faced with having to borrow £175 billion to balance the books in the next financial year with further significant borrowing required for later years which leaves the UK in probably the most dire financial position of all the leading industrial nations.

When Gordon Brown was Chancellor he always liked to portray himself as being financially prudent and regularly made the statement that there will no longer be a return to the “Boom and Bust” years prior to the Labour Party’s election in 1997. Surely these comments are coming back to haunt him now given the state of the economy in the UK. The current situation has left Alistair Darling with very little to play with in his second Budget in office.

Before the Budget there was much speculation about where the tax rises would come from and whether there would be significant cuts in public expenditure. The content of the Budget was fairly vague and the actual speech gave away very little detail and so we had to await the details of the Treasury Notes to find out the detailed proposals in the Budget in terms of tax changes. These notes were as usual bulky and ran to around 220 pages which when enacted will no doubt create a whole new raft of complex tax legislation which is designed to crack down on tax avoidance and disguise much of the detailed implications for the British taxpayer.

An initial assessment of the changes shows that they give away very little to the taxpayer and the staggering of the introduction of the new rates, reliefs and changes will disguise the cost until after the next General Election. Indeed, one of the highlights is the increase in the rate of UK income tax to 50% from April 6, 2010 which will hit the highest rate taxpayers hard.

In addition, all employees earning over £100,000 a year will be feeling aggrieved by the impending loss of their personal tax allowances. Many will question the wisdom of such a strategy when the wealthy high earners in the city of London, many already still reeling after the changes to the non-domiciled tax rules, start to question whether London is really the place to be in the future.

The high point of the Budget Day for many will no doubt have been the Conservative Party leader, David Cameron’s response to Alistair Darling’s rather desperate Budget which left the entire Labour front bench shocked and speechless as he succinctly and expertly dissected the Budget and the poor state of the UK’s finances.

Finally, it will be interesting to see the real effect of these Budget proposals as they come into play over the next few years and whether the financial forecasts turn out to be as inaccurate as they were in 2008.

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Additional rate of income tax and income-related reduction of the personal allowance

Changes affecting income tax payers with incomes over £100,000 will take effect from April 6, 2010 and will comprise the following provisions:-

An additional higher rate of 50% will apply for taxable income above £150,000. For 2010-2011 the 20% basic rate will apply to taxable income within the basic rate band (for 2009-2010 this is £0 to £37,400), the 40% higher rate will apply to taxable income above the basic rate band (for 2009-2010 over £37,400) and the 50% additional rate will apply to taxable income over £150,000. Dividend income in this band will be taxed at 42.5%. There will therefore be three rates of tax for dividends – 10% for dividends within the basic rate band, 32.5% for dividends falling within the 40 per cent tax band and 42.5% for dividends within the 50% additional rate band.

The basic income tax personal allowance will be gradually reduced to nil for individuals with “adjusted net incomes” above £100,000. The amount of the allowance will be reduced by £1 for every £2 above the income limit until reduced to nil. This replaces the two stage reduction which was announced in the Pre-Budget Report. “Adjusted net income” is the measure of an individual’s income that is used for the calculation of the existing income related reductions to personal allowances for those aged over 65 and is calculated in a series of steps. The starting point is the individual’s income subject to tax less specified deductions, for example trading losses and payments made gross to pension schemes. The net income is then further reduced by any Gift Aid payments and contributions to pension schemes made after deduction of tax.

There will be increases to the trust rate and dividend trust rate to match those for income tax. From 2010-2011 the dividend trust rate will be increased from 32.5% to 42.5% and the trust rate for tax on other trust income will be increased from 40% to 50%.

New powers will apply to vary the income tax rates for the charges that apply to registered pension schemes. These tax rates are generally linked to the highest rate of income tax and will now take account of the new additional higher rate of 50%.

UK Personal allowances and reliefs for non-resident individuals

Legislation will be introduced in Finance Bill 2009 to withdraw the entitlement for non-resident individuals who currently qualify for UK personal allowances and reliefs from income tax solely by virtue of being a Commonwealth citizen. The vast majority of individuals affected will still benefit through other means, for example Double Taxation Treaties. The legislation will have effect on and after April 6, 2010. The change will mainly affect citizens of the Bahamas, Cameroon, the Cook Islands, Dominica, the Maldives, Mozambique, Nauru, Niue, St Lucia, St Vincent & the Grenadines, Samoa, Tanzania, Tonga and Vanuatu.

The change is being introduced as a result of HM Revenue & Customs having been advised that entitlement to this relief for a Commonwealth citizen is not compliant with the Human Rights Act. Other non-resident individuals who will still be entitled to claim UK personal allowances and reliefs from income tax include European Economic Area (EEA) nationals, residents of the Channel Islands or the Isle of Man, a person who has previously resided in the UK and is resident abroad for health reasons, a Crown servant or a person whose late spouse or late civil partner was employed in the service of the Crown, a person employed in the service of any territory under Her Majesty’s protection, a person employed in the service of a missionary society.

Limiting tax relief on pension contributions for high income individuals

Individuals with incomes of £150,000 or more will, with effect from April 6, 2011, have their higher rate tax relief restricted on pension contributions. The relief will be restricted to basic rate. Relief will be tapered away so that for those earning over £180,000 relief will be worth 20%. In anticipation of this change, special rules apply from April 22, 2009 to prevent people from making large additional contributions to their pensions before April 6, 2011 to benefit from higher rate tax relief while it is still available.

The special rules will apply to people whose taxable income is £150,000 or higher and who change their normal ongoing regular pension savings and whose total pension savings (total pension contributions/benefits accrued) in the tax year exceed £20,000. Where regular pension savings in a tax year exceed £20,000 (the special

annual allowance), the new tax charge applies to any pension savings made on or after April 22, 2009 in excess of regular savings. The charge has the effect of restricting the tax relief on the additional pension savings to basic rate.

Remittance basis amendments

The Finance Act 2008 (FA2008) introduced wide changes to the taxation of foreign domiciled individuals resident in the UK. Minor changes and clarifications have been announced to these provisions.

The requirement to file a Self Assessment tax return has been removed in limited cases for individuals who have both UK and foreign employment income.

There are certain circumstances where individuals do not need to make a formal claim for the remittance basis to apply. The current rules are to be amended to make it clear that a claim is not required in the prescribed circumstances and have also been extended to individuals who have minimal UK income or gains and make no remittances.

The Finance Bill 2009 will amend the rules (backdated to April 6, 2008) to ensure that the £30,000 Remittance Basis Charge is treated as tax paid for the purposes of Gift Aid.

FA2008 introduced a deemed remittance where assets purchased with foreign income were brought to the UK but also introduced a number of exemptions to this rule, such as bringing assets to the UK for public display or specialist repair. The exemptions have been extended to assets purchased with foreign employment income and foreign chargeable gains, in addition to savings and investment income as previously stated.

Where an asset purchased with foreign income or gains and which forms part of a set is brought to the UK, the legislation is to be amended to clarify the amount remitted.

Transitional provisions apply to certain foreign income which arose prior to April 6, 2008. It has been announced that these will be extended to ensure they apply to settlors of trusts where they have retained an interest. This appears to be a clarification of what was already believed to be the case. It was also announced that the interaction between the remittance basis regime and that of settlor interested trusts will be clarified by

legislation. No draft legislation has yet been published for either of these changes.

Anti-avoidance provisions were introduced by FA2008 in relation to gifts of foreign income to a "relevant person" who subsequently remitted those funds to the UK. Included in the definition were participators of a close company. The legislation did not define "participator" for these purposes nor did it specifically include subsidiaries of companies. Draft legislation has been published to clarify both these points.

Taxation of personal dividends

Foreign dividends

Legislation is being introduced to make changes to the system of taxation for individuals who own foreign shares. Individuals in receipt of dividends from UK companies are currently entitled to a non-payable dividend tax credit. Since April 6, 2008, individuals with shareholdings of less than 10% in non-UK companies have also been entitled to a non-payable tax credit. From April 22, 2009, individuals with shareholdings of 10% or more in non-UK resident companies will also become entitled to a non-payable tax credit, subject to certain conditions.

The tax credit will only be available if the source country is a "qualifying territory" ie it has a double tax agreement with the UK, with a non-discrimination article.

The legislation will include anti-avoidance measures to ensure that the new rules are not subject to abuse. For instance, there will be a targeted anti-avoidance rule to counter the use of conduit structures designed to secure the tax credit for dividend income originating in a non-qualifying territory.

Offshore funds

As noted above, since April 6, 2008, individuals with shareholdings of less than 10% in non-UK companies became entitled to a non-payable dividend tax credit. However the tax credit was withdrawn for offshore funds as some collective investment schemes were seeking to exploit the extension by locating cash or bond fund ranges offshore.

Legislation is being introduced to restore the non-payable dividend tax credit for offshore funds

which are largely invested in equities. From April 22, 2009, individuals in receipt of dividends from non-UK resident companies including offshore funds that are companies will be eligible for the non-payable tax credit.

Where the offshore fund is substantially invested in interest bearing assets (ie it holds more than 60% of its assets in interest bearing form), individuals receiving distributions will be treated as having received interest and not a dividend or other type of distribution. No tax credits will therefore be available for this income.

These rules will apply equally to all holdings in offshore funds. There will be no distinction between holdings of less than 10% or 10% or more.

Living accommodation provided by reason of employment

Payments of lease premium

The new anti-avoidance legislation to be introduced by Finance Bill 2009 is legislation to stop the avoidance of tax on an employee's living accommodation benefit through the payment of a lease premium. The legislation will ensure that broadly where a lease premium is paid for a lease of 10 years or less, the same tax treatment will follow as if the lease premium were the actual rent paid. This will stop arrangements being entered into that involve upfront payments and the payment of a very small annual rent, in order to try to avoid paying tax. These new provisions will apply to leases entered into or extended on or after April 22, 2009.

Individual Savings Accounts (ISAs)

From 2009-2010 the ISA limit for people aged 50 and over will be raised from £7,200 to £10,200, of which £5,100 can be held in cash (an increase on the existing cash limit of £3,600). The increased limit will have effect from October 6, 2009 for those aged 50 and over so that they will be able to deposit £10,200 into their ISA for 2009-2010 and future years, up to £5,100 of which can be in cash.

The increased limit will apply to all savers regardless of age from April 6, 2010 so that all savers will be able to deposit £10,200 into their annual ISA from 2010-2011, up to £5,100 of which can be saved in cash.

Furnished holiday lettings

It has been announced that the existing beneficial rules governing the taxation of profits from UK furnished holiday lettings will be extended to similar properties within the European Economic Area (EEA). However, with effect from April 5, 2010, the rules will be abolished for all properties.

Anti-avoidance: Interest relief

Legislation will be introduced to block schemes notified to HM Revenue & Customs whereby provisions that allow individuals to claim relief for interest payments are used in avoidance arrangements that guarantee that the borrower will be able to make a profit as a result of the availability of the relief.

The legislation will apply to interest payments made on or after March 19, 2009, the date of the announcement that this legislation would be introduced. The new legislation will deny relief for interest payments on loans used to invest in partnerships or close companies if the interest is paid as part of an arrangement that is certain (ignoring insignificant risk) to allow the investor to exit the arrangement with more money than was originally invested where the investor's main purpose in being party to the arrangements is to secure that result.

Normal commercial transactions should not be affected.

Financial Services Compensation Scheme

Payments representing interest

New legislation is being introduced by Finance Bill 2009 to tax part of the compensation paid by the Financial Services Compensation Scheme (FSCS) as if it were interest and thereby allowing the normal income tax rules to apply. The taxable part would be the amount representing the accrued interest from the last date interest was paid to the customer by the financial institution to the date that the financial institution defaulted (or for a fixed term deposit to the date of maturity if this is later than the date of default).

The legislation effectively ensures that the financial institution's customers are in the same position as if the accrued interest were paid by the defaulting financial institution. It applies to payments made by the FSCS on or after October 6, 2008. Please note that the change only applies

for income tax purposes because for companies the taxation of bank deposits is within the loan relationship provisions.

Corporation Tax

Rates of Tax

The main rate of corporation tax will remain at 28% (this affects companies with profits above £1,500,000).

In addition there are no changes to the main rate of corporation tax for companies' ring fenced profits (profits from oil extraction and oil rights in the UK and the UK continental shelf) which will remain at 30%. The marginal small companies' relief fraction for ring fenced profits is unchanged at 11/400.

The small companies' rate of corporation tax (which affects companies with profits lower than £300,000) will remain at 21%; the marginal small companies' relief fraction is unchanged at 7/400.

Taxation of Foreign Profits

A package of reforms relating to the taxation of foreign profits is to be introduced. These reforms include:

- A tax exemption for most foreign dividends received by UK Groups, therefore extending the existing exemption for UK distributions to foreign distributions.
- A restriction on interest deductions. New legislation proposes to cap the deduction for finance expenses payable by UK members of a group to the consolidated gross finance expense of the group.
- There will be changes to the Controlled Foreign Companies (CFC) rules. These changes include the removal of the exemption for superior and non-local trading companies and the Acceptable Distribution Policy exemption.
- Treasury Consents are to be replaced by a new post-transaction reporting requirement which will apply to transactions in excess of £100 million. The report must be made within 6 months of the transaction being carried out.

Double taxation relief on dividends

Legislation will be introduced by Finance Bill 2009 to ensure that the reduction in the rate of corporation tax to 28% does not unjustly affect the

amount of double taxation relief available to UK resident companies who are in receipt of foreign dividends. This will ensure that the amount of double taxation relief available is not limited by reference to the corporation tax rate in force on the date the dividend is paid but instead it will be calculated as it was always intended so that the amount of corporation tax paid and double taxation relief available correctly match. This measure will have retrospective effect from the financial year beginning April 1, 2008 (when the rate was reduced from 30% to 28%).

Extension of trading loss carry back for businesses

In order to support more businesses through the downturn further enhancements have been announced to the temporary one-year extension of loss carry-back for businesses, which was announced in the 2008 Pre-Budget Report, from one year to three years for losses up to £50,000.

This enhanced relief will be extended for two years rather than one and will have effect from April 22, 2009 for company accounting periods ending in the period November 24, 2008 to November 23, 2010 for companies, and for 2008/09 and 2009/10 tax years for unincorporated businesses. Losses will be carried back against later years first.

Groups of companies

Reallocation of chargeable gains

Legislation will be introduced in Finance Bill 2009 to make it easier for groups of companies to match gains and losses that arise on disposals of chargeable assets without the need to transfer ownership of assets within the group. The legislation will apply to losses or gains arising on or after the date that the Finance Bill 2009 receives Royal Assent.

Capital Allowances

Temporary First-Year Allowances

The main rate of writing-down allowance (WDA) remains at 20%. However, as part of a package of measures to support businesses the Government has announced the introduction of a new temporary enhanced first-year capital allowance (FYA) rate of 40% with effect from April 1, 2009 for corporation tax purposes, and from

April 6, 2009 for income tax purposes. This will double the rate of relief available to companies, individuals carrying on a qualifying activity and partnerships.

This new temporary allowance is in addition to the benefit already received from the £50,000 Annual Investment Allowance which came into effect from April 6, 2008 and the "special rate" of 10% which applies to expenditure on long-life assets and integral features

There are some exceptions where expenditure will not qualify for the FYA the main exception being cars.

Agreements to forgo tax reliefs

Where companies have received relief from the Government in relation to the Asset Protection Scheme (or similar arrangements), new legislation will be introduced in Finance Bill 2009 to ensure that the provisions of the Corporation Tax Acts do not override the undertaking given by the company to surrender its tax losses and other reliefs. In brief summary, these tax reliefs are foregone in the circumstances where schemes are utilised to provide taxpayer support.

Inheritance tax: Extension of agricultural property and woodlands reliefs to land in the European Economic Area

Legislation will be introduced to extend inheritance tax agricultural property relief (APR) and woodlands relief (WR) to property in the European Economic Area (EEA). Property qualifying for this extended inheritance tax relief will also qualify for capital gains tax hold over relief.

The extension of these reliefs will apply with effect from April 22, 2009 as well as for earlier events in some circumstances.

Inheritance tax due or paid on or after April 23, 2003 in relation to agricultural property in an EEA state at the time of the chargeable event will become eligible for relief. The earliest deadline for reclaiming overpayments on such property will be April 21, 2010.

The statutory time limit for making a claim for repayment of overpaid inheritance tax will reduce

from six years to four. The new time limits will not apply to claims made before April 1, 2011.

For deaths before April 22, 2009, property located in an EEA state will become eligible for WR. The time limit for obtaining WR is usually within two years of the date of death. However the new legislation will provide that the earliest deadline for reclaiming overpayments on such property will be April 21, 2010.

Hold over relief will be extended so that it applies to agricultural property in EEA states which has been farmed by a person other than the owner. Hold over relief will also become available in respect of disposals of agricultural property located in a qualifying EEA state in the past. The time limit for claiming hold over relief is currently five years from January 31 following the tax year to which the claim relates. Claims to relief in respect of the year ended April 5, 2004 can therefore be made until January 31, 2010. The new legislation will reduce the time limits for hold over relief claims to four years from April 1, 2010. Claims in respect of the year ended April 5, 2005 and the year ended April 5, 2006 will need to be made by this date.

Offshore funds

The offshore fund regime that was introduced in 1984 has been the subject of much consultation recently culminating in the December 2008 publication by HM Treasury entitled Offshore funds: Further steps.

Legislation will be introduced in Finance Bill 2009 to change the definition of offshore funds from the regulatory definition of collective investment schemes, as set out in the Financial Services and Markets Act 2000, to a characteristic based definition. Regulations will also be introduced governing the operation of the offshore fund regime.

Transitional rules will provide some grandfathering for investors in existing arrangements but we await the primary legislation to see the detail.

The new regime will have effect on and after December 1, 2009.

Chargeable gains and offshore funds

Under current legislation, for the purpose of tax on chargeable gains, units in a unit trust are treated as if they were shares in a company. However,

rights in funds in foreign jurisdictions which are not companies, unit trusts or partnerships are often treated differently.

Where such a fund comes within the new offshore fund rules (see article: Offshore funds) then a new section of TCGA will apply similar treatment to rights in such funds, i.e. the effect of the change is that an interest in a transparent offshore fund will be an asset for the purpose of calculating capital gains tax on chargeable gains.

The new treatment will apply to investments in contract based offshore funds on and after December 1, 2009. Elections into the new treatment can be made on and after April 22, 2009 and can be applied retrospectively from the tax year 2003-04, once made an election will be irrevocable.

At the moment, investors subject to corporation tax will continue to treat their gains as transparent until discussions have taken place with industry about how similar changes can be made.

VAT Place of supply

The place of supply rules determine the country where a supply of services is made and where any VAT is payable. They also determine whether, if VAT is due on a supply, it should be accounted for by the supplier of a service or their business customer.

The new rules will aim to ensure, as far as possible, VAT is due in the country in which the service is consumed rather than where the supplier is established. Legislation in Finance Bill 2009 will introduce a new section 7A and Schedule 4A to cover the VAT place of supply services rules from January 1, 2010 and the current Sections 7, 8 and 9 of the VATA will be amended.

As now, there will continue to be exceptions to the new general rule and we will have to await the detailed legislation to review the impact of these changes.

Unfortunately from the Channel Island's perspective, land related services will continue to be deemed to be supplied where the land is situated and as a result VAT will continue to be incurred.

VAT Time of supply

At present, the time of supply for cross border services in the UK, under which the recipient is required to account for VAT as a reverse charge, is normally when the supply is paid for.

From January 1, 2010, for single supplies, the tax point will occur when the service is completed or when it is paid for, if this is earlier.

For continuous supplies, the tax point will be the end of each billing or payment period. Although again; if a payment is made before the end of the period to which it relates or before the end of the billing period then that payment date, rather than the end of the period, will be treated as the tax point.

For continuous supplies that are not subject to billing or payment periods, the tax point will be December 31 each year unless a payment has been made beforehand. In that case the payment will create the tax point.

VAT Option to tax

Since March 1, 1995, provided certain conditions were met (the 4 conditions are currently contained in Notice 742A – Opting to tax land and buildings) a taxpayer has not needed to obtain the written permission from HMRC before opting to tax the land and / or buildings on which they had previously made exempt supplies.

Announced today, although the legislation and associated guidance will be published shortly in an information sheet, are measures to introduce a new automatic permission condition to come into effect on and after May 1, 2009. It is intended that the measure will allow more taxpayers than under the current regime to opt to tax without seeking HMRC's prior permission.

HMRC will also withdraw two related informal extra statutory concessions and partially regularise one of them but we will need to wait for the detailed legislation to comment further.

Transfers of income streams

Finance Bill 2009 will introduce legislation which will ensure that companies, individuals and partnerships that dispose of rights to receive future income streams without disposing of the underlying assets will be liable to pay income tax

or corporation tax on those receipts with effect from April 22, 2009.

Whilst this is already the case in many such instances as a result of case law or specific statutory provisions, these provisions are not comprehensive. The proposed new rules will repeal the existing piecemeal statutory legislation and introduce a comprehensive principles-based code to ensure that such receipts are dealt with appropriately for tax purposes in the future.

Under the new rules there are exceptions for transfers of income that derive from, for example, the surrender of a lease, loan relationships or derivative contracts.

Avoidance using life insurance policies

Finance Bill 2009 will introduce legislation to counter schemes designed to exploit current income tax loss relief provisions using offshore life insurance policies. The new rules are effective from April 6, 2009 but transitional provisions apply to transactions taking place between April 1, 2009 to April 5, 2009.

Under current rules, Income Tax (Trading and other Income) Act 2005, gains on assignment or surrender of an offshore life insurance policy are chargeable to income tax but losses are not income tax losses and do not qualify for relief. However there was a possibility that income tax loss relief claims could be made under provisions contained in the Income Tax Act 2007. The new legislation amends these provisions and puts beyond any doubt that claims for income tax losses cannot be made.

Reclaiming tax overpayments

Finance Bill 2009 will introduce a means of reclaiming overpayments of income tax, capital gains tax and corporation tax where there is no other statutory basis. Taxpayers will also become entitled to additional safeguards under the error or mistake rules.

Under current rules taxpayers are able to reclaim tax where an assessment is excessive owing to a mistake in the claimant's tax return. The new measures will remove the requirement that the overpayment must be the result of an error or mistake in the return and that it must be made under an assessment.

The provisions will become effective on April 1, 2010 and claims must be made within four years from the end of the period covered by the return.

Review of HMRC powers, deterrents and safeguards

Payments, repayments and debt

These measures will affect individuals and companies who wish to spread their tax payments over time or who have not met their obligations to pay what they owe on time and will also provide HMRC with a third party information power.

There are three separate changes. One will introduce voluntary managed payment plans (MPPs) which will allow taxpayers to spread income tax or corporation tax payments equally over a period straddling the normal due dates. The second change will allow HMRC to collect small amounts owed through the PAYE system, and the third change will allow HMRC to require companies to supply them with contact details of taxpayers who are in debt to HMRC and with whom contact has been lost.

Compliance checks

Finance Bill 2009 will extend the compliance checking framework introduced by the 2008 Finance Act to a number of other taxes including Stamp Duty Land Tax, Stamp Duty Reserve Tax and Inheritance Tax. The changes will include aligned and modernised record-keeping requirements, new inspection and information powers, better aligned time limits for raising assessments and making claims and repeats.

The record-keeping requirement, information and inspection powers will be brought into effect by Treasury Orders and are expected to have effect from April 1, 2010. The changes to time limits for raising assessments and making claims are expected to be effective from April 1, 2011 and will require a transitional period.

Interest harmonisation

There are currently several different systems for applying interest on late paid tax and on overpayments of tax. Legislation will be introduced to create a single system for all taxes and duties administered by HM Revenue & Customs, except for corporation tax and petroleum revenue tax. This will be effective from

shortly after the Finance Bill 2009 receives Royal Assent for taxes where interest is currently charged. It is also intended that interest on late PAYE will be introduced from April 2010.

Penalties for late filing and late payment of tax

The new rules will reform the penalty regimes for late filing and late payment of tax and will replace the current variety of penalties with a more modern framework of law and practice.

Publishing the names of deliberate tax defaulters

Finance Bill 2009 will introduce legislation under which HMRC will be able to publish the names and details of individuals, businesses and companies who are penalised for deliberate defaults leading to a loss of tax (including VAT and excise tax) of more than £25,000. This is intended to bring consistency of treatment of individuals found guilty of tax fraud whether investigated through criminal or civil proceedings.

The new provisions will be made effective by Treasury Orders in which the effective date will be specified. Details of deliberate defaults which took place prior to the date on which the legislation became effective will not be published. The published details will include, name and address, trade, profession or sector and the amounts of tax, interest and penalties.

Names and details of those who make a disclosure within the required time (to be specified by HMRC) will not be published. Details will be published quarterly within one year of the penalty becoming final and will be removed from publication one year later.

HMRC Charter

Legislation will be introduced requiring HM Revenue & Customs to prepare a Charter. The Charter will set out the standards of behaviour and values expected when dealing with taxpayers and others. The Charter must be in place by December 31, 2009 and the Commissioners for HMRC will be required to report annually on whether the standards are being met.

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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 2009/2010

Income Tax Reliefs

Principal Reliefs £

Persons under age 65

Personal allowance

6,475

Persons aged 65 to 74

Personal allowance

9,490

Persons aged 75 and over

Personal allowance

9,640

Married couple's allowance*

6,965

Married couple's allowance* - minimum amount

2,670

Income limit for age-related allowance

22,900

* relief is restricted to 10% of figure quoted

Other Reliefs

Blind person

1,890

PENSION CONTRIBUTIONS	
Maximum annual contribution	£
Individual – 100% of relevant earnings up to a maximum of	245,000
Employer – unlimited, but trigger benefit in kind on individual if 'total pension inputs' ^{1,2} are over	245,000
Individual's lifetime allowance ^{2,3,4}	1,750,000
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 There are transitional provisions that allow individuals with larger funds to protect their existing entitlements at April 6, 2009.	

Income Tax Rates

Taxable income bands	Rate (%)	Tax on band (£)
Up to £37,400	20	7,480
Over £37,400	40	

Tax on savings income other than dividends is taxable at 10% on first £2,440, 20% from £2,441 to £37,400 and 40% for taxable income above that. If an individual's taxable non savings income is above £2,440 then the 10% savings rate is not applicable. A 32.5% rate will apply on UK dividend income where taxable income exceeds £37,400. 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 40% for ordinary income and 32.5% for dividend income.

Corporation Tax

Full rate (profits > £1,500,000)*

28%

Small companies' rate (profits < - £300,000)

21%

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

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

Marginal relief is given at 7/400 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

Gains are taxed at 18% from April 6, 2009.

Annual Exemptions

Individuals	£ 10,100
Trusts	5,050

Stamp taxes

Transfers of land and buildings (consideration paid)

Rate	Residential in disadvantaged areas (Value of total consideration)	Residential outside 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%	Over £500,000	Over £500,000	Over £500,000

For transfers of Residential Land and Buildings up to December 31, 2009 the Nil rate threshold is £175,000

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 - £125,000	£0 - £150,000	£0 - £150,000
1%	Over £125,000	Over £150,000	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

Reduced standard rate 15.0% up to December 31, 2009

Standard rate 17.5% (7/47 VAT inclusive price) from January 1, 2010

Registration limit from May 1, 2009: £68,000 of annual taxable turnover (April 1, 2008: £67,000)

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.