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BUDGET 21 MARCH 2012/TAX RATES

The Chancellor of the Exchequer George Osborne, wants to simplify the UK tax system as well as make it **fairer, predictable and supportive of work**. Although many of the proposals will not become law until at least 2013 (after consultation).

There was an increase in stamp duties on high-value homes and the phasing-out of age-related personal allowances from 2013, which will be replaced by a higher standard personal allowance.

The withdrawal of child benefit had been flagged up over a year ago. The 50% tax rate stays for now but it will be reduced to 45% from 6 April 2013.

This newsletter is based on the documents released on 21 March 2012. It is possible that a different position will be shown by the draft legislation, due to be published on 29 March 2012. We will keep you informed of any significant developments.

In this analysis we have concentrated on those measures that will directly affect individuals, employers and small businesses.

PAYE Thresholds

The PAYE thresholds (the level of earnings at which tax becomes payable) are:

- £156 Weekly
- £675.00 Monthly
- £8,105.00 Yearly

The Government is consulting on how to integrate the administration of income tax and NI for employers and the self-employed. Any changes are unlikely to be take effect until 2014 or later.

Individuals - Personal Allowances

The personal allowance will increase to **£9,205 from 6 April 2013**. The personal allowance has already been increased by £630 from 6 April 2012 to £8,105 and the other allowances are increased as indicated below.

A source of complexity for older taxpayers is the application and withdrawal of age-related allowances, which are currently given when the taxpayer reaches age 65. These age-related allowances are withdrawn when the taxpayer's total income exceeds £25,400 (for 2012/13).

From 6 April 2013 those who reach age 65 on or after that date will not receive an age-related allowance, but will instead be entitled to the standard personal allowance of £9,205. This allowance is expected to rise to £10,000 in April 2014 or 2015. The existing age allowances given to people born before 6 April 1948 will be frozen at current rates as shown below.

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Personal allowances for 2012/13

	6 April 2012/13	6 April 2013/14
Under 65 (standard allowance)	£8,105	£9,205
65-74	£10,500	£10,500
75 and over	£10,660	£10,660

** tax relief given at 10% where one partner was born before 6/4/1935*

Income Tax Rates for 2012/13

		6 April 2012/13	6 April 2013/14
Basic Rate	20%	0 to £34,370	0 to £32,245
Higher Rate	40%	£34,371 to £150,000	£32,246 to £150,000
Additional Rate	50% (12/13) 45% (13/14)	Over £150,000	Over £150,000

Dividend Tax

There are three different tax rates on UK dividends. The rate you pay depends on whether your overall taxable income (after allowances) falls within or above the basic or higher rate tax thresholds.

The rate on dividends will be 10% for basic rate taxpayers, 32.5% for higher rate and 37.5% for additional rate. All come with a 10% tax credit.

Cap on Tax Reliefs

The Chancellor wants to deal with wealthy individuals who take advantage of tax reliefs that have no annual limits, such as relief for trading losses, charitable donations, and capital allowances. He is proposing that from April 2013 all such tax reliefs will be capped at the greater of £50,000 per year or 25% of the taxpayer's gross income. If this idea becomes law it could significantly affect loss-making businesses that are not conducted through a company.

Corporation Tax

The small profits corporation tax rate remains the same at 20% for the year from 1 April 2012. However the main rate for large companies is reducing from 26% to 24% and will be 22% by the year from 1 April 2014.

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Car Benefit

The tax charge for the private use of a company car is based on a percentage of the list price of that car when new, the percentage being based on the vehicle's CO_2 emissions.

From 6 April 2012 cars with CO_2 emissions in the band 76-99g/km will be taxed at 10% of list price. Those with CO_2 emissions of 100g/km will be taxed at 11% of list price, with the percentage increasing in 1% steps for each additional 5g/km. From 6 April 2013 the 10% list price band will reduce again to 76-94g/km. A car with CO_2 emissions of just 115g/km will then be taxed at 15% of list price.

From 6 April 2014 the 11% of list price will apply to cars with CO_2 emissions in the band 76-94g/km, with a 1% step up for every addition 5g/km of CO_2. From 6 April 2015 the minimum percentage of list price will be 13% and from 2016 the minimum percentage of list price increases to 15%.

VAT Rate: From April 2012

- The taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £73,000 to £77,000;
- The taxable turnover threshold, which determines whether a person may apply for deregistration will be increased from £71,000 to £75,000; and
- The registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £73,000 to £77,000.

The VAT rates remain unchanged

Lower rate: 0%,
Reduced rate: 5%,
Standard rate: 20%

Changes from 2013

The following changes to the VAT rules will be made in 2013

- The standard rate of VAT will apply to the supply and installation of energy saving materials in non-residential buildings used for non-business purposes by charities. Currently the lower rate of VAT applies.
- The invoicing rules will be simplified.
- Exemptions will be introduced for commercial Universities.
- Cable-car rides will attract the reduced rate of VAT where each cable car holds fewer than 10 passengers.

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Proposals

The Government is consulting on the existing VAT law in the following areas so expect changes in the future...

- Hot take-away food
- Sports nutrition drinks
- Self storage
- Hair-dressers' chair-rental and
- Alterations to listed buildings.

Anti Avoidance Announcements

The Government seems set on legislating to create a general anti avoidance rule – an all-encompassing, catch-all that will aim to block any attempt at reducing tax payments using artificial arrangements. It is unlikely that this will apply before April 2013. The announcements in the Budget to deal with specific schemes include the following topics:

- Inheritance tax: offshore trusts
- Inheritance tax: settlor-interested trusts
- Sale of lessor companies
- Capital allowances: changes to anti-avoidance rules for plant and machinery
- Plant or machinery leasing
- Life insurance: income tax avoidance
- Post-cessation trade relief and post-cessation property relief
- Loan relationships avoidance: debt buybacks
- Property business loss relief
- Stamp duty land tax (SDLT): enveloping
- Stamp duty land tax: sub-sales rules
- Site restoration payments
- Disclosure of tax avoidance schemes (DOTAS)
- Stamp duty land tax: disclosure of tax avoidance schemes
- Manufactured overseas dividends
- General anti avoidance rule (GAAR)
- Manufactured payments
- Tax mitigation and IR35

Stamp Duty Land Tax (SDLT)

The Government seems to have selected SDLT as its tax of choice to target the wealthy in the UK. There are two changes announced today:

- Residential property sold with a consideration in excess of £2m will be subject to SDLT at the rate of 7%. This will affect transactions completed on or after 22 March 2012.
- Residential property that is purchased by a non-natural person (HMRC's definition) will be subject to a 15% SDLT charge if the value of the property acquired exceeds £2m. The process of purchasing in this way is sometimes described as "corporate enveloping". This will apply to appropriate transactions completed 21 March 2012 or later.