

## Budget 2011 summary

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# Charitable giving

## Gift aid benefit limit

Legislation will be introduced in Finance Bill 2011 to increase the benefit limit for donations of more than £10,000. The existing rule that the benefit must not exceed 5 per cent of the gift will remain the same, but the overriding annual limit to the value of benefits a donor may receive will be increased from £500 to £2,500.

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

## Meaning of benefit

New guidance will be published to help clarify what constitutes a benefit

## Small donations scheme

From April 2013 charities (and community amateur sports clubs) that receive small donations of £10 or less will be able to apply for a gift aid style repayment without the need to obtain gift aid declarations for those donations. The amount of small donations on which the new repayment can be claimed will be capped at £5,000 per year, per charity. In order to qualify for this new repayment, charities will need to have been recognised by HMRC for gift aid purposes for at least three years, have been operating gift aid successfully throughout that time and have a good tax compliance record. The Government will be consulting with charity representatives on the details of the new scheme over the summer 2011.

## Gift Aid online filing

In 2012-13 HMRC will introduce a new online system for charities to register their details for gift aid and to make gift aid claims. As a first step towards this, HMRC will publish four new "intelligent" forms for charities to use. The forms contain automatic checks to improve the accuracy of information and reduce administrative burdens. HMRC has worked with the charity sector to develop the new forms and will work with the sector to develop the new online system. HMRC will also work with the charity sector to develop a supporting electronic gift aid database for gift aid declarations.

## **Changes to the substantial donors rules**

In December 2010, the Government published draft clauses to replace the substantial donors to charities legislation. This anti-avoidance legislation denies relief where the donor enters into arrangements with the main purpose of obtaining a financial advantage from the charity. The new rules will commence from April 2011. (Finance Bill 2011)

Following responses received during the consultation on draft clauses amendments have been made to make the legislation clearer and better targeted. The legislation now:

- focuses on “financial advantages”;
- includes a carve out for relevant housing providers and charitable payments made to a charity for onward transmission to a non-charity body; and
- provides for a shorter transitional period before the existing legislation is repealed (reduced from five years to two).

## **Self Assessment (SA) Donate**

The SA Donate scheme is to be withdrawn for repayments of tax due on tax returns for 2011-12 and subsequent years, and for any repayments made in respect of earlier tax years on or after 6 April 2012. Self-assessment taxpayers who are due a repayment of tax from HMRC may currently direct that the repayment should be made instead to a charity of the taxpayer's choice. SA Donate was introduced in 2005 but has not been well used, is not cost-effective and is vulnerable to fraud without extensive upgrading. The resources saved from the withdrawal of SA Donate will be redirected to support the introduction of an online claims system for Gift Aid. Legislation will be introduced in Finance Bill 2012 to give effect to the changes.

## **In-year repayments on tax to charities**

The Government will publish draft Finance Bill clauses in the autumn that will give statutory effect to an existing extra statutory concession (ESC). Under this ESC, HMRC currently makes certain repayments of tax to charitable companies and certain charitable trusts that make a claim to repayment of tax outside a tax return (“in-year claims”).

## **Reduced rate of inheritance tax**

The Government has announced that a reduced rate of inheritance tax (IHT) will apply where 10 per cent or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the current 40 per cent rate will be reduced to 36 per cent. The new rate will apply where death occurs on or after 6 April 2012. The Government will be consulting on the detailed implementation of this measure and will issue a consultation document before the summer.

## **Donation of works 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.

## **Payroll giving**

The Government will also explore how to increase the take up of Payroll Giving

# **Corporation tax**

## **Main rate**

Reduce the main rate of corporation tax by a further 1 per cent. From April 2011, the rate will be reduced from 28 per cent to 26 per cent and, by 2014, it will reach 23 per cent (reducing at 1% per year). The decrease in the rate applicable to small profits from 21 per cent to 20 per cent announced at the June Budget 2010 will proceed on 1 April 2011

# Tax simplification

## Abolition of tax reliefs

It is planned to abolish 43 tax reliefs whose rationale is no longer valid as recommended by the Office for Tax Simplification. These include the following to be abolished in Finance Bill 2011 as they are obsolete:

- Charities – transitional relief on distributions
- Millennium Gift Aid
- Payroll giving 10 per cent supplement

The Government intends to abolish the following reliefs in Finance Bill 2012 after a period of consultation:

- Cycle to work days – provision of meals
- Late night taxis
- Luncheon vouchers

The Government recognises that it would be desirable to provide a period of notice before the abolition of some reliefs. Therefore, the Government intends that the following reliefs will be abolished after 2012 in future Finance Bills or other legislative vehicles, with a final date set out after the consultation:

- Capital allowances – flat conversion allowances
- Certain leases granted by registered social landlords
- Transfers to registered social landlords
- Disadvantaged area relief (SDLT)
- Land remediation relief

## Merger of income tax and NICs

The Government will consult this year on the options, stages and timing of reform. It will maintain the contributory principle and will reflect this in any changes it brings forward. In addition, the Government will not extend NICs to individuals above State Pension Age or to other forms of income such as pensions, savings and dividends.

## **IR35 administration**

The Government commits to making clear improvements in the way IR35 is administered. As part of the second stage of the OTS review of small business tax, the OTS will look at improving tax administration for small business, with recommendations to the Government for Budget 2012. Further detail on this work, the Government's response to OTS reviews, and future work of the OTS will be announced before summer 2011.

## **Administration of the personal tax system**

To complement its investment in real time information for the PAYE system, the Government will consult in 2011 on modernising the administration of the personal tax system to make it more transparent and accessible to individual taxpayers.

# **VAT**

## **VAT thresholds**

Revaluation of registration and deregistration thresholds – From 1 April 2011, the VAT registration threshold will be increased from £70,000 to £73,000 and the deregistration threshold from £68,000 to £71,000.

## **Fuel scale charges**

The VAT fuel scale charges will be revised with effect from 1 May 2011. The VAT fuel scale charges scheme is a simplified means of taxing the private use of business fuel.

## **Diplomatic privilege**

Legislation will be introduced in Finance Bill 2012 to provide a power to enable secondary legislation to be used to provide indirect tax and duty reliefs for diplomatic missions, international bodies, visiting NATO forces and European research infrastructure consortiums (ERICs). In respect of the first three categories, relief is currently provided by means of extra statutory concessions (ESCs) which, following the clarification provided by the House of Lords in the Wilkinson case, need to be withdrawn. In respect of ERICs, the legislation will provide the UK tax relief envisaged by the EU ERIC Regulation.

## **Online registration**

Subject to consultation on the detail, the Government will mandate online VAT registration, de-registration and variations, and make other changes, including removal of the UK VAT registration threshold for non-established businesses, with effect from 1 August 2012.

## **Online filing**

The Government will put forward regulations which, subject to consultation, will require all remaining VAT customers to file their VAT returns online and pay electronically from 1 April 2012. (Finance Bill 2012)

## **Status of public bodies**

The Government will amend UK law to ensure clear transposition of EU legislation relating to the VAT treatment of public bodies when carrying out their statutory duties and when in competition with the private sector. (Finance Bill 2012)

## **Refund scheme for academies**

As set out in the draft Finance Bill 2011 clauses published in autumn 2010, the Government is introducing a new VAT refund scheme with effect from 1 April 2011 to ensure that funding for academies' non-business VAT costs is consistent with that for local authority maintained schools. (Finance Bill 2011)

## **Cost sharing**

Consultation will continue on the options for implementing the VAT cost sharing exemption into UK legislation. The exemption could be used by organisations such as charities, universities and housing associations wanting to make efficiency savings by working together to achieve economies of scale. Under current UK legislation a VAT cost can arise creating a barrier to the sharing of costs and services. The exemption, if implemented in the UK, would, in certain circumstances, remove this VAT barrier.

## **Prevention of supply-splitting using printed matter**

As announced on 6 December 2010 the Government will introduce legislation to withdraw zero-rating for ancillary printed matter where it is connected to the supply of a differently rated service. (Finance Bill 2011)

# Capital allowances

## Short life assets

From April 2011, the limit on the capital allowances short life assets election will be extended from four to eight years

## Business Premises Renovation Allowance

The government will also extend the Business Premises Renovation Allowance for a further five years from 2012

# Personal taxes

## Personal allowances

From April, the personal allowance for under 65s increases by £1,000 to £7,475. The personal allowance for under 65s will increase by a further £630 to £8,105 in 2012-13, with an equivalent £630 reduction in the basic rate limit to leave the higher rate threshold unchanged.

## CPI indexation

The default indexation assumption for direct taxes will be the CPI from April 2012. To ensure employers and older people do not lose out, for the duration of this Parliament the annual increases in the employer NICs threshold, and the age related allowance and other thresholds for older people, will be over-indexed compared to the CPI, and will increase by the equivalent of the RPI. The Government will review the use of the CPI for indirect taxes once its fiscal consolidation plans have been implemented and the duty increases it inherited from the previous Government have come to an end.

## Approved mileage allowance payments

For motorists who are required to use their own vehicle for work, the Approved Mileage Allowance Payments (AMAPs) rate will rise to 45 pence per mile for the first 10,000 miles and 25 pence per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5 pence per passenger per mile, will be extended to volunteers.

## **Statutory definition of residence**

The current rules that determine tax residence for individuals are unclear and complex. The Government will consult in June on the introduction of a statutory definition of residence to provide greater certainty for taxpayers to be introduced in FA 2012.

# **Business rates**

## **Small business rate relief holiday**

The small business rate relief holiday will be extended by one year from 1 October 2011.

## **Urban enterprise zones**

The Government announces the location of ten new urban Enterprise Zones within the following Local Enterprise Partnership (LEP) areas: Birmingham and Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby, Derbyshire, Nottingham and Nottinghamshire. In addition, London will have an Enterprise Zone and be able to choose its site.

The Government will make a range of policy tools available to all 21 zones:

- A 100 per cent business rate discount worth up to £275,000 over a five year period for businesses that move into an Enterprise Zone during the course of this Parliament
- All business rates growth within the zone for a period of at least 25 years will be retained and shared by the local authorities in the LEP area to support their economic priorities

In addition, the Government will work with individual LEPs to consider: the scope for introducing enhanced capital allowances to support zones in assisted areas where there is a strong focus on high value manufacturing