

Chantrey Vellacott DFK

2011 Budget Summary
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1. Introduction

The Chancellor claims the Coalition's second offering as a "Budget for Growth". In truth, it is an economically unexciting affair that is mainly of interest to the tax planning industry.

An increment to the levy on banks finances a cut in corporation tax. The Fair Fuel Stabiliser taxes North Sea Oil to finance the reduction in the total duty on fuel.

That is not to say nothing changes on 6 April. Many measures will take effect then which will cost almost all UK taxpayers considerably more money than they are expecting, but most of these were announced last June.

Also in June, Mr Osborne set the fiscal course that he expects to follow for the whole of this Parliament, reining back public spending so as to eliminate the bulk of forecast deficit of £149bn for the year to 31 March 2011 by the end of the Parliament.

Progress since the Emergency Budget has been mixed.

It seems likely that the forecast deficit will be met and not exceeded this year. Record tax receipts in January have been offset by record borrowing in February, itself resulting from a relative collapse in self-assessment income tax collections;

Inflation is accelerating in the UK faster than in the US or Eurozone. In those territories, inflation is still under 2% but UK RPI rose to 5.5% in February and the CPI (excluding mortgage interest) rose to 3.6%, its highest level since October 2008

These pressures lead to a downward revision in projected economic growth. The unexpected contraction in Gross Domestic Product in the last quarter of 2010 suggests 2010/11 growth will be no more than 1.7% (compared to the 2.1% forecast) whilst the 2.6% growth forecast for 2011/12 is reduced to 2.5%.

The Bank of England is also under pressure to raise interest rates to offset the inflationary pressure though it is questionable whether such a move would be effective at the moment. For the most part, UK inflation seems to derive from external pressures – leapfrogging commodity and energy prices, exacerbated by the 25% depreciation of sterling in 2007/8. Thus far, this argument seems to have prevailed with the Monetary Policy Committee but a rise – and the consensus expectation is for three quarter-point rises starting in the summer – cannot be deferred indefinitely.

This Budget is fiscally neutral in broad terms. The austerity measures announced last June have reassured the bond markets and have enabled the government to borrow the money to finance the deficit – not just the 10% of GDP forecast for 2010/11, but also the £122bn forecast for 2011/12, £101bn in 2012/13 and £70bn in 2013/14, each of these being about £10bn more than last forecast in June..

In the crudest of terms, lenders believe the UK will be able to repay. This Budget seems unlikely to alter that perception.

One might also suspect that relatively high inflation is not that unwelcome. Although some government debt is index-linked so its servicing costs are rising faster than expected, most government debt is not. Inflation erodes the value of that debt so that those fortunate enough to be able to borrow at 1% or 2% above base rate are presently experiencing negative real interest rates.

This is a tricky balancing act as any suspicion that UK is seeking to monetise its deficit will lead to a rapid deterioration in the exchange rate, something which has so far been avoided by the 0.3% excess of 3-month LIBOR over base rate and the expectation of a rise in the base rate itself.

The bond market thus expects at least one quarter percent rise.

Tightening monetary policy at a time of fiscal austerity risks increasing domestic unemployment and perhaps even stagflation. Keeping rates artificially low props up asset prices, but it also risks borrowers becoming more indebted than they would otherwise be, making the adjustment to more 'normal' levels of rates all the more painful. Investors may also be tempted to assume that the support will last forever because the Bank fears the consequences of withdrawal.

Even a modest rise in rates will be surprisingly painful. A rise of just $\frac{1}{4}\%$ is an increase of one sixth for a borrower paying 1% over base; an increase of $\frac{1}{2}\%$ would add one third to such a borrower's finance cost.

The prudent will bear in mind the effect a rate rise might have both on their own affairs and on the affairs of those that owe them money.

2. Income Tax

2.1 Rates

The income tax rates applying from 6 April 2011 are to remain unchanged from the 2010/11 financial year. The rates are:

- Starting Rate 10% (Applies to savings income only)
- Basic Rate 20%
- Higher Rate 40%
- Additional Rate 50%
- Marginal Rate 60% (due to withdrawal of the personal allowance)
- Dividend Rates 10%/32.5%/42.5%

The threshold at which the higher rate will apply has been reduced. It will apply to taxable income exceeding £35,000. The additional rate continues to apply to income over £150,000. The marginal rate affects those with incomes between £100,000 and £114,950.

For details of rates and thresholds applicable in 2011/12, please click [here](#) to see tables.

2.2 Allowances

As previously announced, the personal allowance for 2011/12 will increase by £1,000 to £7,475. The allowance for those aged over 65 will increase to £9,940 and for those over 75 the allowance will be £10,090. The maximum married couples allowance available will be £7,295.

The threshold at which the personal allowance begins to be withdrawn remains at £100,000. Age related allowances and married couples allowance begin to be withdrawn to the normal personal allowance where income exceeds £24,000.

From 6 April 2012 the personal allowance will increase to £8,015. On the same date the threshold at which higher rate tax becomes payable will reduce to £34,370.

2.3 Indexation of National Insurance

The Chancellor has announced that from April 2012 the Consumer Prices Index (CPI) will replace the Retail Prices Index (RPI) as the default indexation for all National Insurance rates, limits and thresholds. The change will apply to the following:

- Class 1 lower earnings limit and primary threshold
- Class 2 small earnings exception
- Class 4 lower profit limits
- Class 2 and 3 rates

The secondary threshold will continue to use the RPI until the 2015/16 year. The Class 1 upper earnings limit and Class 4 upper profits limit will continue to be aligned with the income tax higher rate threshold.

This apparently simple measure is forecast to generate an additional £1bn in five years' time.

2.4 Merging tax and National Insurance

For decades the UK has operated one set of tax rules for the application of income tax – such as PAYE – and a nearly completely different set of tax rules for the application of National Insurance contributions (NICs).

In its drive for simplification and also to remove anomalies and unnecessary red tape, the Government has announced that it will consult on the integration of income tax and NIC.

It is recognised that any changes would be complex and may take a few years to fully implement. It is currently anticipated that integration may only extend to administration issues and not to practical matters such as extending NICs to pensioners or to other forms of income such as savings and dividends.

2.5 Disguised remuneration - EFRBS and EBTs

As previously announced in a written ministerial statement issued on 9 December 2010, legislation will be introduced in the Finance Bill 2011 to target “disguised remuneration”. The legislation will have effect from 6 April 2011 (subject to anti-forestalling rules set out below) and apply to employers and employees who use third party intermediary arrangements such as Employee Benefit Trusts (EBTs) and Employer Financed Retirement Benefit Schemes (EFRBS) to reward employees whilst avoiding, reducing or deferring liability to employment taxes.

The legislation will exclude, as far as possible, commercial arrangements that are not primarily designed to avoid tax. Examples include some share incentive plans and some deferred remuneration arrangements in the financial services sector.

A new charge to income tax and national insurance on employment income will apply where;

- sums or assets are earmarked for employees by third party intermediaries such as EBTs or EFRBS, or
- sums or assets are earmarked by employers with a view to third party intermediaries providing retirement benefits, or
- loans or assets are provided to employees by third party intermediaries.

The charge will be based on the full capital sum of money paid or loaned, or on the higher of cost and market value of assets provided, and the employer will be required to account for PAYE.

Anti-forestalling rules

The new charge will apply to payments, loans and the provision of readily convertible assets to secure payment or loans where the payment, loan or asset provision takes place between 9 December 2010 and 5 April 2011 and the new charge would arise if the transaction took place after 5 April 2011.

The charge will not apply if the sums paid or loaned, or the assets provided, between 9 December 2010 and 5 April 2011 are repaid or returned prior to 6 April 2012.

2.6 Benefits - company cars

The tax that an employee pays on a company car is based on an appropriate percentage of the list price of the car which is calculated by reference to the car's CO² emission rate.

From 6 April 2013, the appropriate percentage will be reduced by 1% for all vehicles with carbon emissions between 95g and 220g from April 2013. For example, a company car with a CO² emission rate of 180 gms/km has an appropriate percentage for 2012/13 of 27%. From April 2013 the appropriate percentage will be 26%.

Zero emissions cars will remain at 0% and ultra low emissions cars with emissions up to 75g will remain at 5%.

2.7 Benefits - fuel

Where an employee receives free fuel for all company car motoring, their tax charge is based on a percentage calculated by reference to the car's CO² emission rate multiplied by £18,000. From 6 April 2011 this figure rises by £800 to £18,800.

2.8 Benefits - mileage rate

Where an employee uses their own car for business journeys in connection with their employment, the employer can reimburse or the employee can claim tax-free mileage allowances.

The mileage allowance rate has remained unchanged since 2002 but from 6 April 2011 the tax-free mileage rates will be:

For the 1 st 10,000 business miles	45p per mile (up from 40p per mile)
For every business mile thereafter	25p per mile (unchanged)

2.9 Reliefs

As recommended by the Office of Tax Simplification, a number of reliefs are to be abolished. Most are redundant but one or two perhaps less so:

Amongst the measures due to go in 2012/13 is the ability to offer staff late-night taxi journeys home without tax penalty. Land remediation relief is scheduled for withdrawal the following year.

The Government has announced consultation over each of these so those interested will have the opportunity of making representations.

2.10 Pensions

It is confirmed that the draft legislation of December 2010 relating to the National Employment Savings Trust (NEST) which is due to be introduced from 2012 will be introduced without further changes. Taken together, these should remove any unintended tax consequences on employers and employees relating to the setting up and operation of NEST.

2.11 Pension allowances

As announced in October 2010, the annual allowance for tax relief on pension savings for individuals will be reduced from £255,000 to £50,000 from 2011/12. In Budget 2011 this is called a 'restriction' of tax relief. For many individuals, the new rules will in fact provide scope for increased relief compared to the current rules.

Since the draft legislation was published in December 2010, one aspect has improved. Individuals with tax charges in excess of £2,000 that relate to the annual allowance will now be able to elect for their liability to be met out of their pension funds. There have been no other changes to the draft legislation, but the Budget papers include a statement that further revisions to reflect consultation feedback will appear in Finance Bill 2011.

Other than the change in the annual allowance, the principal features of the draft legislation as it currently stands are:

- A three year carry forward of unused annual allowances, including notional amounts derived from 2009/10 and 2010/11.
- An increase in the valuation factor used to calculate the value of defined benefit pension savings from a factor of 10 to a factor of 16.
- An inflationary relief from the annual charge.
- A reduction in the lifetime allowance on 6 April 2012 from £1.8m to £1.5m.

2.12 Pension contributions

Consultation will be issued in spring 2011, with the intention of introducing legislation in Finance Bill 2012, on limiting tax relief for asset-backed contributions to defined benefit pension schemes to an accurate reflection of the increase in fair value of plan assets.

2.13 Annuitisation

Legislation issued in draft in December 2010 will be introduced in Finance Bill 2011 to remove the effective requirement for individuals to take a pension in the form of an annuity by age 75 with effect from 6 April 2011. The legislation has been refined to deal with some unintended consequences that were identified during the consultation process.

2.14 EIS and VCT relief for investment

With effect from 6 April 2011, the income tax relief on an EIS investment rises to 30% (up from 20%) to match the relief available on VCT investment.

From 6 April 2012, the conditions for investment are substantially relaxed

- The maximum company size rises to less than 250 employees, up to £15m gross assets
- The maximum capital that can be raised by a company rises to £10m
- The maximum investment by any one individual rises to £1m

The Government has promised to consult on further changes to these schemes but has announced that shares issued after Budget day by companies dependent on feed-in tariffs or similar subsidies will only be eligible where commercial electricity generation commences before 6 April 2012.

2.15 Time deposits

Unlike regular bank accounts, interest earned from time deposit accounts is paid gross. The government proposes to have banks, building societies and other deposit takers deduct basic rate tax at source and pay net interest on all newly opened accounts. Consultation will begin in May 2011 but the change is expected to apply in the 2012/13 tax year.

2.16 ISA limits

In line with other changes in direct taxation, the annual ISA subscription limits will be increased in line with the Consumer Prices Index (CPI) from 6th April 2012. In the event that the CPI is negative the subscription limit will stay at the level of the preceding year.

2.17 Junior ISAs

After the abolition of Child Trust Funds the Government announced last October that it would introduce a Junior ISA to encourage families to save for the benefit of their children. Unlike Child Trust Funds, Junior ISAs will not receive any contributions from the Government. The accounts will operate in a similar way to current ISA products but will only be available to UK resident individuals under the age of 18 who do not have a Child Trust Fund. Account holders will be able to invest in cash or stocks and shares and will enjoy tax relief on the investment. The legislation to introduce these accounts will be included in the Finance Bill 2011 and it is anticipated that accounts will be available in the autumn.

2.18 Offshore funds

A consultation is continuing into the Offshore Funds (Tax) Regulations. The original consultation documents were released by HM Revenue & Customs in December 2010 and February 2011. Planned amendments include alterations to the regulations governing reporting funds and the taxation treatment of investors in funds comprised of unlisted trading companies. The current proposal is that corporate investors in fiscally transparent funds will be subject to loan relationship rules on the investments.

2.19 Transparent fund

UCITS IV is a European Union initiative to introduce tax transparent funds within the financial sector.

The UK will issue a consultation document in June 2011 to establish such funds in the UK.

Further, there will also be legislation enabling foreign UCITS funds to be treated as non-UK tax resident even if they have a UK fund manager.

2.20 Furnished Holiday Lettings

The Finance Bill 2011 will revise the tax rules for Furnished Holiday Lettings (FHL) to include qualifying properties within the European Economic Area (EEA).

From April 2011 losses from a FHL will be restricted so that they are only available to offset against the same FHL business and no longer against general income.

From April 2012, in order to qualify as a FHL, the property must be:

- Available to let for at least 210 days; and
- Actually let for 105 days.

Where a business actually achieves the new lettings targets, they may elect to be treated as meeting this criteria during each of the following two tax years. This “period of grace” will be legislated to apply for the 2010/11 tax year.

2.21 Non-domiciles

There is currently a beneficial regime in place for individuals not domiciled in the UK. However, income and gains are taxed as they are brought to the UK which acts as a disincentive to inward investment.

Accordingly, the Government intends to introduce the following reforms from April 2012:

- Remove the tax charge where income and gains are brought to the UK for the purposes of commercial investment in UK businesses.
- Simplify some of the current rules to ease the administrative burden; and
- Increase the £30,000 remittance charge to £50,000 for non-domiciles resident in the UK for 12 years or more. The £30,000 charge will remain for those resident for at least 7 of the past 9 years and fewer than 12.

A consultation document will be issued in June on the details. No other substantive changes will be made to these rules in the current Parliament.

2.22 Residence

The current rules determining tax residence for individuals are complicated and unclear. As a result the Government will be issuing a consultation document on proposals to introduce a statutory definition of residence to provide greater certainty for individuals. It is intended that the new measures take effect from April 2012.

2.23 Inheritance Tax

The nil rate band for inheritance tax is frozen at £325,000 until April 2015. From the 2015/16 tax year onwards the nil rate band is to be increased using the Consumer Prices Index (CPI).

3. Capital Gains Tax

3.1 Rate

The rate of capital gains tax (CGT) for individuals will remain at 28% for gains, or any parts of gains, which taken together with the individual's income for the year exceed the upper limit for payment of basic rate income tax (higher rate taxpayers).

The rate of CGT will remain at 18% for individuals whose total income and gains are less than the upper limit for payment of basic rate income tax (basic rate taxpayers).

The rate of CGT for trustees and personal representatives will remain at 28%.

The annual exempt amount for capital gains tax will increase to £10,600 with effect from 6 April 2011.

For details of rates and thresholds applicable in 2011/12, please click [here](#) to see tables.

3.2 Annual allowance 2011-12

The Capital Gains Tax annual exemption will increase in line with indexation to £10,600 for the 2011/12 tax year. The exemption for trustees will be £5,300.

3.3 Annual allowance 2012-13

From April 2012 the Capital Gains Tax annual exemption will be increased each year in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). Automatic indexation calculated by reference to the CPI will be overridden if Parliament determines a different amount should apply.

3.4 Entrepreneurs' relief

For disposals on or after 6 April 2011 the lifetime limit on qualifying capital gains will increase from £5m to £10m.

There are no other changes to the conditions applying to this relief.

3.5 Companies - losses after an ownership change

From Royal Assent of the Finance Bill 2011 the rules that restrict the set-off of capital losses following a change of company ownership will be simplified.

The result of the simplification will be that capital losses realised prior to the change in ownership can be off-set against the following:

- Capital gains on assets acquired prior to the change in ownership.
- Capital gains on assets used in the same business the company carried on prior to the change in ownership.

The restrictions that the business had to be a trade, and had to be carried on by the same company, have been removed.

3.6 Companies - value shifting

From Royal Assent the value shifting rules that apply to companies will be simplified.

The simplification will result in a new targeted anti-avoidance rule, to replace the existing legislation, which will apply where tax-driven arrangements are entered into to reduce the value of a company, for example by payment of a dividend, before a sale of its shares subject to corporation tax on chargeable gains.

3.7 Companies - degrouping

From Royal Assent the rules applying to groups of companies for the calculation of degrouping charges will be amended.

The result of the amendments will be:

- The degrouping charge will be treated as additional consideration for the disposal of the shares, rather than as a standalone charge on the company being disposed of. This will ensure that any reliefs available to the shareholder, primarily the substantial shareholding exemption (SSE), will apply to the degrouping charge.
- The ability to make a claim to reduce the charge where it is just and reasonable to avoid taxing the same gain twice.
- Clarification of the circumstances when the associated companies' exception applies (see below).
- Repeal of the ability to roll-over a degrouping charge.

The amendments to the rules on the degrouping charge will include clarification of the associated companies' exception to make it clear that the degrouping charge cannot be avoided by the insertion of artificial intermediate stages to benefit from the exception.

3.8 Single payment scheme

Entitlements under the EU single payment scheme (SPS) are intended to be qualifying assets for business asset roll-over relief. The EU directive under which the entitlement arises varies over time. To avoid amending the tax legislation for new EU directives, the Finance Bill 2012 will include legislation to ensure that entitlements under the SPS will be qualifying assets no matter what directive they fall under.

4. Corporation and Business Tax

4.1 Rates

The main rate of corporation tax will reduce from the current rate of 28% to 26% on 1 April 2011. A further reduction of 1% is proposed so that the main rate will be 25% on 1 April 2012.

Further reductions of 1% per annum have been announced so that the main rate will be 23% by 1 April 2014.

The threshold for the main rate remains at £1,500,000.

There are separate rules governing “ring fence profits”, which primarily relate to companies in the oil industry.

For details of rates and thresholds applicable in 2011/12, please click [here](#) to see tables.

4.2 Small companies rate

As previously announced, the Small Companies Rate will reduce from the current rate of 21% to 20% on 1 April 2011. The threshold for the small companies' rate remains at £300,000.

The marginal rate of corporation tax applying to profits between £300,000 and £1,500,000 will be 27.5% on 1 April 2011.

There are separate rules governing “ring fence profits”, which primarily relate to companies in the oil industry.

For details of rates and thresholds applicable in 2011/12, please click [here](#) to see tables.

4.3 Associates

The associated company rules affect the rate of corporation tax applied to a company's profits.

Currently, the law states that a company can be associated with other companies solely by virtue of rights held by one person being attributed to another associated person.

HMRC's longstanding Extra Statutory Concession (ESC C9) limits such attribution between certain relatives, unless there is substantial commercial interdependence. This concession is to be legislated to extend the treatment currently afforded by ESC C9 to apply to all relatives and partners, including spouses, civil partners and minor children.

This will apply for accounting periods ending on or after 1 April 2011.

4.4 Annual Investment Allowance

The Annual Investment Allowance provides for expenditure by a business on certain plant and machinery capital equipment to be written off in full as a tax deductible expense.

The current maximum of £100,000 will be reduced with effect from 1 April 2012 (where businesses are chargeable to corporation tax) and 6 April 2012 (where businesses are chargeable to income tax).

The qualifying taxpayers are:

- Any individuals carrying on a qualifying activity (which includes trades, profession, vocations, ordinary property businesses and individuals having an employment or office);
- Any partnership consisting only of individuals; and
- Any company, subject to the fact that groups will only be entitled to a single allowance per group.

The AIA will be pro-rated if the chargeable period is more or less than a year; similarly, proportionate allowances are available where the accounting period spans the financial year end.

Where a business spends more than £25,000 in any chargeable period any additional expenditure will be dealt with within the normal capital allowances regime.

This measure was announced in the June 2010 Budget and will be included in the Finance Bill 2011.

4.5 Writing Down Allowance

The Writing Down Allowance allows businesses to write off the cost of capital assets, such as plant and machinery, against their taxable income. They take the place of commercial depreciation, which is not allowed for tax.

The WDA on the main rate pool of plant and machinery expenditure will be reduced from 20% to 18% and the WDA on the special rate pool of plant and machinery expenditure will be reduced from 10% to 8% with effect from 1 April 2012 (where businesses are chargeable to corporation tax) and 6 April 2012 (where businesses are chargeable to income tax).

The WDA will be pro-rated if the chargeable period is more or less than a year; similarly, a hybrid rate of allowances is available where the accounting period spans the financial year end.

This measure was announced in the June 2010 Budget and will be included in the Finance Bill 2011.

4.6 Anti-avoidance

Anti-avoidance legislation exists to provide protection against abuse of the capital allowance rules that apply to plant and machinery.

The current legislation applies to transactions where the sole or main benefit arising from the transaction is obtaining an allowance. It is proposed to make this legislation more effective by replacing the current 'sole or main benefit' test with a new rule that is in line with anti-avoidance tests in other tax legislation.

A consultation document will be published in May 2011, with a view to introducing legislation in the Finance Bill 2012.

4.7 Fixtures

There is to be consultation on the introduction of changes to the capital allowances fixtures rules that businesses must pool their expenditure on fixtures in a building within a short period of acquiring the building, in order to qualify for capital allowances.

A consultation document will be published at the end of May 2011.

4.8 Short life assets

Short life asset elections provide for expenditure by businesses on certain items of plant and machinery to be separately identified for capital allowance purposes. The purpose of the election is to allow a balancing allowance to be given on the disposal of the asset for which an election has been made if it is sold or scrapped before a cut-off point.

The current 4 year cut off period over which expenditure on plant and machinery is given short life asset treatment will be extended to 8 years.

If the asset is not sold or scrapped within the 8 year cut off period, the remaining balance of expenditure will be transferred to the main capital allowances pool at the end of 8 years from the end of the period in which the expenditure was incurred, rather than 4 years at present.

The measure will have effect for expenditure incurred on or after 1 April 2011 (where businesses are chargeable to corporation tax) and on or after 6 April 2011 (where businesses are chargeable to income tax).

The current exceptions from short life asset treatment (e.g. cars) will continue.

4.9 Energy-saving technology

The Enhanced Capital Allowance regime provides for expenditure by a business on certain qualifying plant and machinery to be written off in full as a tax deductible expense. The plant and machinery has to be energy saving and/or water efficient.

It is proposed to update the list of qualifying technologies and products to include energy efficient hand dryers. The criteria for automatic monitoring and targeting equipment will also be revised.

The effective date will be announced by a Treasury Order to be made prior to the summer 2011 Parliamentary recess.

4.10 Feed-in tariffs

The renewable heat incentive scheme, due to be introduced in summer 2011, will provide that where electricity and heat generation is undertaken by a business, the business may be able to claim capital allowances in respect of expenditure on the generating equipment.

It is proposed that legislation will be introduced to clarify the appropriate capital allowances treatment of such expenditure and ensure more consistent treatment between businesses, as currently there is some uncertainty over the rate at which allowances may be claimed, and that this may be dependent on the business circumstances and the site of the installation.

The RHI scheme will sit alongside the feed-in tariffs scheme, introduced in April 2010, which incentivises low carbon electricity generation.

A consultation document will be published in May 2011, with consideration given to including legislation in the Finance Bill 2012.

4.11 Enterprise Zones

It was announced that 21 new Enterprise Zones are to be created. There are 10 already designated and another 10 will be designated in the summer. The remaining zone will be in London.

Additionally, consideration will be given in a limited number of cases to the scope for introducing enhanced capital allowances to support enterprise zones in assisted areas where there is a strong focus on high value manufacturing.

4.12 R&D tax credits

Following the Dyson Report that was published in March 2010, the changes now announced go further than many Small and Medium Enterprises (SMEs) had hoped for. .

Subject to further consultation the R&D scheme is to be simplified and improved with effect from 6 April 2012 by

- A 25% increase in benefit from 1 April 2011, and a further 25% increase from 1 April 2012 to give a total deduction of 225%.
- Abolishing of the rule limiting an SME's repayable R&D tax credit to the amount of PAYE and NICs it pays in the period.
- Abolishing the £10,000 minimum annual R&D expenditure requirement for large companies and SME's.
- Allowing relief through the large company scheme for subcontracted activity which forms part of a larger R&D project thereby allowing companies such as contract research organisations to benefit for the first time.

SMEs will however be prevented from claiming Vaccine Research Relief from 1 April 2012.

4.13 R&D tax credits for smaller entities

For SMEs the additional super-deduction for R&D expenditure is increased from 75% to 100% from 1 April 2011. The effect of this will flow through for companies whose year end falls after 1 April 2011. In order to stay within EU State Aid rules the vaccine research relief for SMEs will be reduced to 20% from 1 April 2011.

4.14 Transfer pricing

To provide certainty for multinational businesses, for accounting periods beginning after 31 March 2011 (for income tax for the tax year 2011/12 onwards) the July 2010 version of the OECD guidelines is to be referred to.

4.15 CFC reform - immediate

With a view to the UK becoming a more competitive holding company regime, ahead of the full CFC reforms in 2012, the following interim exemption measures will be introduced for accounting periods beginning after 31 December 2010:

- CFCs whose chargeable profits under UK tax principles would be below £200,000;
- CFCs with a main business of IP exploitation where the IP and the CFC have minimal connection with the UK;
- For a period of three years, CFCs which as a result of a reorganisation or change to UK ownership come within the scope of the CFC regime. This exemption would also apply to previously UK-headed groups that return to the UK); and
- Certain intra group trading transactions where there is little connection with the UK (therefore, artificial diversion of UK profits unlikely).

4.16 CFC reform - planned

In order to make the UK CFC regime more competitive, a new CFC regime will be introduced in the Finance Bill 2012 moving towards a territorial basis of taxation. A CFC tax charge will only apply to the proportion of overseas profits artificially diverted from the UK.

An additional new rule will seek to charge UK tax at 25% of the main corporation tax rate (i.e. 5.75% by 2014) on profits derived from overseas group financing arrangements, effectively a partial exemption for finance companies.

4.17 Foreign branches

In a move towards a territorial basis of taxation, an irrevocable election to exempt foreign branches from UK corporation tax will be introduced in the Finance Bill 2011. This will be a welcome measure to the insurance, banking and oil and gas exploration industries.

This measure removes the current tax differential between foreign branches (taxed fully in the UK on an arising basis, with credit relief for foreign tax paid, capped at the UK tax payable) and foreign subsidiaries (whose dividends paid to a UK parent are likely to be exempt from UK tax).

Exempt profits will include any capital gains attributable to the foreign branch.

No relief will be available for foreign branch losses and anti-avoidance measures will be introduced to prevent the diversion of profits to exempt branches.

Companies not electing for the exemption will be unaffected

4.18 Abuse of tax treaties

Relief or exemption from UK tax will not be given under the UK's double tax treaties where UK tax avoidance arrangements have been made in relation to the claim. It is intended to introduce these anti-avoidance measures in the Finance Bill 2012.

4.19 Patent Box

As part of the agenda for growth, the Government is introducing a Patent Box from 1 April 2013.

The Patent Box would allow a reduced 10% rate of corporation tax on profits from patents.

The intention is to encourage companies to locate higher-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK.

A further consultation document will be issued in May 2011 to take the process forward.

4.20 Government gilts

Currently the inflation uplift in gilt-edged securities linked to the Retail Prices Index (RPI) is exempt from the charge to corporation tax. This exclusion does not currently apply to gilt-edged securities whose return might be based on a non-RPI index of prices.

The exclusion is to be extended to gilt-edged securities whose return is calculated by reference to any index of prices published by the Office for National Statistics, so paving the way to linking gilts to the CPI.

The legislation will have effect for securities issued on and after the day on which Finance Bill 2011 receives Royal Assent.

4.21 Leasing companies

Legislation will be introduced in Finance Bill 2011 with effect from 23 March 2011 to withdraw the option for a company with a leasing business to elect out of the 'sale of lessor company' charge that may arise on change of ownership.

The current 'sale of lessor company' charge legislation aimed to ensure that the full amount of profits of the leasing business are brought into charge over the lifetime of the leases. As commercial profits from some leases may arise before they are taxed, a change of ownership of the company could result in taxable profits never being taxed. It is considered that the election to opt out of the charge, such that profits of the company are ring fenced to ensure tax is paid on the deferred profits over the lifetime of the lease, may have been abused.

The measure is to ensure that

- the full value of the company's interest in leased plant and machinery is taken into account in determining the scope of the sale of lessor companies legislation and
- the right plant and machinery assets are reflected in the calculation of the income amount.

The measure will have effect when

- there is a change in ownership of the lessor company or a change in a partner company's interest in the leasing business on or after 23 March 2011; or
- there is a transfer of a business of leasing plant and machinery on or after 23 March 2011 where under the current law the assets would be treated as sold at market value.

4.22 Functional currency

Non-sterling balances in company accounts can give rise to large taxable profits and losses. A change in the company's functional currency can have the effect of creating allowable losses but no matching profit as it is only the taxable profit that is translated into sterling for tax purposes at an appropriate rate of tax. Such schemes were stopped in December.

Investment companies with periods of account beginning after 31 March 2011 will be able to elect for a functional currency for tax purposes other than the functional currency of the accounts. The election will only be available to companies whose main purpose is to make investments.

4.23 Mismatches

In December, the government announced it would prevent groups of companies generating tax losses through the asymmetrical tax treatment of loans and derivatives. Following consultation, the draft legislation has been amended so that:

- Only UK-to-UK transactions will be affected.
- The tax saving will only be overruled if it is expected to exceed £2m.
- The anti-avoidance condition must include an objective element, which means that the scheme must be more likely to produce a tax advantage than a tax disadvantage.

These new rules will apply to group mismatch schemes to which a company is party on or after Royal Assent to Finance Bill 2011.

4.24 Derecognition

The Government is introducing legislation backdated to December 2010 targeted at stamping out tax avoidance where profits and losses on certain financial assets (known as loan relationships and/ or derivative contracts) are not accounted for equally.

As a result, it should no longer be possible to incur a tax loss without the parallel tax profit – so called “derecognition” in the precise circumstances covered within the legislation.

4.25 Accounting for leases

Changes to the International Accounting Standard governing lease accounting are expected during 2011 and changes to UK GAAP may follow in 2013, affecting businesses which are lessees or lessors of assets.

As a result, legislation will be introduced in Finance Bill 2011 to ensure continuity of tax treatment for lease transactions for businesses which begin to account for the transactions under a new standard. The measure will require tax profits and losses to continue to be calculated as if the changes to lease accounting standards had not taken place.

The measure will have effect where a business accounts for lease transactions using a lease accounting standard that is newly issued or is changed on or after 1 January 2011, and will be effective for any period where early adoption is permitted by the standard.

4.26 Leasing double allowances

Anti avoidance legislation was announced on 9 March 2011 to counter a scheme under which the lessee of plant or machinery under a long funding lease seeks to obtain tax relief for more than the actual expenditure.

The legislation will apply to new arrangements and to existing arrangements where a payment under a guarantee has not been made prior to 9 March 2011.

The legislation will be introduced in the Finance Act 2011 and will have effect from 9 March 2011.

4.27 Financing costs

For accounting periods beginning on or after 1 January 2010 the tax treatment of financing costs and income of large groups became subject to the debt cap rules. These can restrict tax relief for financing costs and provide tax exemption for finance income but have caused groups problems in trying to apply the rules. This has led to some practical difficulties that need to be addressed. These will be addressed by a joint working group involving interested tax professionals and HMRC with a view to introducing amending legislation in Finance Bill 2012.

4.28 Loan relationships

In certain circumstances companies can defer exchange gains and losses. Budget 2011 includes a proposal to introduce technical changes with the intention of aligning the tax treatment with the commercial outcome. These will be addressed by the Government informally with stakeholders in May 2011.

4.29 Life Insurance

A new life insurance tax regime, to align with the tax of companies generally, is to take effect from 1 January 2013.

Life insurance companies will be taxed on a trading profit basis as opposed to the "income minus expenses" calculation currently used.

HM Revenue & Customs now accept that stop-loss premiums are allowable in accordance with normal accountancy principles and will amend their guidance accordingly (Lloyd's manual LLM4150).

Claims Equalisation Reserves are expected to disappear from January 2013 under the Solvency II Directive. It is intended to retain the tax relief which general insurers and Lloyd's insurers currently receive in respect of these reserves.

4.30 REITs

The Government has announced they will commence an informal consultation with interested parties on ways to make REITs more attractive investment vehicles.

The aim of the consultation is to introduce legislation in the 2012 Finance Bill to remove barriers and reduce the regulatory burden in certain areas both for existing and new REITs.

4.31 Investment Trusts

The Government, having concluded its consultation process, is updating the tax rules covering investment trusts so that it:

- Removes unnecessary restrictions on commercial activities.
- Provides increased certainty for investors.
- Reduces costs to business.
- Provides a more flexible framework.

The Government intends the UK to be a more competitive environment for investment trusts and that UK investors should choose investments for commercial rather than tax reasons.

There will also be changes made with company law rules to be consistent with tax changes.

4.32 Distributions

In July 2009 the tax treatment of distributions received by companies was the subject of major reform. This has created some areas of uncertainty. These will be addressed by a joint working group involving interested tax professionals and HMRC with a view to publishing comprehensive guidance or introducing amending legislation in Finance Bill 2012.

4.33 Film tax relief

The special film tax relief for expenditure on production of British films will be renotified to the European Commission in 2011 as State aid, to help secure the future of this relief beyond the current 2012 expiry.

4.34 Alternative finance

Regulations will be made in 2011 to introduce direct tax rules for Sharia-compliant variable loan arrangements and derivatives following a formal consultation process with industry.

4.35 Northern Ireland

The Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and looking at mechanisms for devolving the rate of corporation tax to the Northern Ireland Executive. A consultation paper is due to be published on 24 March 2011.

5. Charities

5.1 Donor benefits

For donations to charities to be eligible for Gift Aid tax relief there are limits on the value of benefits that both individuals and companies can receive from the charity as a result of making those donations. For some time it has been felt that the maximum benefit for donations over £1,000, which is currently 5% of the donation with an overall cap of £500, was restrictive in terms of large donations.

Therefore, for donations made by corporate donors in accounting periods ending on or after 1 April 2011 and for individuals on donations made from 6 April 2011, there will be an increase in the benefit limit for donations of more than £10,000 to a maximum cap of £2,500 whilst still limiting the maximum value of benefits to 5% of the donation.

The aim is to encourage significant donors to give more to charity. It will enable charities who wish to do so to thank their larger donors in a more generous way without the donations being disqualified from Gift Aid

5.2 Avoidance

The anti-avoidance legislation on substantial donors to charities was introduced in 2006 to counter known abuses of charity tax reliefs. However, since the introduction of that legislation charities have made representations that the existing legislation creates administrative burdens, catches unintended transactions and discourages larger gifts.

The replacement rules will deny tax relief on donations only where the donor is party to arrangements whose main purpose is or includes obtaining a financial advantage for the donor or a connected person, directly or indirectly from the charity.

The new rules will disapply the substantial donor rules in relation to payments made by a charity on or after 1 April 2011. All gifts regardless of size will potentially be within its scope. The concept of "substantial donor" will thus disappear and be replaced by the term "tainted charity donations." There will be a transitional period of two years before the existing legislation is repealed.

Another key change in approach is that where a gift is deemed to be tainted under the new rules, tax relief is denied and the donor (as opposed to the charity) will be the primary target for recovery of any relief that should not have been given.

5.3 Small donations

From April 2013 charities that receive 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. There will be a cap on the amount of small donations which this repayment can be claimed of £5,000 per year, per charity.

In order to qualify for this new relief charities will need to have been recognised by HMRC for Gift Aid purposes for at least three years, have been operating Gift Aid successfully and also have a good tax compliance record.

5.4 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 HMRC will be publishing four new “intelligent” forms for charities to use. These forms will contain automatic checks to improve the accuracy of information and reduce administrative burdens. HMRC will also be working with the charity sector to develop a supporting electronic Gift Aid database for Gift Aid declarations.

5.5 In-year repayments

In the autumn of 2011 draft Finance Bill clauses will be published that will give statutory effect to an existing extra statutory concession whereby currently HMRC makes certain repayments to charities that make a claim for repayment outside a tax return (“in-year claims”).

5.6 Gifts of art

Consideration is being given by the Government to introducing a tax reduction for taxpayers who donate a work of art or historical object of national importance to the State. A consultation on this matter will take place over the summer.

5.7 Tax repayments

The self assessment Donate scheme whereby taxpayers are able to redirect tax payments due to them to a charity of their choice is to be withdrawn for tax years 2011-12 and subsequent years. Also, any repayments made in respect of earlier years must be made by 5 April 2012.

5.8 Inheritance tax

The Government has announced that for deaths occurring on or after 6 April 2012 there will be a reduced rate of inheritance tax (“IHT”) where 10% or more of a deceased person’s net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. The IHT rate will be reduced from 40% to 36%.

A consultation document on the detailed implementation of this measure will be issued before the summer.

6. Stamp Duties

6.1 Alternative Finance

A number of recent SDLT avoidance schemes have used the Alternative Finance Reliefs (employed legitimately to comply with Sharian Law) in order to circumvent SDLT charges on property transactions.

From 24 March 2011, legislation will “put beyond doubt” that the use of Alternative Finance rules does not avoid the SDLT charge.

The changes will clarify the relationship between the rules for sub-sales and Alternative Finance and narrow the definition of a “Financial Institution” for the purposes of Alternative Finance. For instance it will no longer be possible for to qualify as a “Financial Institution” just by holding a Consumer Credit Licence.

Finally, measures will also be introduced to counter the effect of an engineered reduction in market value when properties are exchanged. The chargeable consideration for exchanges involving a major interest in land will be changed to be the greater of (a) the market value of the interest acquired, and (b) what the chargeable consideration would be under the normal rules for consideration.

6.2 House builders

Under current law where land is purchased by an acquirer, the rate of SDLT payable by the acquirer has been determined by the aggregate consideration given for the land in question. This has encompassed single transactions involving one or more interests in land and “linked transactions” between the same purchaser and vendor or, in either case, any persons connected with them. This means that a purchaser acquiring multiple properties can pay a higher rate of SDLT than a purchaser acquiring a single property.

From Royal Assent, purchasers of residential but not commercial property will obtain a measure of relief. Any non-residential property will be excluded from the relief. Where the relief is claimed, the SDLT charge will be calculated by reference to the rate applying to the mean or average consideration paid per dwelling, subject to a minimum charge of 1%.

Provision will be made for the relief to apply to “off-plan” purchases where a contract is substantially performed before construction of the dwellings has begun. A further SDLT return will be required if the number of dwellings reduces, so that additional tax becomes due, within three years of the transaction.

The stated policy objective is to strengthen demand for and reduce a barrier to investment in residential property.

6.3 First-time buyers

Last year, a special SDLT relief was introduced for the purchase of residential property up to £250,000 by first time buyers intending to occupy the property as their only or main home. This relief is time-limited to two years expiring on 25 March 2012.

The government has been reviewing the impact of SDLT on first time buyers and has announced that the outcome of this review will now be revealed in the autumn.

6.4 Collective Investment schemes

The Government has announced it will widen the current definition of when an investment in an underlying collective investment scheme is classed as an 'exempt investment' under the SDRT rules. Interests in the underlying scheme will be exempt from SDRT where, broadly speaking, it is not significantly invested in UK shares.

7. VAT

7.1 Low value supplies

This relief allows goods imported by post from non EU countries to be relieved from VAT where their value is less than £18.00. The government has announced a token reduction in this amount to £15.00 and will consult with the EU Commission to see if it can be further limited in the 2012 budget.

7.2 Registration limits

From 1 April 2011 the VAT registration limit will rise from £70,000 to £73,000. The deregistration limit will increase from £68,000 to £71,000

7.3 Fuel scale charges

Fuel scale changes will be revalorised with effect from 1 May 2011.

7.4 Diplomatic privilege

The Government is in the process of gradually replacing all extra statutory concessions with legislation. This will take place for certain reliefs given to diplomatic missions, international bodies and visiting forces. A relief will be introduced for European Research Infrastructure Consortia.

7.5 Groups

As previously announced, the Government will legislate to ensure continued application of the relief given in the current VAT extra statutory concession 3.2.2 that ensures that groups and branches are treated equally when purchasing services from third parties.

7.6 Public Bodies

UK law will be amended to bring it in line with EU law relating to the treatment of public bodies when carrying out statutory duties and when in competition with the private sector.

7.7 Imported vehicles

A new online notification will be introduced for road vehicles brought into the UK from 2013. This joint initiative between HMRC and DVLA is designed to combat fraud.

7.6 Cost Sharing

The Government will continue to consult on implementing the VAT exemption for cost sharing by exempt bodies included in European VAT law.

7.9 Online registration and filing

The Government will begin consultations with the aim of making electronic VAT returns compulsory for all businesses from 1 April 2012.

With effect from 1 August 2012 VAT registration, deregistration and notifying HMRC of variations to business details will have to be undertaken online.

7.10 Academies

As previously announced, the Government will proceed with a VAT refund for Academy Schools (Free Schools) with effect from 1 April 2011. This will replace a system of central estimated VAT grants from the Department of Education.

8. Compliance

8.1 Mutual Assistance

With effect from 1 January 2012 the UK will implement the Mutual Assistance Recovery Directive agreed by EU Finance Ministers during 2010. This will enable EU member states to provide each other with assistance in the recovery of tax debts and duties owed by individuals and businesses within the EU.

8.2 Time to Pay

The Business Payment Support Service will continue to be available to provide advice and time to pay to viable businesses experiencing temporary financial difficulty. It is not clear whether this service will become any more helpful.

8.3 Disclosure of schemes

From 1 January 2011, five additional measures to improve the Disclosure of Tax Avoidance Schemes (DOTAS) regime took effect. These included changes to the hallmarks (the key features of a scheme that require its disclosure), the trigger point for disclosure and enhanced information powers affecting promoters and intermediaries.

Further changes to the hallmarks will follow in 2011-12 with the aim of increasing the number of schemes that require disclosure. The DOTAS regime is also being extended to include inheritance tax on the transfer of property into trust with effect from 6 April 2011.

The Government proposes to list in regulations certain tax avoidance schemes which are believed not to deliver the promised tax advantages. There will be statutory consequences of entering into these schemes designed to remove any cash flow advantage from delayed payment of the disputed tax liability through an additional late payment charge.

A consultation document will be issued in May 2011 with the intention of including legislation in Finance Bill 2012.

8.4 Review of powers

Finance Bill 2011 will include legislation allowing HMRC to make regulations to enable them to require a security from employers for PAYE and NIC that is at serious risk of non-payment. Not providing a security when one is required will be a criminal offence, but time to pay arrangements will be considered before a security is enforced.

9. Miscellaneous

9.1 Bank levy

A permanent Bank Levy is introduced with effect from 1 January 2011. It can apply to any group of companies that includes a bank. It is expected to raise £2.9bn in a full year by charging a small percentage of consolidated equity and liabilities in excess of £20bn. Because of the extensive range of exclusions from “chargeable equity and liabilities”, it is expected that institutions paying this levy will be encouraged to increase Tier 1 capital and other long-term funding and discouraged from excess reliance on short-term borrowing.

9.2 Aviation Tax

The Government announced that it would tax private business jets and will be consulting about implementation. A consultation was also announced on wider reforms to Air Passenger Duty to apply from April 2012.

9.3 Oil & Gas

Companies involved in oil and gas in the UK or on the UK Continental Shelf are subject to a special tax regime.

As part of the Fair Fuel stabiliser, an increase from 20% to 32% in the supplementary charge on profits is being levied on these companies whilst oil remains above a trigger price of around US \$75 per barrel – the precise value for which would be subject to consultation. This will provide the Government with funds to restrict the Fuel Duty increases. It is intended that this supplementary charge will reduce should oil prices start decreasing on a sustained basis.

However, the rate of relief for decommissioning expenses will be restricted to 20%.

Further, rules covering the acquisition of oil licences will be tightened so that they specifically prevent tax relief for their depreciation.

Other measures, some of which have been previously announced, cover tax relief on gains that are reinvested into new oil trade assets.

9.4 Renovation allowance

The Business Premises Renovation Allowance provides 100% tax relief for the capital costs of converting, renovating or repairing qualifying unused commercial buildings in certain disadvantaged areas.

It was introduced on 11 April 2007 with a five year time limit.

The Government has announced that it will extend this five year time limit by a further five years to 2017.

9.5 Business Rates

As part of the agenda for growth, 21 Enterprise Zones are being created in areas where there is strong focus on manufacturing. These zones will be established nationwide – including the South East and will confer tax and non-tax advantages.

One of the non-tax advantages will be a discount for business rates of up to 100% for five years.

9.6 Business Rates Holiday

Small businesses with rateable values below £6,000 a year are currently entitled to a business rates holiday ending October 2011.

This holiday will now be extended to October 2012.

Disclaimer

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