



Executive Summary – an NI perspective

The Chancellor of the Exchequer, George Osborne, has just released his Second Budget with its main aim being to generate economic growth. This Budget contained few surprises given that many measures had already been announced in the Emergency Budget in June 2010.

From a personal taxation perspective, it is welcome to see the coalition Government seeing through on its commitment to increase personal allowances and take a considerable number of low income earners outside of the tax net. It is also encouraging that Mr Osborne indicated that the 50% tax rate is seen as “temporary” and recognising that it could possibly dampen future entrepreneurial activity.

Looking at corporation tax, the move to lower the full rate by 2% to 26% from 1 April 2011 had not been signalled and was a genuine surprise. This is a welcome development as the UK is now committed to a downward path of corporation tax rates bottoming out at 23%. This goes some way to restoring the competitiveness of the UK as a location for international business.

But, the big news for Northern Ireland was the release of a consultation document from HM Treasury into examining mechanisms to rebalance the NI economy. The consultation paper sets out estimates of the costs and benefits of such a move and says that a reduced corporation tax rate could play a significant role in helping to rebalance the Northern Ireland economy, especially over the longer term, by encouraging private sector investment and growth.

The opportunity now exists to positively contribute to this consultation process. At BDM, we welcome this development and look forward to the prospect of the NI Executive setting its own corporation tax rate. This could be a significant economic lever for the Executive to attract foreign direct investment, incentivise local businesses and as a result create growth and employment.

We shall keep you updated as to how this develops.

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Personal and employee taxes

Income tax and NICs

The personal allowance is to increase to £7,475 on 6 April 2011 and to £8,105 from 6 April 2012. However, the rate at which an individual pays higher rate tax will reduce from the current level of £37,400 to £35,000 on 6 April 2011 and to £34,370 from 6 April 2012.

From 2012-13 the basis for indexation of National insurance contribution rates (other than secondary Class 1 employer NICs) will be in line with CPI instead of RPI.

Individual savings accounts (ISA's)

From 2011/12 the maximum annual amount that may be invested in a cash ISA is £5,340. The maximum for a stocks and shares ISA will be £10,680, subject to an overall subscription limit of £10,680.

Merging income tax and NICs

A consultation has been issued to consider whether income tax and NICs should be merged to simplify the tax system. The Chancellor announced that there would be carve-outs for pensioners who do not currently pay NICs on the pension they receive and other areas where NICs are not currently paid. It is expected that any legislation arising from the consultation will take several years to implement.

Approved mileage allowance payments rates

From 6 April 2011 the approved mileage rate will increase from 40p per mile to 45p per mile for the first 10,000 miles of business travel per year. The approved rate for excess mileage will stay at 25p. If an individual's employer does not reimburse mileage at the approved rates, the individual may make a claim for tax relief for the shortfall.

Childcare relief

The level of income tax relief available to higher and additional rate taxpayers will be restricted to the basic rate where that individual joins an employer-supported childcare scheme on or after 6 April 2011.

Enterprise investment scheme and venture capital trusts

The Government announced an increase in the rate of income tax relief given under the Enterprise Investment Scheme from 20% to 30% with effect from 6 April 2011, subject to State aid approval.

Gift aid donor benefit limits

The maximum value of the benefits that individuals may receive as a result of making a donation to a charity of more than £10,000 under Gift Aid Legislation is to increase, from £500 to £2,500. The new limit will be subject to the existing rule that the benefit must not exceed 5% of the gift.

Car and car fuel benefits

Cars

The taxable benefit in respect of a car provided by an employer is calculated by reference to the car's carbon dioxide emission rating, with the scale charge varying between 15% and 35% of the list price. There is a supplementary charge of 3% for diesel cars but not so as to take the total percentage beyond the maximum of 35% mentioned above. From 6 April 2011 the £80,000 list price cap will be abolished.

Car fuel

The taxable benefit in respect of fuel provided by an employer is the 'appropriate percentage' of £18,800 (2010/11 £18,000) where the appropriate percentage is the figure (from 15% to 35%) used to determine the taxable benefit in respect of the provision of the car.

Rates

The starting rate of tax has been abolished for all earned income. It is still available for savings income with a limit of £2,560 (£2,440 for 2010/2011).

For basic rate taxpayers, tax on UK dividends is charged at 10%, which is discharged by the tax credit. For non-taxpayers, the dividend tax credit is not refundable. Higher rate taxpayers have to pay further income tax equal to 25% of the cash dividend. Additional rate taxpayers have to pay further income tax equal to 36% of the cash dividend.

Stamp duty land tax (SDLT)

Three anti-avoidance measures have been proposed for inclusion in the Finance Bill 2011. The changes affect the following:

- the inter-relationship of the sub-sales and alternative finance relief rules so that the sub-sale rules will not apply where alternative finance relief is claimed.
- the definition of 'financial institution' for the purposes of the alternative finance relief rules such that it will no longer be possible to qualify as a financial institution just by holding a Consumer Credit Licence, and
- the way the consideration is determined where land is exchanged such that the charge will, in the future 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 determining chargeable consideration.

Corporate taxes

Corporation tax in Northern Ireland

A consultation document was released by HM Treasury on 24 March 2011 to examine mechanisms in respect of devolving powers to the NI Executive to set its own corporation tax rate.

Corporation tax rates

The main rate will be reduced by 2% from 6 April 2011 to 26%. The rate will also reduce by 1% each year for the next three years after this so that by April 2014 the rate is 23%. This is the lowest corporation tax rate in the G7.

Research and development tax credits

The rate of deduction for qualifying R&D expenditure for small companies is to increase for expenditure incurred after 1 April 2011 to 200% (from 125%) and from April 2012 will increase to 225%.

Vat and other indirect taxes

VAT

From 1 April 2011 there will be an increase in the VAT registration threshold from £70,000 to £73,000.

Landfill taxes

The Government is legislating for an increase in the standard rate of landfill tax by £8 per tonne to £64 per tonne.

Duties

Fuel

The main fuel duty rate was reduced by 1p per litre from 6.00pm on 23 March 2011.

Alcohol

Alcohol duties will increase by 2% above RPI on 28 March 2011. This will add 4p to the price of a pint of beer, 15p to the price of a bottle of wine and 54p to the price of a bottle of spirits.

Capital taxes

CGT annual exempt amount

This will increase to £10,600 from 6 April 2011.

Entrepreneur's relief

The lifetime limit is to be increased from the current £5 million to £10 million for qualifying disposals after 6 April 2011.

Non-doms

From April 2012, the remittance basis charge will be increased for non-doms after they have been resident in the UK for 12 years. The annual charge will increase to £50,000. Foreign income or capital gains remitted to the UK for the purposes of commercial investment in UK businesses will no longer be subject to a tax charge.

Inheritance tax

The inheritance tax nil rate band, as previously announced, has been frozen until April 2015 at £325,000 per person.

Rates

Tapering relief is given in respect of gifts made between three and seven years before death. Where tax is payable on lifetime gifts (other than those taxable only because they are made within seven years of death), tax is charged at 20%. Where one party to a marriage or civil partnership dies and does not use their nil rate band to make tax free bequests to other members of the family, the unused amount can be transferred and used by the survivor's estate on their death. This only applies where the survivor dies on or after 9 October 2007.

Rates and allowances

Income tax

Taxable income	2012-13	2011-12	2010-11
Basic rate (20%)	£0 - £34,370	£0 - £35,000	£0 - £37,400
Higher rate (40%)	£34,371 - £150,000	£35,001 - £150,000	£37,401 - £150,000
Additional rate (50%)	over £150,000	over £150,000	over £150,000

Income tax allowances

Personal allowance	2011-12	2010-11	change
under 65	£7,475	£6,475	£1,000
65-74	£9,940	£9,490	£450
75 and over	£10,090	£9,640	£450

The income tax personal allowance is restricted for those with income over £100,000 tapering down to zero.

Rates and allowances

National insurance contributions

	2011-12	2010-11
Class I (earnings related)		
Lower earnings limit (LEL) (per week)	£102	£97
Upper earnings limit (UEL) (per week – employees only)	£817	£844
Earnings threshold (per week) for employees	£139	£110
Earnings threshold (per week) for employers	£136	£110
Employee rate		
- on earnings between earnings threshold and UEL	12%	11%
- on earnings above UEL	2%	1%
Employer rate	13.8%	12.8%
Class 2 (self-employed flat rate) per week	£2.50	£2.40
Small earnings exemption (per year)	£5,315	£5,075
Class 3 (voluntary): per week	£12.60	£12.05
Class 4 (self-employed)		
Lower profits limit (per year)	£7,225	£5,715
Upper profits limit (per year)	£42,475	£43,875
Rate		
- on earnings between lower and upper profits limit	9%	8%
- on earnings above upper profits limit	2%	1%

Rates and allowances

Capital gains tax

For individuals the rules have been reformed from 22 June 2010. A flat rate of 18% is charged on gains made on or before 22 June 2010. After 22 June 2010 the following Capital Gains Tax rates apply:

- 18% for individuals who are basic rate taxpayers up to their basic rate band being fully utilised.
- 28% for higher and additional rate taxpayers, and for those basic rate taxpayers who have used their basic rate band with capital gains.

Corporation tax

Corporation tax	FY 2011	FY 2010
Main rate	26%	28%
Small companies	20%	21%
Profit limit *	£0 - £300k	£0 - £300k
Marginal relief where profits fall between	£300k - £1,500k	£300k - £1,500k
Marginal relief fraction	7/400	7/400
Profit threshold for instalment payments *	£1,500k	£1,500k

* Reduced by reference to number of associated companies

The main rate of corporation tax will continue to be reduced by 1% per annum over the next three years to 23%

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