

budget 2011 commentary.

budget overview.

The Chancellor described his budget as “not tax raising but not give away”. Many changes to tax rates and allowances effective from 6 April 2011 had previously been announced in the emergency budget delivered on 22 June 2010.

Growth projections were revised with a rate of 1.7% for 2011, down from 2.1%. The inflation target remains at 2% yet is likely to be between 4% and 5% in the current year.

Three key objectives were identified by the Chancellor, the desire to have the most competitive tax regime amongst G20 countries, make the UK the best place to start, finance and grow a business and create a more educated workforce.

Most significant was the announcement to consider the merging of income tax and national insurance following a period of analysis and consultation that will last a number of years. Whilst the Chancellor stated such a change would not be designed to increase tax revenues there will inevitably questions relating to those income sources where national insurance does not currently apply e.g. pensions.

The theme of tax simplification continues with the announcement to abolish some 43 relatively unused complex tax reliefs identified by the recently formed office for tax simplification.

budget summary.

Income tax rates, bands and allowances

As previously announced the personal tax allowance will be set at £7,475 for 2011/2012. To remove the benefit of the increase for higher rate taxpayers the basic rate tax limit will reduce to £35,000 from £37,400. From 2012/2013 the personal allowance will increase by a further £630 to £8,105 working towards the government’s target of £10,000. There will be an equivalent reduction in the basic rate tax limit.

Click on the following link for tax rates and allowances <http://www.hmrc.gov.uk/rates/>

The main rates of income tax will continue to be 20% basic rate, 40% higher rate and 50% additional rate. The Chancellor described the 50% rate as a temporary measure and announced that he had instructed HM Revenue and Customs to assess the effectiveness of the 50% rate in raising tax revenues.

National Insurance

The 1% increase to employee national insurance contributions will apply from 6 April 2011 with a headline rate of 12% and 2% above the upper earnings limit.

Capital gains tax

The annual exemption for capital gains will increase to £10,600 from 6 April 2011. The lifetime limit on capital gains qualifying for entrepreneur’s relief will increase to £10 million.

Inheritance tax

The nil rate band will remain fixed at £325,000 for 2011/2012. A reduced rate of inheritance tax of 36% will apply from April 2012 for those leaving 10% or more of their estate to charity.

Employee benefits

From April 2013 the “appropriate percentage” for all vehicles with CO2 emissions between 95g and 220g per km will increase by 1%.

From 6 April 2011 the fuel benefit charge multiplier applying to the provision of free fuel will increase from £18,000 to £18,800.

The approved mileage allowance payment rate will increase from 40p to 45p effective from 6 April 2011 (for the first 10,000 miles).

Tax efficient savings & investments

Further to the government’s announcement in October 2010 draft regulations in relation to junior ISA’s are to be published in the week commencing 28 March 2011 with the expectation that the accounts will be available from autumn 2011. As previously announced the ISA subscription limit for 2011/2012 is £10,680.

From 6 April 2011 the rate of income tax relief on enterprise investment scheme subscriptions will increase from 20% to 30%. The subscription limit will double from £500,000 to £1 million from April 2012.

As part of the removal of certain tax reliefs the exemption from tax for the first £70 of interest paid on a national savings bank ordinary account will no longer apply.

Residence & domicile

The annual charge applying to those non-domiciled who retain the remittance basis of taxation will increase from £30,000 to £50,000 following a period of consultation. The charge will be removed where the individual remits income or gains into the UK for the purposes of making a commercial investment.

Corporation tax

The main rate of corporation tax will reduce from 28% to 26% from April 2011. Further reductions of 1% per year will follow in each of the following three years resulting in a 23% rate in 2014.

Fuel duty

The main fuel duty rate will be cut by 1p from 6pm on 23 March with the introduction of a fair fuel stabiliser to manage future increases in the duty.

Anti avoidance

New anti avoidance legislation is expected to raise £1bn per year. Further reference was made to disguised remuneration intended to disguise taxable remuneration or avoid the restrictions to pension tax relief.