

BUDGET SUMMARY...

OVERVIEW

The Chancellor, Alastair Darling, presented his third, and possibly final Budget on 24 March. This was a Budget designed for an election, without significant changes or controversial measures, but maintaining the Government's policy of raising duties significantly, and of increasing overall tax revenue stealthily, by freezing personal allowances and the starting points for basic and higher rates of tax.

The introduction of the 50% top rate of Income Tax from 6 April 2010 was announced in last year's Budget, and will apply to those with incomes above £150,000, while personal allowances will be gradually withdrawn for those with incomes over £100,000.

As for Inheritance Tax, not only has the nil-rate band been frozen for a second year, but is to remain frozen for a further five years.

On the other hand, no changes were announced to Business or Agricultural Property Reliefs, and the expected rise in Capital Gains Tax rates has not occurred; instead, somewhat surprisingly, the limit for Entrepreneurs' Relief has been doubled.

The Chancellor's stated intention has been to produce a fiscally neutral Budget, but one which sets the stage for increases in the overall tax take in future years. Nonetheless, he has managed to introduce a wholly new tax, Landline Duty, and anti-avoidance measures are highlighted, with an extension to the scheme Disclosure rules, and increased penalties, particularly in respect of offshore tax evasion. Some spur to the housing market is given by Stamp Duty Land Tax relief for first time buyers purchasing property up to £250,000. Less welcome, particularly for those in London and the South East, was the announcement of a higher Stamp Duty Land Tax rate of 5% for purchases of over £1 million, but the delayed implementation of this increase, to be effective from 6 April 2011, may be intended to encourage sales in 2010.

Bankers seem to have escaped further opprobrium, as, while the Bank Payroll Tax is indeed to be enacted with effect from 9 December 2009, it will expire as originally announced on 5 April. Any levies on banks generally will depend on initiatives by the global community.

A welcome extension to charitable reliefs is given, to reflect European Union ("EU") case law and allow EU and certain other foreign charitable organisations to enjoy the same status as UK charities; further changes to reflect EU decisions may be required of the UK in the future.

It is unlikely that the measures announced will be fully enacted before the election, and a two-volume Finance Act is the least we can expect for 2010. Even if the Government is re-elected, it seems highly likely that further measures will be announced later in the year, and Capital Gains Tax remains a likely target.

Briefing

March 2010

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1. CHANGES TO PERSONAL TAXES AND ALLOWANCES

The personal Income Tax starting, basic and higher rate bands for 2010/11 remain unchanged for income up to £150,000. The rates of tax in these bands also remain at 10%, 20% and 40% respectively. As already announced, from 6 April 2010, additional rate tax of 50% will be applied to income over £150,000.

Higher rate tax will apply on dividends falling into the higher rate band, which remains at 32.5% - an effective rate of 25% after the 10% tax credit. Where dividends fall into the band above £150,000, additional rate tax will apply. This has been set at 42.5%, producing an effective rate of 36.1% after the 10% tax credit. Dividends are generally treated as the top slice of income for determining the band into which such income will fall.

The personal allowance of £6,475 remains frozen for 2010/11, as are the age-related allowances and married couple's allowance. The personal allowance is now to be gradually withdrawn where an individual receives income over £100,000 at a rate of £1 of allowance lost for every £2 of income over £100,000, until the allowance is completely removed. Therefore, someone under 65 with income in 2010/11 of £112,950 or above will have no personal allowance at all. Income falling within the band between £100,000 and £112,950 is effectively taxed at a marginal rate of 60%.

The main rates for employers and employees NIC have all been held for 2010/11, as have the rates for Class II and Class IV NIC. There are planned rises in the NIC rates due to come into effect from 6 April 2011.

The CGT annual exempt amount is held at £10,100 and the standard tax rate on capital gains remains at 18%. The only change to CGT is an increase in the Entrepreneurs' Relief lifetime limit as described in section 4.

2. PENSIONS

2.1 Implementing the restriction of pensions tax relief

As expected the Government has carried forward its intention to restrict higher rate tax relief on pension contributions for high earners. Legislation will be introduced in the 2010 Finance Bill, presumably based on draft legislation published on 9 November 2009. This will restrict tax relief by way of a high income excess relief charge. This charge, which will be collected through the self-assessment system, imposes an obligation on tax payers to calculate their own tax relief restriction and to pay this to HMRC in the form of tax. The draft legislation is complex, and the compliance burden will fall upon tax payers and their advisers.

2.2 Lifetime Allowance and Annual Allowance

When the Registered Pension Scheme rules were introduced from 6 April 2006 the Government sought to restrict both the lifetime value of benefits which could be drawn and the value of the annual contributions paid to the scheme.

The initial limit of the Lifetime Allowance was set at £1.5 million rising in stages to £1.8m by 2010/11. The Annual Allowance was initially set at £215,000 rising in stages to £255,000 by 2010/11. Drawing benefits in excess of the Lifetime Allowance or contributing in excess of the Annual Allowance will each result in a tax charge.

In the Budget it has been announced that the 2010/11 limits of £1.8 million and £255,000 respectively will be frozen until 5 April 2016.

2.3 National Employment Savings Trust ("NEST")

The Government proposes to introduce legislation which will allow a NEST to register with HMRC and operate as an occupational pension scheme for tax purposes. This will enable its members and contributing employers to obtain tax relief in the same way as other registered pension schemes.

2.4 Removal of the tax charge for interest payable on late paid pension contributions

Legislation has been proposed in anticipation of the Pensions Act 2008 coming into force. Under this Act an employer will be obliged to make pension contributions to a qualifying scheme for its staff. If such contributions are paid late the Pensions Regulator may require the employer to pay interest to the employees concerned. At present such interest would be taxable on the employee and legislation has been proposed to remove this charge.

2.5 Unauthorised borrowing

Under the current rules, a registered pension scheme funded by borrowing is liable to a tax charge in certain circumstances. Where the borrowing repaid exceeds half of the fund value a charge to tax will arise. The Government proposes to introduce legislation which exempts borrowing linked to the cost of establishing and operating a registered pension scheme.

3. INCREASE IN ISA LIMITS

In line with the Chancellor's announcement last year, the annual subscription limit for contributions to an ISA will increase from £7,200 to £10,200. This higher limit has been available to investors aged over 50 since 6 October 2009 and will be available to all from 6 April 2010. Up to £5,100 of the sum invested can be held in cash.

The Chancellor has also announced that, from April 2011, future ISA limits will be increased in line with the Retail Prices Index ("RPI") to reflect domestic inflation. The new threshold will be rounded so that savers who invest regularly will be able to calculate their monthly payments easily, and HMRC will announce the new limits at least four months before the start of the tax year in which they will take effect. In the event of negative growth, the thresholds will remain unchanged, and the cash ISA limit will continue to be equal to half that of the Stocks and Shares ISA.

4. ENTREPRENEURS' RELIEF

The lifetime limit on gains qualifying for Entrepreneurs' Relief is to be increased from £1 million to £2 million. The change comes into effect for disposals made on or after 6 April 2010.

Where qualifying gains above the £1 million limit have been made before 6 April 2010, no further relief is due in respect of those disposals. However, if further qualifying gains are realised after 5 April 2010, the increased allowance would provide for relief on such element of the new qualifying gains as fell within the revised cumulative total of £2 million. The relief and increased lifetime allowance also apply where beneficiaries satisfy the necessary conditions for trustees to claim the relief on qualifying holdings.

The other rules for Entrepreneurs' Relief are unchanged.

5. REMITTANCE BASIS - DEFINITION OF A RELEVANT PERSON

Changes introduced to the "remittance basis" of taxation in 2008 sought to capture remittances made by persons closely connected with the tax payer. This gave rise to the concept of a "relevant person", which includes the individual's spouse and minor children and grandchildren, trusts of which such persons are beneficiaries and any "close" company (or a company which would be close but for its being foreign resident) in which such a person is a participant.

It was felt that the existing definition does not make it sufficiently clear that foreign subsidiary companies are included, and it will therefore be amended with effect from 6 April 2010 to put this beyond doubt. This leads to the possibility that certain transactions in the period from 6 April 2008 to 5 April 2010 made by foreign subsidiary companies may not at present give rise to remittances, but would do so if the transaction were not unwound before the end of the tax year.

6. ENTERPRISE MANAGEMENT INCENTIVES

Enterprise Management Incentives ("EMI") share options are a highly tax-efficient employee incentivisation tool. No Income Tax charge is crystallised by exercise of an EMI option and any growth in value is chargeable to Capital Gains Tax, currently at a flat rate of 18%. Furthermore, the employer may be able to claim a Corporation Tax deduction when the option is exercised.

A technical amendment is to be made to the rules under which the grantor company has been required to operate "wholly or mainly" in the UK. Where EMI options are granted on or after the date of Royal Assent, the requirement will instead be for the company to have a UK "permanent establishment". The change is being made in order to ensure that the EMI scheme is compliant with EU State aid guidelines.

7. COLLECTIVE INVESTMENT SCHEMES

7.1 Venture Capital Schemes

The Enterprise Investment Scheme (“EIS”) and Venture Capital Trust (“VCT”) schemes are long standing tax incentives designed to promote investment in unlisted trading companies.

A number of technical amendments to the EIS and VCT provisions have been announced, in order to ensure that the two schemes remain compliant with EU competition law and continue to qualify as approved State aids. Generally the changes will apply from the date of Royal Assent to the Finance Act.

There are two alterations to the VCT rules. The first of these allows the shares representing a VCT’s ordinary share capital to be admitted for trading on any EU regulated market, thereby enabling a VCT to qualify by virtue of a listing on a range of stock markets throughout the EU and European Economic Area. At present, a VCT’s shares must be included in the official UK list, ruling out the possibility of a Continental listing.

The second change affecting VCTs is an increase in the proportion of “qualifying holdings” which must be represented by holdings of “eligible shares”, from 30% to 70%. “Eligible shares” are, broadly, ordinary shares which do not enjoy preferential rights to dividends or surplus assets on a winding up. However, the definition of offensive preferential rights is to be relaxed, and certain such rights to dividends may be permitted.

Further changes have been announced which will apply to EIS and VCT schemes equally. Shares will no longer qualify under either scheme if the company in which they are held can reasonably be assumed to be an “enterprise in difficulty” for the purposes of the European Commission’s Rescue and Restructuring Guidelines. Secondly, the current requirement for the issuing company’s trade to be carried on wholly or mainly in the UK will be replaced by one requiring it to have a permanent establishment here. The definition of “permanent establishment” will be based on the OECD’s Model Tax Convention.

8. FUNDS - UK REAL ESTATE INVESTMENT TRUSTS

UK Real Estate Investment Trusts (“REITs”) are required to distribute 90% of the profits from their property rental business in order to qualify for the tax exemptions available. Distributions are then taxed as if they constituted property income in the hands of the investors. The changes allow a REIT to offer stock dividends as an alternative to those investors who opt to re-invest their income, the re-invested income being taxed as property income in the same way as an ordinary dividend.

9. PERSONAL TAXES - LIFE ASSURANCE AND ANNUITY CONTRACTS

Changes have been introduced to the legislation to ensure that individuals subject to tax at the additional rate (50% or 42.5% on dividends) of tax will receive any deficiency relief at the higher rates of tax where appropriate. Deficiency relief is given where a taxpayer who has paid tax on gains on a particular life policy suffers a reversal in final analysis.

New measures are being introduced to ensure that individuals who receive compensation or other payments as a result of an intervention by the Financial Services Compensation Scheme are taxed in the same way as if the payment had been made under the terms of the original policy.

10. INCOME TAX ADJUSTMENT BETWEEN SETTLORS AND TRUSTEES

The income of settlor interested trusts, or income paid to a minor child of a settlor, is assessable on the settlor personally. Because the trustees are also liable to tax on the same income, the law contains provision for the settlor to claim a credit for the tax suffered by the trustees against his own liability. This measure ensures the income is not taxed twice.

The tax rate applicable to trusts will rise to 50% from 6 April 2010 as announced in the 2009 Budget. This could lead to increased numbers of cases where the settlor’s tax rate is lower than the trustees’. To ensure that settlors cannot benefit from repayments of tax, they will be required to account to the trustees for these.

11. INHERITANCE TAX (“IHT”) - NIL-RATE BAND

There has been significant lobbying over recent years for the Government to reduce the burden of IHT on estates which exceed the nil-rate band, mainly due to the value of residential property.

Despite this, but as forewarned in 2009, the increase in the nil-rate band to £350,000 (promised in 2007) has been withdrawn. Furthermore, the nil-rate band will now be frozen at its current level of £325,000 for a further five years.

This measure will not only increase the tax burden on the estates of deceased individuals but also the IHT payable by trustees, an increasing number of whom now find themselves within the relevant property regime.

12. CHARITIES

12.1 Extension of UK charity reliefs

Charitable tax reliefs affecting Income Tax (including Gift Aid), Capital Gains Tax, Corporation Tax, Inheritance Tax, various Stamp taxes and VAT, are to be extended to certain organisations equivalent to UK charities and UK community amateur sports clubs in the EU, Norway and Iceland.

A new definition of a charity will be introduced. In summary, an organisation will satisfy the new definition if:-

- It was set up for a charitable purpose (as defined by the Charities Act 2003 and 2006).
- It is located in the EU, Iceland or Norway.
- It is regulated by a body in the EU, Norway or Iceland of a similar nature to the UK's Charity Commission.
- It is supervised by “managers” who are ‘fit and proper’ persons.

The “fit and proper” persons test will be applied to charity directors, trustees and those individuals who control the finances of the charity. In considering whether a person is “fit and proper” HMRC will be entitled to consider any information held by them, including tax related matters.

UK residents who make donations to such bodies will be able to claim tax relief on the gift if HMRC confirm the organisation qualifies as a charity under the definition above. HMRC will be publishing a list of qualifying organisations shortly.

Relief can be claimed on donations to qualifying organisations made since 27 January 2009. It may therefore be worth reviewing donations to newly qualifying organisations. HMRC have confirmed that such claims will be dealt with on a case by case basis.

Non-UK residents can also claim tax relief if they pay UK tax and the donations made to the EU, Norwegian and Icelandic organisations qualify under the Gift Aid scheme.

These changes are unlikely to affect the majority of existing UK charities although, following a proposed consultation on new procedures, HMRC have indicated that they are likely to amend the administration of Gift Aid repayment claims. This will be introduced at some point in 2010.

However, there are to be further changes to the rules which may restrict or recoup tax relief where payments are made by UK charities to bodies outside the UK. The requirement on trustees to ensure that such payments are applied for charitable purposes are to be extended, but details are not, as yet, available.

13. TACKLING TAX EVASION

As was widely anticipated, anti-avoidance features as a central theme in this Budget. A series of measures is proposed to close specific “loopholes” identified over a range of direct and indirect taxes.

“Achieving fairness” is a term used repeatedly in recent Budget reports. This Government regards tackling tax evasion as a priority and has in the last three years launched initiatives intended to encourage UK tax payers to disclose unreported offshore cash and assets, admittedly with mixed success. The Offshore Disclosure Facility (“ODF”) ran between May and November 2007, resulting in 45,000 disclosures and estimated tax recovery of £400 million. The New Disclosure Opportunity (“NDO”), on similar terms to the ODF, was launched in 2009 and ran to January 2010. This is expected to have yielded a further £500 million from disclosures. Remarkably, the Government has also implemented an agreement with Liechtenstein, as part of which UK tax payers with undisclosed assets in Liechtenstein or under the management of Liechtenstein professionals have an opportunity (the “LDF”) to regularise their tax affairs on terms, more beneficial than under either the ODF or the NDO, as part of a programme which runs until March 2015.

These measures need to be viewed against the backdrop of increasing confidence on the part of HMRC that information on unreported offshore assets will eventually become available. They

have been successful in gaining access to information available to banks and financial institutions operating in the UK, and many offshore financial centres have entered into Tax Information Exchange Agreements with the UK, or are in the process of doing so. Switzerland has amended its treaty with the UK to allow for exchange of information on UK tax payers, where a specific application is made.

If the ODF, NDO and LDF were the dangled carrot, it is clear that those who ignore these opportunities to make voluntary disclosures risk the stick.

In particular, a new penalty regime is to be adopted which would enable HMRC to charge greater penalties than the present maximum (100% of the tax) in certain circumstances involving offshore non-compliance. The new regime, which will apply to Income Tax and Capital Gains Tax, will continue to provide for a penalty which is based on the seriousness of the tax payer's behaviour. However, the maximum penalty chargeable will depend on the country in which assets have been held, as follows:-

Maximum Penalty	Treaty status of country
100%	Funds held in country which has automatic information exchange arrangements with the UK.
150%	Funds held in country which has exchange of information arrangements with UK, but which only apply on specific application in relation to a tax payer.
200%	Funds held in country with no arrangements to exchange information with the UK.

The implicit assumption is that someone who has placed assets in a country with no information exchange arrangements is more likely to have been motivated by a desire to conceal. This will be a further stimulus for UK tax payers to make voluntary disclosures, particularly while there is scope to move assets to Liechtenstein and qualify to use the LDF, with its 10% penalty and limitation in relation to tax liabilities arising before the 1999/2000 tax year.

The Government understands that tax evasion is a crime perpetrated onshore as well as offshore, and with this in mind established the Hidden Economy Advisory Group in December 2009. This Group has reached some unstartling conclusions over the last three months:-

- people operating in the Hidden Economy need a clearer route to disclose their liabilities and should be incentivised to do so.
- if people had clearer job opportunities, they would be less inclined to operate in the Hidden Economy.
- people need to be told that tax evasion is bad.

The Group is to continue its efforts over the coming months so further revelations can be expected.

14. DISCLOSURE OF TAX AVOIDANCE SCHEMES ("DOTAS")

The intention was announced to make a number of changes to the Disclosure of Tax Avoidance Schemes ("DOTAS") provisions. The changes have only been described in outline at this point, and it is intended that most will apply from autumn 2010.

The proposed changes include a requirement for scheme providers to disclose to HMRC a list of clients to whom they have issued scheme reference numbers and a proposal to amend the "hallmarks" (the characteristics that cause a scheme to be reportable). Few details are available of the amendments to the hallmarks, although some changes will be targeted at schemes aimed at avoiding the new 50% Income Tax rate.

There is also a proposal that more stringent penalties should be imposed on scheme providers who do not comply with their obligations.

There is also to be a process of consultation over the summer, with the view to extending the DOTAS provisions to cover Inheritance Tax avoidance schemes.

15. BUSINESS TAX

15.1 Annual Investment Allowance - Increase in Threshold

The Annual Investment Allowance (“AIA”) permits businesses, regardless of size, to reduce their taxable profits by the full amount of their annual capital expenditure on most plant and machinery (apart from cars), up to a maximum amount of £50,000 each year.

The Government has announced an increase in the maximum amount of the AIA to £100,000 from 1 April 2010 (for Corporation Tax) or 6 April 2010 (for Income Tax). Capital expenditure above this threshold will continue to be eligible for standard capital allowances against taxable profits.

15.2 Corporation Tax - Rates

For the financial year commencing 1 April 2010, the small companies rate of Corporation Tax remains at 21%, and the main rate of Corporation Tax remains at 28%.

15.3 Corporation Tax - Loss Carry Back

The temporary extension of trading loss carry back from one to three years for losses up to £50,000 continues for company losses arising in accounting periods ending between 24 November 2008 and 23 November 2010.

15.4 Salary Sacrifice - Workplace Canteens

As announced in the 2009 Pre-Budget Report, from 6 April 2011 the tax exemption that can apply to the benefit of free or subsidised meals provided by employers will be restricted in certain circumstances. This will affect canteen salary sacrifice and flexible benefit arrangements in which the employee has a structured contractual entitlement to the benefit of canteen meals instead of cash salary. The existing benefit in kind rules will be applied to meals which will become taxable and liable to NICs as a result of this change.

15.5 Employer Supported Childcare Vouchers - “Available To All” Rule

There is to be a relaxation of conditions for certain child care provision arrangements to be treated as exempt benefits. Some schemes have failed to meet the requirement that they be “available generally” to all staff simply because those whose earnings would fall below the National Minimum Wage were excluded from participating in salary sacrifice arrangements. If enacted, the amendments will be retrospective for 2005/06 and subsequent years.

15.6 Capital Distributions

Legislation is planned for a Finance Bill to be introduced early in the next Parliament which will put beyond doubt the Corporation Tax (“CT”) treatment of certain distributions received by UK companies.

HMRC’s longstanding practice has been to treat UK distributions as being of an income nature subject only to some specific exceptions. The Tax Law Rewrite Project, resulting in the Income Tax (“Trading and Other Income”) Act 2005, made this treatment impossible to sustain. This development went unnoticed, and HMRC did not change its practice until after the introduction of the exemption regime in Finance Act 2009.

The new legislation will simplify the distribution exemption regime by making it unnecessary to consider difficult boundary issues between income and capital. It will allow HMRC to revert to its previous practice whereby only distributions specifically excluded from income are treated as capital.

15.7 Controlled Foreign Companies - Reform

The Controlled Foreign Company (“CFC”) regime provides for anti-avoidance rules which broadly tax the profits of tax haven located subsidiaries of UK parent companies. The CFC rules are currently being reformed, and a consultation period is running to 20 April 2010. The Government's intention is to introduce the new CFC regime in Finance Bill 2011.

15.8 Corporation Capital Gains - Value Shifting Rules

HMRC and HM Treasury issued a joint consultation document on 22 February 2010 on simplifying capital gains rules for groups of companies. The consultation document contains detailed proposals to simplify the rules on value shifting, the treatment of capital losses after a change of company ownership, and degrouping charges.

15.9 Corporation Tax - Patent Box

The 2009 Pre-Budget Report announced the introduction of a Patent Box applying a 10% Corporation Tax rate to patent income from 2013. The Government has announced that a consultation on the design of the Patent Box will be issued in time for legislation in Finance Bill 2011.

15.10 Release of Loans to Participators

The Corporation Tax rules on loan relationships will be amended to deny a close company a tax deduction (under the loan relationship rules) for the release or writing off of a loan to a participator

in that company. The measure has effect for debt (or part debt) releases or write-offs on or after 24 March 2010.

15.11 Earnings Paid Through Trusts or Other Entities

The Government has announced that it will be taking action (so far unspecified) to prevent attempts to avoid tax and National Insurance contributions through the use of Employee Benefit Trusts and other arrangements that it considers are used to disguise payments of remuneration. The Government intends to introduce anti-avoidance legislation to take effect from 6 April 2011.

15.12 Transactions in Securities

Legislation will be introduced in Finance Bill 2010 to replace the existing Transactions in Securities legislation. The Income Tax Act 2007 provides for the prevention of an Income Tax advantage when a person enters into certain transactions in securities involving the receipt of an abnormal dividend with a view to obtaining such an Income Tax advantage. This legislation covers UK listed as well as non-listed companies. However, the replacement legislation will be targeted only at close companies and overseas companies which would be close if in the UK. In addition, certain transactions by corporates involving "dividend stripping" and similar arrangements will no longer be covered by the legislation.

This is a significant restructuring of the scope of the legislation. A wider range of companies will be covered but the new Income Tax advantage test, and a new exemption covering fundamental changes in ownership of close companies, will mean fewer individuals need to consider whether the rules apply to them.

This measure will generally have effect for transactions where the tax advantage is obtained on or after 24 March 2010.

15.13 Employment Related Securities and Geared Growth

The Government announced today that during 2010 it will consult on the taxation of returns from geared growth arrangements connected with employment-related securities, to ensure that income from employment is taxed correctly.

15.14 Company Share Option Plans and Geared Growth Shares

Legislation will be introduced in Finance Bill 2010 to prevent companies using Company Share Option Plans ("CSOP") for tax avoidance by prohibiting the grant to employees of CSOP options over shares in a company which is under the control of a listed company. The measure will

have effect in relation to options granted over shares in a company which is under the control of a listed company on or after 24 March 2010.

15.15 Share Incentive Plans ("SIPS")

Changes are being introduced in Finance Bill 2010 to prevent a Corporation Tax ("CT") deduction where companies pay money to SIPS trustees to buy shares from existing shareholders for use in the SIP, but no shares with any real value are transferred to employees under the SIP.

15.16 Double Tax Relief

The Government has announced that amendments to the Double Tax Relief ("DTR") rules in the Taxation (International and Other Provisions) Act 2010 ("TIOPA") will ensure that a person may only deduct foreign tax from any foreign income where that person has included the foreign tax in his taxable income.

15.17 Worldwide Debt Capital Rules - Technical Changes

Changes are being made to certain aspects of the worldwide debt cap rules, which were enacted last year, to resolve issues that have emerged in consultation.

The "worldwide debt cap" formed part of the reform of the taxation of foreign profits of companies, which the Government introduced last year. The legislation prevents the excessive debt funding of UK resident companies by restricting relief for UK financing costs where these exceed the financing costs of the worldwide group. Continuing consultation has revealed a number of areas where, in light of the practical application of the debt cap, changes to the legislation are needed.

The Government therefore intends to make these changes in a Finance Bill to be introduced as soon as possible in the next Parliament. The majority of the changes will have effect for periods of account of the worldwide group beginning on or after 1 January 2010 - the start date of the original legislation.

15.18 Sale of Lessor Companies - Option to Elect

Legislation will be introduced in Finance Bill 2010 to offer an option to elect for an alternative treatment to that imposed by the original legislation on the sale of a lessor company.

The International Accounting Standards Board has issued proposals to amend the accounting standard on financial instruments ("IAS 39"). Changes to IAS 39 will have a significant impact on the Corporation Tax rules on loan relationships and derivative contracts, which are based closely

on the profit or loss shown in accounts drawn up in accordance with Generally Accepted Accounting Practice ("GAAP").

Finance Bill 2010 will therefore contain a regulation-making power to allow changes to be made to the tax rules as and when the accounting changes are announced, and for any period to which they apply.

15.19 Zero Emission Goods Vehicles - First year allowances

A 100% first year capital allowance is to be introduced on purchases of new zero emission goods vehicles purchased by businesses on or after 1 April 2010 for Corporation Tax purposes, and from 6 April 2010 for Income Tax purposes.

To qualify for this allowance the vehicle should not, under any circumstances, produce CO₂ emissions. In addition, it should be designed primarily to carry goods.

As with existing first year allowances, various exclusions apply. These include:

- Expenditure incurred in a chargeable period in which the qualifying activity discontinues.
- Expenditure incurred on a lease for the vehicle.

The 100% first year allowance will be available for expenditure incurred during the five years prior to 1 April 2015 for Corporation Tax purposes and 6 April 2015 for Income Tax purposes.

15.20 Taxable Benefit on Zero and Low Emission Company Cars

A taxable benefit arises when a Company vehicle is provided for use by an employee or director. From 6 April 2010 until 5 April 2015, if the car does not produce CO₂ emissions, no taxable benefit will arise.

For the same period, if a car has an emissions figure of 75g per kilometre or less, the appropriate percentage of the list price on which the taxable benefit is calculated will be 5%.

16. VALUE ADDED TAX ("VAT")

With effect from 1 April 2010, the VAT registration threshold is raised to £70,000 and the de-registration threshold is raised to £68,000.

Legislation will be introduced to change, from 1 September 2010, the definition of aircraft that can be supplied at the zero-rate. In future, zero-rating will apply only to aircraft used by airlines operating on international routes.

As widely publicised, with effect from 1 January 2011, VAT incurred on the purchase of boats and aircraft which are used for both business and pleasure will only be recoverable to the extent of the business use at the time of purchase. Previously, full VAT recovery was allowed, with VAT being charged over subsequent years on the private use.

From 31 January 2011 measures to restrict the VAT exemption for postal services will be introduced. In practice the only business dire

ctly affected will be Royal Mail. Although the restriction will not affect the public postal service, provision of other individually negotiated services will in future be subject to VAT at the standard rate.

17. STAMP DUTY LAND TAX ("SDLT")

First time buyers purchasing residential properties for up to £250,000 will pay no Stamp Duty Land Tax ("SDLT") provided that all the purchasers are first time buyers and they intend to occupy the property as their only or main home. The relief will be available for purchases completed prior to 25 March 2012. Other purchasers of residential properties will continue to pay SDLT at 1% where the consideration is between £125,000 and £250,000.

A higher SDLT rate of 5% will be introduced with effect from 6 April 2011 in respect of purchases of residential property for more than £1million.

Anti-avoidance provisions will be introduced to prevent the use of SDLT partnerships in reducing SDLT payable on certain land transactions. With effect from 24 March the legislation in the Finance Bill 2010 will disapply the partnership rules for "notional land transactions" so that the SDLT charge arising on the notional land transaction is payable in full.

18. LANDLINE DUTY

The Chancellor has announced a new tax, Landline Duty, which will come into effect on 1 October 2010. The duty will apply to all owners of local loops (a local loop being the physical circuit connecting a network termination point to a public electronic communications network). Whilst the duty will be payable by the owner of the loop, it is expected that they will recoup it from end users. The rate of duty will be 50 pence per line per month.

BUDGET SUMMARY...

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This Briefing Note provides a commentary on those parts of the Budget which we think will be of specific interest to our clients and contacts.

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