



Peat House Newham Road Truro Cornwall TR1 2DP
Telephone: 01872 276116 Telefax: 01872 222172
www.rrl-truro.co.uk



ROBINSON
— REED —
LAYTON
CHARTERED
ACCOUNTANTS
and
CHARTERED
TAX ADVISERS

Tax Changes Ahead

On 9 December the government issued the majority of the clauses, in draft, of the Finance Bill 2011 and an update on consultations that it has undertaken over the summer/autumn. The publication of the draft Finance Bill clauses is part of the government's improvements in the way tax policy is developed, communicated and legislated. Confirming the majority of the intended tax changes at least three months ahead of the publication of the Finance Bill provides some predictability in the tax system and an opportunity for draft legislation to be scrutinised.

Also on Monday 29 November the Office for Budget Responsibility published its updated forecast for the economy. Later on that day Chancellor George Osborne responded to that forecast in a statement to the House of Commons. The only tax measures that were announced in his response were contained in a 'Corporate Tax Road Map'.

This summary concentrates on the main tax measures which were announced on 9 December and in recent weeks including:

- Tax and National Insurance rates and thresholds
- Pensions – new regimes for tax relief and annuities
- Furnished Holiday Lettings
- The Corporate Tax Road Map

The Chancellor has also confirmed that the Budget will take place on Wednesday 23 March 2011 and we will continue to keep you informed of developments. Please contact us if you have any questions.



Personal Tax

The personal allowance for 2011/12

For those aged under 65 the personal allowance will be increased by £1,000, from £6,475 to £7,475 for 2011/12.

However a new concept of withdrawing the personal allowance for those with adjusted net income over £100,000 was introduced in 2010/11 and will continue for 2011/12. The reduction in the allowance is by £1 for every £2 of adjusted net income above the income limit. Adjusted net income for these purposes is broadly all income after adjustment for pension payments, charitable giving and relief for losses.

Comment

If income is £112,950 or above in the current tax year or £114,950 or above next tax year, there will be no personal allowance. If adjusted net income can therefore be reduced to below these figures, some personal allowance will be given, so the tax saving is rather more than the 40% higher rate of tax.

For the current tax year, consider:

- whether you can defer income to a later year (for example if you are a director/shareholder of a company)
- paying pension contributions
- making Gift Aid contributions.

Tax bands and rates for 2011/12

The basic rate limit will be reduced from the current £37,400 to £35,000. Therefore an individual will pay 40% tax rather than the basic rate of 20% when their total income exceeds £42,475.

The new rate of income tax of 50% (the 'additional rate') will continue for 2011/12. This applies to taxable income above £150,000.

If dividend income is part of total income this is taxed at 10% where it falls within the basic rate band, 32.5% where liable at the higher rate of tax and 42.5% where liable to the additional rate of tax.

Comment

As the basic rate limit has been reduced more individuals will pay tax at the higher rate increasing their overall liability.

Example

The effect of the changes can be illustrated as follows:

	2010/11		2011/12	
	£	Tax £	£	Tax £
Non savings income	43,875		43,875	
Personal allowance	(6,475)		(7,475)	
Taxable income	37,400		36,400	
Taxable at 20%	37,400	7,480	35,000	7,000
Taxable at 40%	-	-	1,400	560
Total tax liability		£7,480		£7,560

Trust rate

For 2010/11, the trust rate, which mainly applies to discretionary trusts, was increased from 40% to 50% and the trust dividend rate from 32.5% to 42.5% and these changes remain.

National Insurance Contributions (NICs)

Changes to the rates of NICs had been announced by the previous government and the current government confirmed that the rate changes would be made. From April 2011 a further 1% will apply to the rates applicable to employers, employees and the self-employed. The main rate of Class 1 (employee) NICs will be 12% and the Class 4 rate will be 9%. The employer rate will increase to 13.8%. The additional rate of Class 1 and 4 contributions payable will be increased from the current 1% to 2%.



Changes to the thresholds for next year have now been announced and the point at which NICs are payable will increase significantly from April 2011.

The level at which employees start to pay contributions will increase to £139 per week (the primary threshold) and for employers the weekly limit will be £136 (secondary threshold). The primary and secondary thresholds were aligned at £110 for 2010/11.

The upper earnings limit and the upper profits limit will continue to be aligned with the income tax higher rate threshold of £42,475.

Comment

The increase in the threshold at which employers and employees will start to make contributions will offer some protection for those at the lower end of the earnings scale from the increased contribution percentages.

New tax-free children's savings account

In October the government announced the introduction of a new tax free children's savings account following the end of Child Trust Fund (CTF) eligibility.

The government intends the new accounts to be available by autumn 2011.

The new account will have the following key features:

- all returns will be tax free
- funds placed in the account will be owned by the child and will be locked in until the child reaches adulthood
- investments will be available in cash or stocks and shares
- annual contributions will be capped
- there will be no government contributions into the account.

Personal Tax continued

Comment

The new account, described as a 'Junior ISA', will offer parents a simple and tax free way to save for their child's future.

Eligibility for the new account will be backdated to ensure that no child born after the end of CTF eligibility will miss out on the chance to have one of the accounts.

In July 2010 the government reduced CTF payments at birth for children born from August 2010 to £50 (reduced from £250); or £100 (reduced from £500) if they are from a lower income family. They also stopped all government payments at age 7 from August 2010.

There will be no CTF eligibility for children born from January 2011.

Reforms to the welfare system

In October the Chancellor announced a number of reforms to the welfare system. Over the next two parliaments the current system of means-tested working-age benefits and tax credits will be replaced with the Universal Credit. A White Paper was published in November on the plans for the Universal Credit by the Department of Work and Pensions.

Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It aims to support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.

For those in employment, Universal Credit will be calculated and delivered electronically, automatically adjusting credit payments according to monthly income reported through an upgraded version of the PAYE tax system (on which HMRC have issued consultation papers). The system will thus respond more quickly to changes in earnings.

The government intends to introduce a Welfare Reform Bill in January 2011 to give effect to these changes. A phased approach to the introduction of Universal Credit will be adopted with the first individuals expected to enter the new system from 2013, followed by the gradual closure of existing benefits and Tax Credits claims.

Child Benefit

As part of the reforms to the welfare system, Child Benefit will be withdrawn from households that include a higher rate taxpayer.

The government will withdraw Child Benefit payments from all households containing at least one higher rate taxpayer by 2013. HMRC will implement this policy through the existing PAYE and self assessment structures.

Comment

The withdrawal of Child Benefit will save £2.5bn a year by 2014 from the welfare bill but there will be complications introduced for taxpayers and HMRC because of the means testing introduced by reference to taxable income.

There will be some interesting discussions taking place between husbands who are higher rate taxpayers and wives who are not (and what if they don't have the discussion?).

Furnished Holiday Lettings (FHL)

The tax treatment of FHL has been advantageous for many years. Provided that certain conditions are met, FHL are treated as a trade. This can be preferable to the tax regime for normal let property in a number of specific areas, as the rules and reliefs for trades are often more generous.

Currently the FHL treatment potentially applies to properties in the EEA but certain conditions need to be satisfied including that the property must be:

- available for letting for at least 140 days a year and
- actually let for at least 70 days.

Draft legislation has been issued to cover changes to FHL. However in an amendment to the original proposals the new qualifying conditions will not now take effect until 2012/13 for individuals.

From April 2012:

- the property must be available for letting for at least 210 days a year (generally the tax year) and actually let for at least 105 days.
- a 'period of grace' will be introduced to allow businesses that do not continue to meet the 'actually let' requirement for one or two years to elect to continue to qualify throughout that period.

There will be two types of FHL business; a UK FHL business consisting of properties in the UK and an EEA FHL business consisting of properties in one or more EEA states.

From April 2011 there will be two types of FHL business; a UK FHL business consisting of properties in the UK and an EEA FHL business consisting of properties in one or more EEA states. FHL losses will only be able to be set against income from the same FHL business.

Comment

If the new conditions are met it is only the loss relief provisions which are being restricted. The other potential tax advantages, in particular the property being regarded as a trading asset for capital gains tax, remain.

Tainted donations to charity

Draft legislation has been issued which will affect charity donations made on or after 1 April 2011. The rules will replace the existing substantial donor rules. These currently affect the tax position of the charity in respect of charitable donations where there are value extracting transactions between the charity and its largest donors (broadly £25,000 in a 12 month period or £150,000 over a period of six years).

The new rules will deny tax relief on the donation where one of the main purposes of the donation is to receive an advantage for the donor or connected person directly or indirectly from the charity. There is no monetary limit on the amount of the donation which may be caught by these rules. These donations will be 'tainted donations'.

Pensions Tax

Restriction on tax relief for pension contributions

Some time ago the Labour government announced its intention to reduce the amount of tax relief on pension contributions of those with high income, broadly £130,000 or more.

This announcement led to complex rules being introduced from April 2011 onwards, with even more complicated anti-forestalling rules for the years 2009/10 and 2010/11.

Whilst there are no changes to the rules for 2009/10 and 2010/11, the government is looking at simpler ways of achieving a similar amount of yield from 2011 and announced its proposals on 14 October 2010. Updated legislation to be included in Finance Bill 2011 was published on 9 December 2010.

An annual allowance

The basic proposal is that an annual allowance (AA) will be set at £50,000. Any contributions in excess of the AA would be charged to tax on the individual as their top slice of income. Contributions include contributions made by an employer.

The rules will apply for the 2011/12 tax year and, in particular, to pension input periods (PIPs) ending in the tax year 2011/12 but beginning earlier.

A PIP does not have to be the same as the tax year and if a person has several schemes, each scheme can have a different PIP. Special transitional rules may apply to pension savings made before 14 October 2010 that fall into 2011/12 PIPs.

The stated purpose is to discourage pension savings in tax registered pensions above the AA. It is expected that most individuals and employers would actively seek to reduce pension savings to below the AA, rather than fall within the charging regime.

Comment

Care is needed if significant contributions are being considered to be paid in the current tax year. If a PIP does not coincide with the tax year, an amount paid this year may result in a charge under these new rules in 2011/12.

Example

Anthony is a director/shareholder of a family company and has taxable income of £120,000 in 2011/12. For several years, the company has been paying monthly contributions into a pension scheme for his benefit totalling £60,000 per year. He does not make any pension contributions himself.

The charge will be:

Pension contribution in 2011/12	£60,000
Less AA	(£50,000)
Excess	£10,000
Taxable at 40%	= £4,000

Carry forward of unused AA

To allow for individuals who may have a significant amount of pension savings in a tax year but smaller amounts in other tax years, a carry forward of unused AA will be introduced.

The carry forward rules apply if the individual's pension savings exceed the AA for the tax year (ie £50,000). The AA for the current tax year is to be treated as increased by the amount of the unused AA from the previous three tax years.

Unused AA carried forward is the amount by which the AA for that tax year exceeded the total pension savings for that tax year.

This effectively means that unused AA of up to £50,000 per year can be carried forward for the next three years.

Importantly no carry forward is available in relation to a tax year preceding the current year unless the individual was a member of a registered pension scheme at some time during that tax year.

An amount of the excess for an earlier tax year is to be used before that for a later tax year.

When looking at whether there is unused AA to bring forward from 2008/09, 2009/10 and 2010/11, the AA for those years is deemed to have been £50,000.

Example

Bob is a self employed builder. In the previous three years Bob has made gross contributions of £40,000, £20,000 and £30,000 to his pension scheme. As he has not used all of the £50,000 AA in earlier years, he has £60,000 unused AA that he can carry forward to 2011/12.

Together with his current year AA of £50,000, this means Bob can make a contribution of £110,000 in 2011/12 without having to pay a tax charge.



Pensions Tax continued

Members of defined benefit schemes

In a defined benefit scheme, individuals accrue a right to an amount of annual pension when they retire. This right does not necessarily equate with the contributions made by themselves and their employers. Therefore the proposals require a notional value of contributions to be computed. The notional contributions should reflect the amounts needed to be invested in a money purchase scheme to deliver the extra annual pension accruing in a defined benefit scheme. A 'flat-factor' method will be used and will be set at 16.

Comment

The 16 factor means, broadly, that an increase in annual pension benefit of £1,000 would be deemed to be worth £16,000. So if an individual is in a final salary defined benefit scheme and has a promotion resulting in a pay rise, the deemed contribution may be very high.

The government is separately consulting on options to meet high annual allowance charges from pension benefits.

The lifetime limit

The lifetime limit sets the maximum figure for tax-relieved savings in the fund and rose to £1.8m for 2010/11. The government has announced that the limit for 2012/13 will be reduced to £1.5 million. Those with savings above £1.5 million or who believe the value of their pension pot will rise to above this level through investment growth without any further contributions or pension savings, will be able to apply for a new personalised lifetime allowance of £1.8 million, providing they cease accruing benefits in all registered pension schemes before 6 April 2012.

Comment

The lifetime limit has to be considered when key events happen such as when a pension is taken for the first time. If the value of the scheme exceeds the limit a tax charge of 55% of the excess is due.

Requirement to buy an annuity

Legislation will be introduced in Finance Bill 2011 to remove pensions tax rules that currently create an obligation for members of registered pension schemes to secure an income, usually by buying an annuity, by age 75.

It will involve changes to annuitisation requirements, pensions tax treatment and rules applying to income drawdown arrangements.

The legislation will have effect from 6 April 2011. In summary, from that date:

- it will enable individuals with defined contribution pension savings from which they have not yet taken a pension to defer a decision to take benefits from their scheme indefinitely
- it will enable individuals with a lifetime pension income of at least £20,000 a year to gain access to their drawdown pension funds without any cap on the withdrawals they may make
- the age 75 ceiling will be removed from most lump sums to which entitlement arises
- the tax rate on lump sum death benefits will be 55%
- the altered withdrawal limits will have effect for all new drawdown pension arrangements and some drawdowns made before 6 April 2011 where the individuals 75th birthday falls within certain dates.

Comment

The main cost to the individual of the increased flexibility offered is the 55% charge on lump sum death benefits. The charge will not apply however to death benefits for those who die before age 75 without having taken a pension. In addition inheritance tax changes are proposed (see below).

Inheritance tax (IHT) and drawdown

With effect from 6 April 2011:

- IHT will not typically apply to drawdown pension funds remaining under a registered pension scheme, including when the individual dies after reaching the age of 75
- IHT anti-avoidance charges that apply to registered pension schemes and Qualifying Non UK Pension Schemes where the scheme member omits to take their retirement entitlements (eg a failure to buy an annuity) will be removed.

Employment

Employer-supported childcare

Changes had previously been announced to the tax breaks for employer-supported childcare and draft legislation has now been issued covering the changes which take effect next year.

There is currently a £55 per week limit on the amount of exempt income associated with childcare vouchers and directly contracted childcare for employees in an employer's scheme. From 6 April 2011 this will be restricted in cases where an employee joins a scheme and their earnings and taxable benefits are liable to tax at the higher rates.

Employers will be required, at the beginning of the relevant tax year, to estimate the level of employment earnings that their employee is likely to receive during that year, ignoring potential bonus and overtime payments, but including other known taxable benefits. Income for the purpose of the calculation will be reduced by the personal allowance as shown on the individual's tax code for the relevant employment.

If the level of income:

- is within the basic rate band, the employee will be entitled to relief on up to £55 per week
- exceeds the 50% rate threshold for the year, the employee will be entitled to relief on £22 per week
- is between the above two bands the employee will be entitled to relief on £28 per week.

Where an employee is employed part way through the tax year their income will be grossed up to a full year.

Anyone in a scheme by 5 April 2011 will not be affected by these changes as long as they remain within the same scheme.

Comment

These changes will apply to directly contracted childcare and childcare voucher schemes but will only affect individuals joining a scheme from April 2011. The existing tax and NICs exemptions for workplace nurseries will remain.

Employer-supported childcare – salary sacrifice

Employees at or near the National Minimum Wage (NMW) cannot normally take advantage of salary sacrifice arrangements if the result would be to depress the level of their income below NMW rates. Where an employer excludes these employees from participation in a scheme, the exemption from the chargeable benefit on childcare should not apply to the scheme as a whole.

The government has issued draft legislation to ensure that employers who exclude such employees are able to benefit from the exemption for employer-supported childcare. This change is retrospective.

Disguised remuneration

Legislation will be introduced from April 2011 to tackle arrangements using trusts and other vehicles to reward employees which seek to avoid, defer or reduce tax liabilities.

In many cases these third party arrangements allow an employee to enjoy the full benefit of a sum of money paid or assets provided while arguing that, because of the structure of the arrangements, there is no legal right to the money or assets.

Legislation will be introduced to ensure that where a third party makes provision of what is in substance a reward or loan, in connection with the employee's employment, the employer will be required to account for PAYE and NICs. This will be based on the sum of money made available or the cost or value of the reward.

The scope of the legislation will include Employer Financed Retirement Benefit Schemes, in keeping with the restriction of pensions tax relief on registered pension schemes.

Comment

Some of the types of transaction which will be chargeable to tax under this measure (including the earmarking of funds held in a discretionary trust) are not accepted by HMRC as effective in avoiding tax under the present law. HMRC have stated they will continue to challenge such transactions.



Business Tax

Corporation tax rates

As previously announced the main rate of corporation tax, which generally applies to companies with profits of more than £1.5 million, is to reduce from 28% to 27% from 1 April 2011. There will be further graduated reductions so that the main rate will be 24% by 1 April 2014. Legislation will be introduced to reduce the main rate of corporation tax to 26% from 1 April 2012. The government is considering whether legislating for all the remaining pre-announced reductions to the main corporation tax rate in Finance Bill 2011 would provide greater certainty to businesses.

The small profits rate of corporation tax, which generally applies to companies with up to £300,000 of profits, is to reduce from 21% to 20% also with effect from 1 April 2011.

The effective marginal corporation tax rate for profits between £300,000 and £1.5 million will therefore be 28.75% from 1 April 2011.

Associated companies for corporation tax rates

The upper and lower limits for corporate tax rates are divided equally between a company and its 'associated' companies. A company is associated with another company if one of them has control of the other or if both are under the control of the same company or person(s).

The shares of direct relatives, business partners and some trustees can be attributed to the person for the control test. So even if a husband owns no shares in a company, he may be deemed to own the company via his spouse's shareholding.

A change to the associated company rules will be included in the Finance Bill 2011 with effect for accounting periods ending on or after 1 April 2011.

It is proposed to amend the circumstances in which rights held by linked persons are attributed between them to establish control. Attributions will only be made where there is 'substantial commercial interdependence' between the businesses being run in the companies.

When considering whether there is 'substantial commercial interdependence' HMRC will have regard to the degree of financial, economic or organisational links which exist, or have existed, or might be expected to exist between the relevant activities/companies involved.

Comment

This is a welcome proposed change in the law. If for example a husband and wife each own a company and there is little connection between the businesses run by each company, the two companies will no longer automatically be treated as associated.

The difficulty will be in deciding at what point 'substantial commercial interdependence' exists.

The Corporate Tax Road Map

The government's aim is to create the most competitive corporate tax regime of the major world economies. The Corporate Tax Road Map sets out how the government intends to approach reform of the corporate tax system over the next five years.

The principles it will adopt include:

- lowering corporate tax rates but reduce the reliefs and allowances available
- avoiding unnecessary changes to tax legislation and ensuring that any changes improve the long-term stability of the corporate tax system
- adapting the tax system for the effects of globalisation and technological developments over the last 20 years.

The focus of the Road Map is on large corporates as these increasingly operate across national borders and may choose not to have their headquarters in the UK. That means the UK's corporate tax system should focus more on profits from the UK activity in determining the tax base rather than attributing the worldwide income of a group to the UK. This is referred to as a territorial basis of taxation.

Some aspects of the UK corporate tax system have changed in recent years to become more territorial. In particular dividend income from the foreign subsidiaries of a UK parent company are now generally exempt from UK corporation tax following a change in the rules in 2009.

The main areas of tax changes in the next five years will be to the:

- Controlled Foreign Company (CFC) regime
- taxation of innovation and intellectual property (IP)
- taxation of foreign branches.

CFC reform

The CFC rules currently may apply where a UK company has a subsidiary which operates in a country with a relatively low rate of corporate tax. In certain circumstances the profits of the subsidiary may be subject to UK corporate tax.

Interim improvements to the existing CFC rules will be introduced in Finance Bill 2011 and more fundamental proposed changes have been announced for consultation with interested parties. The legislative outcomes of the proposals will be included in Finance Bill 2012.



Business Tax continued

The main interim improvement will be to exempt a CFC which carries on a range of 'foreign to foreign' activities involving transactions wholly or partly with other group companies. The exemption will be designed to produce a proportionate outcome in contrast to the 'all or nothing' approach generally taken by the existing CFC exemptions.

The more fundamental proposed changes will concentrate on the artificial diversion of profits from the UK in two areas – group finance arrangements and intellectual property.

Comment

The current CFC rules are seen by the government and business to go further than they need to protect the UK tax base. The changes are targeted at large multinational companies.

Taxation of innovation and IP

The government is consulting on a preferential regime for profits arising from patents, known as a Patent Box. The intention is to introduce rules in Finance Bill 2012.

The government intends to introduce a 10% corporation tax rate for profits arising from patents to apply from 1 April 2013. All patents first commercialised after 29 November 2010 will qualify for inclusion in the Patent Box. Detailed qualification and transitional rules will be discussed during the consultation period.

The government wishes to continue the current Research and Development Tax Credits schemes but it will review the extent to which the relief is appropriately targeted at those costs most closely linked to genuinely innovative activity.

Comment

The low tax rate Patent Box is focusing on scientific and high-tech IP because of their particularly strong link to Research and Development and technical innovation activities. Patents are identifiable and legally protected, and so can be easily traded or licensed between companies. Multinational groups therefore have a choice over where they locate work generating scientific and high-tech IP, and over where ownership of patents is located.

It is hoped that the Patent Box will encourage companies to locate the high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK.

Taxation of foreign branches

A foreign branch exists when a UK company carries on part of its trade in another country without establishing a separate trading subsidiary.

The government is consulting on an exemption from corporation tax for the profits of foreign branches of UK companies. The intention is to introduce new rules in Finance Bill 2011.

The exemption will only apply if companies irrevocably elect to opt into the exemption regime. The election will apply to all present and future branches of the company.

Otherwise the existing rules will apply.

Large and medium sized companies will be able to opt-in for branches in all countries, including those with which the UK has

no tax treaty. However small companies will not be able to opt-in branches located in non-treaty countries because of the risk of the loss of tax through diversion of personal income.

Comment

Currently, UK companies are subject to corporation tax on the profits of their foreign branches, with credit given for foreign tax paid on the same profits. In cases where the foreign tax paid is less than the UK tax, the company must pay a 'top up' of UK tax.

If the branch makes losses then these can be offset against UK income. In contrast, the exemption regime will not give relief for losses. So for a company considering setting up an establishment outside the UK, remaining outside the exemption may be beneficial if early stage losses are contemplated. There will however be a transitional rule when a company opts into the branch exemption regime. Under this rule a company's branch profits will become exempt only after the tax losses of those branches in the immediately preceding six years have been matched by profits.

Corporate capital gains simplification

Following extensive consultation on simplification of the capital gains rules for groups of companies, legislation will be introduced to modernise the 'degrouching charge' rules.

Under current law, if a company leaves a group holding an asset acquired from a fellow group member within the previous six years, any gain or loss that had been deferred on that asset acquisition is reinstated as a chargeable gain or loss (a degrouching charge) separate to any gain or loss incurred on the disposal of the shares in the company.

It is proposed that where a company leaves a group as a result of a disposal of its shares, any degrouching charge will be treated as additional consideration for the disposal. This ensures that shareholder reliefs, such as the substantial shareholdings exemption, will also apply to the degrouching charge.

Other changes to corporate capital gains proposed are to:

- remove some existing restrictions on the use of capital losses within a group of companies after acquisition of a business
- replace a complex set of anti-avoidance rules on 'value shifting' with a clearer purpose-based rule.

Anti-avoidance

The government remains committed to tackling avoidance of tax and has announced a variety of policies to take forward including:

- a study into whether a General Anti-Avoidance Rule could be framed to meet the objectives of deterring and countering tax avoidance in a fair way
- legislation to address avoidance schemes under which, in accordance with generally accepted accounting practice, amounts that are taxable under the rules on loan relationships and derivative contracts are not fully recognised in a company's accounts
- legislation to counter avoidance involving changes in the functional currency of an investment company.

Other Matters

HMRC powers – Security for PAYE and NICs

Legislation in Finance Bill 2011 will introduce a power to allow HMRC to make regulations enabling them to require a security from employers for PAYE that is seriously at risk. The measure will also introduce a criminal offence for non-payment of a security. Once the new power is in place HMRC will use existing powers to make equivalent provision in respect of NICs.

Comment

A facility to require a security exists for most of the indirect taxes, but it is most commonly used for VAT. The most common form of security is a cash deposit held by HMRC or paid into a joint HMRC/taxpayer interest bearing banking facility.

VAT on business samples

Legislation will be introduced in Finance Bill 2011 to ensure that where businesses provide samples of their products free of charge to individuals for marketing purposes, none of the samples are liable to VAT. The existing policy limits relief to the first sample.

Anti-avoidance - VAT

Legislation will be introduced in Finance Bill 2011 to withdraw the zero-rating from printed matter where it is ancillary to a differently rated service. This change will apply where, if the service and printed matter had been supplied by a single business, the two supplies would have been treated as a single standard rated, reduced rated or exempt supply.

Anti-avoidance - IHT

The government has confirmed that IHT on transfers of property into trusts will be brought within the disclosure of tax schemes regime.



Disclaimer – for information of users

This summary is published for the information of clients. It provides only an overview of 'Finance Bill 2011 - a consultation on draft legislation' published on 9 December 2010 and previous announcements. No action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this summary can be accepted by the authors or the firm.