The UK pocket tax book 2010/11

A summary of UK personal and corporate taxation rates and other personal information

The information in this book is based on taxation law, legislative proposals and current practice up to and including measures contained in the second Finance Bill of 2010.

Details apply throughout the tax year 2010/11 unless otherwise stated (with comparative figures for 2009/10). It is possible that some of the information shown will be amended by future Budgets or Finance Bills.

Throughout this book ‘HMRC’ is used to refer to Her Majesty’s Revenue & Customs.
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Income tax

Rates of tax

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Additional rate</td>
<td>50%</td>
<td>–</td>
</tr>
<tr>
<td>Starting savings rate chargeable on investment income</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Threshold of taxable income above which higher rate applies</td>
<td>£37,400</td>
<td>£37,400</td>
</tr>
<tr>
<td>Threshold of taxable income above which additional rate applies</td>
<td>£150,000</td>
<td>–</td>
</tr>
<tr>
<td>Flat rate applicable to discretionary and accumulation trusts</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Dividend rate applicable to discretionary and accumulation trusts</td>
<td>42.5%</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

- For individuals who are not higher or additional rate taxpayers, the rate of tax on dividend income is 10% on the gross amount, satisfied by offset of the tax credit. For higher rate taxpayers, the rate of tax is 32.5%, reduced by the tax credit to 22.5% (or 25% of the actual dividend). For additional rate taxpayers, the rate of tax is 42.5%, reduced by the tax credit to 32.5% (or 36.11% of the actual dividend).
- The starting savings rate of 10% applies to other savings income (primarily bank and building society interest) up to a limit of £2,440 (2009/10: £2,440). The 10% rate is not available if taxable non-savings income exceeds this limit.
- The rates applicable to discretionary and accumulation trusts of 50% (general income) and 42.5% (dividends), (40% and 32.5% respectively 2009/10) apply after a standard rate income tax band of £1,000.

Rates of tax for deduction at source

The rates of tax to be deducted at source from common types of savings income are shown below:

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>–*</td>
<td>–*</td>
</tr>
<tr>
<td>Interest (subject to some exceptions)</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Annual payments and gift aid payments</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Purchased life annuities (income element)</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Other annuities</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

* There is a tax credit of one-ninth in addition to the dividend paid, equivalent to a deduction of 10% from a gross amount. The tax credit on dividends is not repayable.

Note

- Dividends from non-UK companies are treated as carrying the same non-repayable tax credit as dividends from UK companies, subject to conditions and anti-avoidance measures. Prior to 22 April 2009 there was also a requirement that the individual owned less than 10% of the company's shares, but from that date the requirement has been relaxed in certain cases, including where the foreign company is tax resident in a territory which has a double taxation treaty with the UK that includes a non-discrimination article.
Income tax

Main personal reliefs

<table>
<thead>
<tr>
<th>Relief</th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance</td>
<td>£6,475</td>
<td>£6,475</td>
</tr>
<tr>
<td>Registered blind person’s allowance</td>
<td>£1,890</td>
<td>£1,890</td>
</tr>
<tr>
<td>Age allowances:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance (aged 65-74 at end of tax year)</td>
<td>£9,490</td>
<td>£9,490</td>
</tr>
<tr>
<td>Personal allowance (aged 75 and over at end of tax year)</td>
<td>£9,640</td>
<td>£9,640</td>
</tr>
<tr>
<td>Married couple’s* allowance (one aged 75 and over at end of tax year)</td>
<td>£6,965</td>
<td>£6,965</td>
</tr>
</tbody>
</table>

* Includes same-sex couples who acquired a legal status as civil partners on or after 5 December 2005.

- Tax relief for the married couple’s allowance (MCA) is given at the rate of 10%.
- Age allowances are reduced by £1 for every £2 of income in excess of £22,900 (2009/10: £22,900) but are not reduced below £6,475 (2009/10: £6,475) (personal allowance) or £2,670 (2009/10: £2,670) (MCA).
- For 2010/11 onwards, the personal allowance is reduced by £1 for every £2 of adjusted net income above £100,000. This means that an individual with adjusted net income above £112,950 will not receive any personal allowance.

Notes

- For marriages before 5 December 2005, the MCA is normally given to the husband but, on election, may be claimed by the wife or shared equally (for example to ensure it goes to the individual with the higher income). For marriages and civil partnerships on or after 5 December 2005 the allowance goes to the individual with the higher income.
- Most individuals who are non-UK domiciled or not ordinarily resident, and who claim the remittance basis of taxation, lose their entitlement to personal allowances, including the MCA.
- ‘Adjusted net income’ is broadly taxable income net of gift aid and most pension contributions.

Gifts to charities

- Relief is available for the following:
  - Gift Aid donations of cash by individuals who pay UK tax.
  - Deeds of covenant – tax relief for such payments is given under the Gift Aid scheme.
  - Payroll giving – employees can authorise their employer to deduct charitable donations from their pay before calculating pay as you earn (PAYE) tax, through an employer’s payroll deduction scheme.
  - Taxpayers who are due tax repayments are able to indicate on their self-assessment tax return that they would like HMRC to make some or all of the repayment directly to a charity as Gift Aid.
  - Gifts of listed shares and securities, freehold or leasehold property – individuals can obtain income tax relief for the value of such gifts, with no capital gains tax (CGT) or inheritance tax (IHT) on the gift.
  - Gifts to charities in the EU, Norway and Iceland that would qualify as a charity in the UK will now also qualify for tax relief.

Notes

- Cash Gift Aid donations are regarded as made net of basic rate tax, which is reclaimable by the charity. Where applicable, the donor is granted higher rate tax relief on the gross equivalent of the gift.
- There are rules to restrict the availability of Gift Aid relief where the donor receives a benefit above a certain level from the charity or where a substantial donor has certain transactions with the charity.
- Charities will benefit from a transitional relief for the tax years 2008/09-2010/11, giving them a supplementary payment of 2% in addition to the 20% basic rate tax refunded on qualifying donations. This has no impact on the tax relief available to the donor.
Income tax

Pension contributions
The following is a summary of the main elements of the rules governing contributions to registered pension schemes. The main points are:

• No overall limit to employer or employee contributions.

• Employee contributions are only deductible for income tax if they do not exceed taxable earnings. However, UK resident individuals can pay £3,600 p.a. gross (£2,880 net of basic rate tax at 20%) to a ‘relief at source’ scheme (i.e. a personal pension type scheme) net of basic rate tax, even if the individual does not have taxable earnings of this amount.

• Tax relief for contributions is given at the individual’s marginal rate of income tax but some individuals may be subject to the special annual allowance charge regime (see below), which can restrict the tax relief available on contributions.

• If the sum of tax-relieved contributions by the employee and contributions by the employer exceeds the annual allowance of £255,000 for 2010/11 (£245,000 for 2009/10), the excess will be charged to income tax on the employee at 40%.

• Contributions to each pension arrangement are measured in pension input periods and it is the sum of the contributions during the pension input periods ending in the relevant tax year that count towards the annual allowance limit for that year.

• For the purpose of the annual allowance test, an accrual of defined benefit pension is deemed to be worth 10 times the increase in the annual rate of pension payable from normal retirement age, plus the increase in any additional retirement lump sum.

• Every individual has a lifetime allowance (LTA) that is £1.8m in 2010/11 (£1.75m in 2009/10). The capital value of benefits is tested against the LTA at the time each benefit first comes into payment, and this will use up part or all of an individual’s LTA. The amount used up is measured as a percentage of the standard LTA in force in the tax year when the benefits are tested. Any benefits from registered schemes in excess of the allowance (i.e. once 100% of the individual’s LTA has been used up) will be subject to a LTA charge, the rate of which depends on whether the excess is paid as a lump sum (rate 55%) or as an annuity (rate 25% and the annuity itself is then subject to income tax).

• In valuing the fund for the purpose of the LTA, a defined benefit pension is valued at £20 for each £1 p.a. of pension (£25 for each £1 p.a. of pension already in payment on 6 April 2006).

• The annual allowance and LTA limits are capped at £255,000 and £1.8m until 5 April 2016 and may be reduced from 2011/12 to limit the tax relief available for pension contributions – see page 4.

Special annual allowance charge
The special annual allowance charge (SAAC) regime was introduced to discourage taxpayers from increasing contributions to registered pension schemes in advance of the introduction of restrictions to apply to tax relief on pension contributions from 2011/12. It applies for 2010/11 (and applied similarly in 2009/10) if:

• an individual’s relevant income (as defined below) in 2010/11 (last year 2009/10) equals or exceeds £130,000 - note that the definition may take account of income of the preceding two years also; and

• contributions to registered pension schemes (and certain non-UK schemes) in the tax year exceed the greater of £20,000 and regular contributions, which means contributions that commenced before 22 April 2009 and are being paid at least quarterly. These regular contributions are called protected pension input amounts.

Further rules include:

• Where infrequent (less than quarterly) contributions were made in the three tax years 2006/07 to 2008/09 such that the arithmetic mean contributions exceeded £20,000, the special annual allowance can be increased to that mean, but not exceeding £30,000.

• If the individual’s relevant income in 2009/10 exceeded £130,000 but was less than £150,000, the SAAC is restricted to a charge on any increase in contributions above protected pension inputs post 9 December 2009.

• For 2009/10 SAAC applied at 20% to amounts exceeding the protected pension inputs. For 2010/11 it applies at a variable rate of 0%, 20% or 30% depending on the marginal tax rate of the taxpayer.
Income tax

The SAAC is applied to the amount by which contributions exceed the greater of £20,000 (or SAA if greater – see above) and the protected pension input amounts. It is paid by the individual and is assessed through the self-assessment tax return at the end of the tax year. Employer and individual contributions could both potentially give rise to SAAC. Unlike the ordinary annual allowance, SAAC is based on contributions paid in a tax year rather than in a pension input period.

Relevant income is total income (i.e. income subject to UK income tax and includes investment income as well as employment and self-employment income) adjusted as follows:

- By limiting deductions for contributions to registered pension schemes to no more than £20,000.
- By adding back any income foregone by a salary sacrifice arrangement connected to employer contributions to a pension scheme. For taxpayers with relevant income of £150,000 or more, any amounts sacrificed after 21 April 2009 are added back, but for those with relevant income in 2009/10 of at least £130,000, but less than £150,000, only any amounts subject to salary sacrifice on or after 9 December 2009 need to be considered.
- For certain other adjustments, for example to allow for Gift Aid donations to charity.
- If the result of the above for the year in question is less than £130,000, by adjusting similarly the total income of each of the previous two tax years and, if the result of doing so is £130,000 or more for either or both of those earlier tax years, taking the relevant income of the year in question as £130,000.
- There is also an anti-avoidance rule which can raise relevant income to £130,000.

Notes

- SAAC does not apply to contributions paid between 6 April 2009 and 21 April 2009 but such contributions may cause further contributions, other than protected pension input amounts, to be subject to SAAC if the total exceeds £20,000.
- For defined benefit schemes SAAC will not apply to continued accrual of benefits using the same formula that was in force on 21 April 2009 but any improvements in the benefit design or augmentation of benefits may be liable to SAAC.

Proposals for 2011/12

Although law has been enacted to introduce a high income excess relief charge (HIERC), this is likely to be repealed before coming into force. The Government’s stated intention is to restrict tax relief on pension contributions, probably by reducing current annual and lifetime allowance levels, but at the time of writing proposals remain under review and subject to consultation.

Notional earnings cap

The notional earnings cap that limited the maximum earnings that could count in a tax-approved pension scheme before 6 April 2006 was abolished at that date. HMRC has continued to publish details of what the figure would have been had it remained in force, as some employers’ pension schemes still limit members’ pensionable earnings by reference to it. For 2010/11, the relevant figure is £123,600. For future years, affected employers may calculate the earnings cap for the year using a formula based on the previous year’s figure, uplifted for any increase in RPI by reference to the September RPI figure for that year and the preceding year. The resulting figure is then rounded up to the nearest £600.

Employment benefits – company cars and vans

Company cars – cash equivalents as taxable benefits in kind

- For 2010/11, the taxable benefit is 10% of list price for CO₂ emissions of 120g/km or less. For emissions over 120 up to 130g/km the rate is 15% and increases by 1% for each additional full 5g/km up to a maximum charge of 35% for emissions of 230g/km or more. Second cars are taxed in the same way as first cars.
- There are reduced percentages for cars running wholly or partly on alternative fuels, e.g. hybrid, LPG, dual fuel cars. From 2010/11, the benefit charge for electric cars is nil, as the percentage applicable is 0%.
- Cars which have been manufactured to run on E85 fuel receive a 2% discount from the appropriate percentage.
Income tax

- Where there is no CO₂ figure, and for cars registered before 1 January 1998, the taxable benefit is based on the engine size.
- Diesel supplement: for cars registered on or after 1 January 1998 a 3% supplement applies, but the maximum charge will not exceed 35%. This supplement does not apply to Euro IV compliant cars registered before 1 January 2006.

**Example (2010/11)**

Price of car £15,000; CO₂ emissions 188g/km; benefits percentage 26% (29% if diesel); taxable benefit £3,900 (£4,350 if diesel).

**Notes**

- The price used is the list price (inclusive of VAT and delivery) of the car on the day immediately before the car is first registered.
- The price must be increased by the list price of optional accessories provided with the car and by the list price of accessories costing £100 or more added to the car. Mobile telephones are ignored for this purpose and do not give rise to a taxable benefit.
- The cost of accessories designed for use only by the disabled is excluded from the price used. If the disabled driver has to drive an automatic car, the CO₂ figure is that of the equivalent manual car.
- Capital contributions of up to £5,000 made by the employee towards the cost of the car or accessories are deducted from the price.
- Special rules apply to classic cars, where the market value (if greater) is substituted for the list price if the car is at least 15 years old at the end of the tax year and its market value is at least £15,000.
- The total price as determined above is capped at £80,000 for calculating the cash equivalent. This cap will be removed from 2011/12 onwards.
- The lower threshold CO₂ figure will reduce from 130g/km to 125g/km for 2011/12 onwards.

**Fuel for private use – cash equivalents**

- The fuel scale charge is determined by reference to the CO₂ rating of the car, applied to a fixed amount, which is £18,000 for 2010/11 (2009/10: £16,900). Thus a CO₂ rating of 25% would lead to a taxable benefit of £4,500.

**Notes**

- Cash equivalents of car and van benefits are reduced in certain circumstances by cash contributions made by the employee. The fuel benefit is eliminated only if the employee is required by the employer to make full reimbursement of private fuel provided, and actually does so. The charge is proportionately reduced if the provision of fuel or the car starts or ceases during the year.
- To encourage ‘green commuting’ there is no taxable benefit for employees using work buses with a seating capacity of nine or more which are used to take employees to and from work. There are also minor reliefs designed to encourage employees to use bicycles to travel to work or for business travel.

**Company vans – cash equivalents**

- The standard benefit for private use of a company van is £3,000. There is an additional private fuel charge of £550 (2009/10: £500).
- If private use of the van is restricted to (in essence) home-to-work journeys, then no benefit will apply.
Income tax

Expenses claims – mileage allowance payments

<table>
<thead>
<tr>
<th></th>
<th>First 10,000 business miles</th>
<th>Additional business miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>All cars</td>
<td>40p</td>
<td>25p</td>
</tr>
</tbody>
</table>

Notes

- The mileage allowance payments are available where an employee uses his/her private vehicle for business purposes. Provided any reimbursement does not exceed the rates indicated, HMRC will accept that there is no taxable profit element. If reimbursement is lower than the official rates, the employee may claim a deduction against income for the balance.
- Records must be kept of cumulative mileage in the tax year and the rate must be reduced once the total exceeds 10,000 miles.
- An equivalent system at 20p per mile is available for bicycle travel and 24p per mile for motorcycle travel.
- Employers can pay drivers up to 5p per mile ‘passenger rate’ for each additional employee making the same business trip. If this is not paid, the employee cannot claim a deduction.
- HMRC also publishes guidelines on ‘fuel only’ mileage rates for company cars, i.e. when the employee is reimbursed for buying fuel for business journeys. These rates are reviewed twice a year. The advisory rates, from 1 June 2010 until further notice are (previous rates from 1 December 2009):

<table>
<thead>
<tr>
<th></th>
<th>Petrol</th>
<th>Diesel</th>
<th>LPG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1400 cc or less</td>
<td>12p (11p)</td>
<td>11p (11p)</td>
<td>8p (7p)</td>
</tr>
<tr>
<td>1401-2000 cc</td>
<td>15p (14p)</td>
<td>11p (11p)</td>
<td>10p (8p)</td>
</tr>
<tr>
<td>2001 cc or over</td>
<td>21p (20p)</td>
<td>16p (14p)</td>
<td>14p (12p)</td>
</tr>
</tbody>
</table>

Employment benefits – beneficial loans

- A beneficial loan is one which, generally speaking, bears interest at a rate below the ‘official rate’, which is kept broadly in line with typical mortgage rates. The cash equivalent of the loan benefit is the difference between the actual interest paid, if any, and the interest which would have been charged had the loan borne interest at the official rate.
- The charge does not apply if beneficial loans total no more than £5,000 (ignoring loans qualifying for tax relief). Relief is also given to the extent that tax relief would have been available had interest at the official rate actually been paid.
- The official rate for 2010/11 is 4% (2009/10: 4.75%). The rate is generally set in advance for the whole of the tax year, subject to significant changes in interest rates. Different official rates apply to loans made in Japanese yen or Swiss francs to certain nationals of those countries.
- Loans made to employees of lenders on the same terms and conditions as commercial loans made by the employer to members of the public are exempt from the charge.

Note

- Most employment benefit charges do not apply to employees (other than directors) with an earnings rate of less than £8,500 per annum including gross expenses payments and the taxable value of benefits in kind.
Income tax

Overseas employment income

- Whether employment income is assessable in the UK is determined by reference to the residence and domicile status of the employee at the time it is earned. When it is assessable depends on the tax year in which it is paid, or in some cases when it is remitted to the UK, regardless of residence status. Special rules apply for employment income paid before employment has commenced and on or after employment has ceased.

Taxable portion of salary attributable to duties performed:

<table>
<thead>
<tr>
<th>Employee’s status</th>
<th>Wholly in UK</th>
<th>Partly in UK and partly abroad</th>
<th>Wholly abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident and ordinarily resident</td>
<td>All</td>
<td>All*</td>
<td>All*†</td>
</tr>
<tr>
<td>Resident but not ordinarily resident</td>
<td>All</td>
<td>Remittances**</td>
<td>Remittances**</td>
</tr>
<tr>
<td>Not resident</td>
<td>All</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

* Special rules apply to seafarers who may be able to claim a 100% deduction, depending on their working patterns.
** If remittance basis is claimed, otherwise all taxable.
† Where the employer is non-resident and the employee is non-UK domiciled he may make a claim to be taxed on the remittance basis.

Note

- The normal UK tax position set out above may be affected, in certain cases, by double taxation agreements. Tax credit relief may be given for any foreign tax paid.

Domicile

- Domicile is normally acquired at birth and is difficult to change; it can be thought of as the individual’s ultimate home.

- Non-UK domiciled taxpayers can pay tax on their UK source income and gains and on any non-UK income and gains which are remitted to the UK (the remittance basis) if they make an annual claim to that effect. Where such a claim is made, (except for the two sets of circumstances summarised in the next bullet) the taxpayer loses entitlement to the personal, married couple’s and blind person’s allowances for income tax and the annual exemption for capital gains tax purposes.

- There are two sets of circumstances in which the remittance basis can apply with no loss of personal allowance or annual exemption. The first is where the taxpayer has a total of less than £2,000 of unremittted offshore income and gains for the tax year. The second applies if the taxpayer has no more than £100 of taxed UK source investment income and no other UK source income or gains, remits nothing to the UK and is either under 18 or has been resident in the UK in no more than six out of the preceding nine UK tax years.

- Anyone claiming the remittance basis who is aged 18 or over and has been UK resident in at least seven out of the preceding nine tax years must also pay an annual charge of £30,000 in addition to any UK tax. This charge may be regarded as income tax or capital gains tax for the purposes of double taxation agreements.

- Subject to certain fairly narrow conditions, resident but non-domiciled individuals who do not claim the remittance basis may claim an exemption from UK tax in respect of their foreign income which does not exceed certain limits.
## Approved and tax favoured employee share plans

### Summary of requirements

<table>
<thead>
<tr>
<th>Participation in plan</th>
<th>Company share option plan (CSOP)</th>
<th>Savings related share option scheme (SAYE)</th>
<th>Share incentive plan (SIP)</th>
<th>Enterprise management incentive (EMI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At employer’s discretion provided certain conditions met</td>
<td>All employees (subject to minimum period of service, not exceeding five years)</td>
<td>All employees (subject to minimum period of service, not exceeding 18 months)</td>
<td>At employer’s discretion provided certain conditions met</td>
</tr>
<tr>
<td>Benefit to each employee</td>
<td>At employer’s discretion</td>
<td>Must be on similar terms (can be by reference to salary or years’ service)</td>
<td>See below</td>
<td>At employer’s discretion</td>
</tr>
<tr>
<td>Price to be paid</td>
<td>Not less than market value per share at grant of option</td>
<td>Up to 20% discount to market value of shares at grant of option</td>
<td>See below</td>
<td>At employer’s discretion</td>
</tr>
<tr>
<td>Maximum participation</td>
<td>£30,000 aggregate market value of shares calculated at date of grant</td>
<td>£250 savings per month</td>
<td>See below</td>
<td>£120,000 aggregate market value of shares at date of grant</td>
</tr>
<tr>
<td>Normal exercise/holding period</td>
<td>Three to ten years to obtain tax relief</td>
<td>Six month exercise period following three, five or seven years</td>
<td>Five years to obtain full tax benefits</td>
<td>At employer’s discretion, but exercise on or before tenth anniversary is one of the requirements for tax relief</td>
</tr>
</tbody>
</table>

### Notes

**Company Share Option Plan (CSOP) and Savings Related Share Option scheme (SAYE)**
- Provided certain requirements are met, no income tax or National Insurance Contributions (NIC) charge arises on shares acquired on the exercise of CSOP or SAYE options. The shares acquired are subject to the capital gains tax (CGT) regime.

**Share Incentive Plan (SIP)**
- Under a SIP the employer can give all employees awards of free shares (which can be performance related) up to a maximum of £3,000 p.a. tax-free. Secondly, an employee may buy partnership shares from pre-tax salary, up to a maximum of £1,500 p.a. (or 10% of pay if less). The employer may, at its discretion, match these partnership shares up to 2:1 tax-free. Finally, £1,500 p.a. of dividends paid out on an employee’s shares held under the plan can be re-invested tax-free in further shares for the employee. Any capital gains arising while the shares are held in the plan are free of CGT.
Approved and tax favoured employee share plans

Notes (continued)

Enterprise Management Incentive (EMI)

• Although EMI is not an approved plan as such, it does benefit from a favourable tax status where certain conditions are met. EMI is available to qualifying trading companies with gross assets of £30m or less (for options granted after 20 July 2008) and employing fewer than 250 employees (defined by reference to full-time equivalents). Employees may each receive options over shares worth up to £120,000 at the date of grant. This is subject to an overall financial limit of £3m on the total market value of shares (at the date of grant) that may be under EMI options at any time. Where EMI options are granted at or above market value there is no income tax or NIC at grant or exercise (provided all the relevant conditions are met). The shares acquired are within the CGT regime.

Statutory corporation tax deductions

• A statutory corporation tax (CT) deduction is available for CSOP, SAYE and EMI where certain conditions are met. A claim is required. Broadly, and assuming the qualifying conditions are satisfied, the amount and timing of the relief are determined by the value received by the employee on the option exercise and by the timing of the option exercise. The statutory CT deduction rules for SIP operate in a different way.

Employer compliance

• In most cases (other than SAYE) taxable income from approved and tax favoured share plans is within the scope of PAYE and NIC.
• There are also specific reporting obligations which are not limited to taxable events. Reportable events should be notified to HMRC in a prescribed format. Financial penalties may be imposed for late or incorrect reporting. Additionally, HMRC may commence proceedings to withdraw approval from an approved plan.
Bank payroll tax

Bank payroll tax
Banks and certain other companies in the financial sector may be subject to bank payroll tax (BPT) for the period from 9 December 2009 to 5 April 2010. BPT is charged at 50% by reference to the chargeable relevant remuneration of relevant banking employees of such companies awarded during that period by reason of their employment. The due date for payment of BPT is 31 August 2010. BPT is not deductible for corporation tax or income tax purposes. It does not affect the income tax position of either the employee or the employer.
### National insurance contributions (NICs)

#### Contributions

**Class 1 (employed)**

Payable monthly or quarterly by the employer at the same time as PAYE remittances.

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below £110 (2009/10: £110)</td>
<td>Nil*</td>
<td>Nil</td>
</tr>
<tr>
<td>£110-£844 (2009/10: £110-£844)</td>
<td>11% [11%**] on excess over £110 (2009/10 on excess over £110)</td>
<td>12.8% [12.8%**] on excess over £110 (2009/10 on excess over £110)</td>
</tr>
<tr>
<td>On excess over £844 (2009/10: £844)</td>
<td>1% (2009/10: 1%)</td>
<td>12.8% (2009/10: 12.8%)</td>
</tr>
</tbody>
</table>

* There is an additional employee NIC rebate on earnings above the LEL up to and including the ET for contracted out schemes of 1.6%. This does not however apply to contribution table E or G earners.

** Contracted out rates in respect of salary related pension schemes are shown in square brackets. Contracted out employee contributions are the same for both occupational salary related and occupational money purchase schemes, but the rebate on employers’ contributions in relation to money purchase schemes is only 1.4% (instead of 3.7% for salary related schemes). The contracted out rates apply to earnings between £110 and £770 per week. Earnings between £770 and £844 per week are subject to the non-contracted out rate. The full rate of employers’ contributions of 12.8% applies on the excess over £770. The rebates are also given on earnings between £97 and £110 (which effectively gives a negative NIC rate at these salary levels). For money purchase schemes an additional rebate, dependent on the age of the scheme members, is made directly into the pension scheme.

#### Notes

- Although no contributions are due from employees until earnings reach £110, strictly earnings below £97 (the lower earnings limit (LEL)) (2009/10: £95) attract nil contribution, but earnings between £97 and £110 (the employee’s earnings threshold (EE/ET)) are liable for contributions, but at 0%.
- Similarly, earnings between £97 and £110 (the employer’s earnings threshold (ER/ET)) strictly attract employers’ contributions at 0%.
- A rate of 4.85% on weekly earnings from £110 up to £844 and 1% on weekly earnings over £844 (2009/10: 4.85% from £110 up to £844 and 1% above £844) is payable by married women and widows who made the reduced rate election prior to 12 May 1977. The election has no effect on employer contributions.
- The upper accrual point (UAP) is the threshold which applies for the calculation of both State Second Pension and contracted-out rebates. For 2010/11, the UAP is £770 per week (2009/10: £770).
- The Government has announced a three-year exemption for new businesses from up to £5,000 of Class 1 NICs in targeted areas outside London and the South East. It will apply for each of the first 10 employees hired in the first year of business. The Government hopes to start the scheme by September 2010, for businesses set up from 22 June 2010.
National insurance contributions (NICs)

Class 1A (employed) – benefits-in-kind

- Payable annually in arrears by 19 July following the year of assessment.
- Employers (but not employees) are liable to Class 1A NICs on almost all benefits-in-kind when the benefits are not already liable to Class 1 contributions. Contributions are generally based on the taxable benefit for income tax purposes, calculated at the full Class 1 rate for the year in which the benefit was provided, i.e. currently 12.8%.

Class 1B (employed) – PAYE Settlement Agreements (PSAs)

- A PSA is a statutory arrangement under which employers can settle employees’ income tax liability on sundry benefits.
- Employers (but not employees) are liable to Class 1B (rather than Class 1 or Class 1A) NICs on items included in the PSA and the amount of tax payable by the employer under the PSA. For items provided during 2010/11 and the tax payable thereon, the liability is calculated at 12.8% (2009/10: 12.8%). HMRC may argue that items can only be included in a PSA for NIC purposes if the PSA was agreed in advance of the Class 1 or Class 1A liability for the particular item arising. In practice, therefore, employers may wish to negotiate their PSAs before the start of a tax year.
- Class 1B NICs are payable by 19 October after the tax year.

Class 2 (self-employed)

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable quarterly or by monthly direct debit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flat rate, per week</td>
<td>£2.40</td>
<td>£2.40</td>
</tr>
<tr>
<td>Small earnings exception per annum</td>
<td>£5,075</td>
<td>£5,075</td>
</tr>
</tbody>
</table>

Class 3 (voluntary)

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable quarterly or by monthly direct debit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flat rate, per week</td>
<td>£12.05</td>
<td>£12.05</td>
</tr>
</tbody>
</table>

Class 4 (self-employed)

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable with income tax (see page 43)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On assessable profits between £5,715 (2009/10: £5,715) and £43,875 (2009/10: £43,875)</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>On assessable profits over £43,875</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Notes

- There are special Class 2 rates which apply to share fishermen and for volunteer development workers.
- The newly self-employed must register with HMRC to pay Class 2 NICs within three months of the end of the month in which they start self-employment, or face penalties.

Future changes

From 6 April 2011 employer, employee and Class 4 self-employed rates of NICs (both main and additional rates) will be increased by 1%.
Tax credits and benefits

Tax credits

• Working tax credit (WTC) – aimed at those working people on low incomes; it is normally payable as a supplement to pay.

• Child tax credit (CTC) – support for families with children, normally payable to the main carer.

Components of the credits (annual amounts shown):

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working tax credit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic element</td>
<td>£1,920</td>
<td>£1,890</td>
</tr>
<tr>
<td>Couples and lone parent element</td>
<td>£1,890</td>
<td>£1,860</td>
</tr>
<tr>
<td>30 hour element</td>
<td>£790</td>
<td>£775</td>
</tr>
<tr>
<td>Disabled worker element</td>
<td>£2,570</td>
<td>£2,530</td>
</tr>
<tr>
<td>Severely disabled adult element</td>
<td>£1,095</td>
<td>£1,075</td>
</tr>
<tr>
<td>Childcare element (amounts per week):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– maximum cost for one child</td>
<td>£175</td>
<td>£175</td>
</tr>
<tr>
<td>– maximum cost for two or more children</td>
<td>£300</td>
<td>£300</td>
</tr>
<tr>
<td>– percentage covered</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>50+ return to work payment (16-29 hours)</td>
<td>£1,320</td>
<td>£1,300</td>
</tr>
<tr>
<td>50+ return to work payment (30+ hours)</td>
<td>£1,965</td>
<td>£1,935</td>
</tr>
</tbody>
</table>

| **Child tax credit** |         |         |
| Family element       | £545    | £545    |
| Family element, new baby addition | £545    | £545    |
| Child element (each child) | £2,300  | £2,235  |
| Disabled child element | £2,715  | £2,670  |
| Severely disabled child element | £1,095  | £1,075  |

The claimant’s entitlement is aggregated and then withdrawn as income rises.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>First income threshold</td>
<td>£6,420</td>
<td>£6,420</td>
</tr>
<tr>
<td>First withdrawal rate</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>Second income threshold</td>
<td>£50,000</td>
<td>£50,000</td>
</tr>
<tr>
<td>Second withdrawal rate</td>
<td>6.67%</td>
<td>6.67%</td>
</tr>
<tr>
<td>First threshold for those entitled to CTC only</td>
<td>£16,190</td>
<td>£16,040</td>
</tr>
<tr>
<td>Income disregard</td>
<td>£25,000</td>
<td>£25,000</td>
</tr>
</tbody>
</table>

Notes

• Credits are set out as annual amounts but awards are based on rounded daily amounts.

• CTC is available automatically in respect of children to the 1 September following their sixteenth birthday; after that it is available up to age 19 for children who continue in full-time non-advanced education.

• Income for the withdrawal calculations is based on the joint income of a couple. Income is essentially taxable income net of pension contributions; it excludes, among other items:
  – some benefits-in-kind;
  – untaxable social security benefits;
  – income from rent-a-room, maintenance payments, ISAs etc; and
  – capital in most cases.

• Awards are generally calculated for a year. The award is initially based on taxable income as assessed for the previous year. There is no revision to the award if actual income for the year is up to £25,000 higher. A greater increase in income, or any reduction, will lead to a revised award.
# Tax credits and benefits

## Benefits

<table>
<thead>
<tr>
<th></th>
<th>Weekly benefit from 5 April 2010</th>
<th>Weekly benefit from 6 April 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retirement pension (taxable)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual claimant</td>
<td>£97.65</td>
<td>£95.25</td>
</tr>
<tr>
<td>Addition for wife if non-contributor</td>
<td>£58.50</td>
<td>£57.05</td>
</tr>
<tr>
<td><strong>Child benefit (not taxable)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First child</td>
<td>£20.30</td>
<td>£20.00*</td>
</tr>
<tr>
<td>Each subsequent child</td>
<td>£13.40</td>
<td>£13.20*</td>
</tr>
<tr>
<td>Guardian’s allowance</td>
<td>£14.30</td>
<td>£14.10</td>
</tr>
<tr>
<td><strong>Pension credit guarantee (age 60 and over)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>£132.60</td>
<td>£130.00</td>
</tr>
<tr>
<td>Couple</td>
<td>£202.40</td>
<td>£198.45</td>
</tr>
</tbody>
</table>

* The higher child benefit shown was payable from 5 January rather than 6 April 2009.

## Note

Various other benefits may be available dependent upon personal circumstances.
Tax efficient investments

Registered pension schemes

- Amounts contributed by an individual to a pension scheme normally attract tax relief, subject to limits noted on page 3. For the deductibility of employer’s contributions, see page 19.
- There are rules that may impose additional tax on some contributions by or for high earners: see page 3 for the special annual allowance charge. Further restrictions may apply from 6 April 2011.
- Income and gains arising on the funds within a pension scheme are generally exempt from income tax and capital gains tax (CGT).
- Individuals aged 55 (50 until 5 April 2010) can normally withdraw up to 25% of the lower of the capital value of the benefits coming into payment under the pension scheme and their unused standard lifetime allowance as a tax-free lump sum, provided the balance of the fund is at the same time used to provide a lifetime income. This is often done by purchasing an annuity, but it is possible in a money purchase scheme to take a taxable income from the scheme, without the need to purchase an annuity, even at age 75.
- A number of issues must be considered before an individual, or a company on behalf of the individual, invests in a pension scheme. Individuals should consult an independent financial adviser to ensure that these are properly addressed.

Rent-a-room

- An individual letting accommodation in their only or main residence as furnished living accommodation is exempt on ‘rent-a-room receipts’ up to a limit of £4,250 a year. The receipts can include related goods and services.
- Receipts in excess of £4,250 can be taxed in full or the taxpayer can elect to be taxed on their full rents under a normal rental business computation.

Venture capital trusts (VCTs)

- VCTs are quoted companies similar in concept to investment trusts. At least 70% of the VCT’s underlying investments must be invested in a spread of small unquoted trading companies within three years.
- Income tax relief is available at 30% on new subscriptions for ordinary shares in VCTs by individuals aged 18 or over.
- The maximum amount qualifying for relief is £200,000 in each tax year.
- Dividends received from VCTs are exempt from income tax, provided the shares acquired (by subscription or purchase) are within the annual limit of £200,000 (£100,000 for 2003/04 and earlier).
- Shares in VCTs acquired within the annual limit are also exempt from CGT on disposal at any time, but losses on disposal are not allowable as capital losses.
- For investments prior to 6 April 2004, CGT deferral relief was available on certain investments made in VCTs.

Note

- The initial income tax relief is withdrawn if various conditions are not met – these include a minimum holding period. For subscriptions since 6 April 2006, the period has been five years.

Enterprise investment scheme (EIS)

- Income tax relief is available at 20% on new subscriptions by individuals for eligible ordinary shares in qualifying unlisted trading companies (including shares traded on the alternative investment market (AIM)) satisfying the conditions of the EIS scheme.
- The maximum amount qualifying for relief in a single tax year is £500,000.
- Unlimited capital gains arising from the disposal of other assets can be deferred by investment into the EIS, provided the EIS investment is made in the period starting 12 months before the date of disposal and ending 36 months after disposal (see page 25).
- A capital gain on disposal of the shares after the minimum holding period (see below) will be exempt from CGT provided that EIS income tax relief has been retained. Capital losses may generally be relieved against either capital gains or taxable income.

EIS investments may qualify for inheritance tax (IHT) business property relief (see page 27 and 28).
Notes

• For 2009/10 onwards, the full EIS investment can be treated as if the shares were issued in the previous tax year, subject only to the overall investment limit for the year.

• The reliefs are withdrawn if various conditions are not met or cease to be met. These include a minimum holding period of three years. Where the company is not trading at the date of the share issue, the minimum holding period runs until three years after trade commences.

• A company may receive a maximum of £2m under the EIS or from venture capital trusts in any 12 month period.

Individual savings accounts (ISAs)

• The returns from ISAs are exempt from tax with no minimum holding period or minimum subscription.

• Qualifying investments include cash in deposit accounts or building society share accounts, stocks and shares (including collective investment schemes and gilt edged stock), certain National Savings & Investments products and certain life assurance products.

• The overall annual subscription limit is £10,200 (2009/10: £7,200). Within this overall limit is an annual limit of £5,100 (2009/10: £3,600) for the amount the ISA can hold as cash investments. Those aged 50 or over were able to take advantage of the increased limits from 6 October 2009 for their 2009/10 ISA investments.

• Only UK ordinarily resident individual taxpayers may invest in ISAs; anyone becoming non-resident may continue to hold ISA investments but may not make further investments until tax resident again.

• Only those aged 18 and over can invest in a full ISA, but it is possible for those aged 16 and 17 to invest in a cash ISA. It is possible to switch a cash-based ISA into an equity-based ISA but not vice versa.

Authorised investment funds (AIFs)

• AIFs (including unit trusts and open-ended investment companies (OEICs)) are exempt from CGT. They pay tax on income, after expenses, at a rate of corporation tax equal to the basic rate of income tax.

• AIFs have had the option of electing into a regime from 1 September 2009 (provided certain conditions are met by the fund) that will move the point of taxation from the AIF to the investor so that the investor is treated as though they had invested in the underlying assets directly. This will be achieved through source streaming of distributions paid by the AIF.

National Savings & Investments

• Certificates are usually available to individuals on either a fixed rate basis (as two or five year investments) or index-linked (three or five years). Interest and indexation uplift on certificates are exempt from tax. The maximum new investment in each issue is £15,000 per person. Reinvestment of the proceeds from matured issues into the current issues can be made without limit.

• Premium bonds offer tax-free returns in the form of a monthly prize draw. The maximum holding is £30,000 per person.

• Interest on children's bonus bonds is tax exempt.

• Other National Savings & Investments products (apart from ISAs) are fully taxable.

Child trust funds (CTFs)

• At the time of writing, children born after 31 August 2002 receive a voucher for £250 to be invested in a CTF for them. Children in lower income households receive a further £250 at birth. All children receive a further payment at age seven. There are special provisions for disabled children.

• However, new legislative proposals are that the voucher and additional Government payment are each to be cut to £50 for children born between August and December 2010, and to nil for children born later. Government contributions at age seven will cease from August 2010.
Tax efficient investments

- No new CTF vouchers will be issued from January 2011 but earlier vouchers will remain valid. Established CTFs can remain in place subject to the same rules as before.
- CTFs can be invested in a range of assets, like an ISA. Gains and income are tax free in the CTF. HMRC will open a default account where vouchers are not invested within one year.
- Others are able to contribute up to a total of £1,200 each year, defined by the child's birthdays, to the fund. The child will have unrestricted access to the accumulated fund at age 18.

Other investments

Certain other investments also carry tax advantages, for example:

- Real Estate Investment Trusts (REITs) are funds investing in property and effectively move the point of taxation from within the fund to the investor.
- Capital gains made on gilts do not attract a capital gains tax charge.
- Offshore funds may often roll up gains and, in some cases, defer tax on the income until the investor realises part or all of their holding. However, eventual encashments could be subject to income tax as a result of the roll up status. For some investors, a capital gains tax treatment on disposal of their investment, as opposed to the gain being taxed at income tax rates, is desirable. Those offshore funds with reporting fund status (broadly funds that elect to enter the reporting funds regime and report the income attributable to their investors to HMRC and the investor) have a capital gains tax treatment on disposal. The reported income is subject to income tax whether or not the income is distributed to investors. Gains realised on offshore funds that do not elect into the reporting fund regime are taxed at the investor's marginal income tax rate.

Appropriate professional advice should be taken before investing.
Corporation tax

Rates of tax

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full rate</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Marginal rate</td>
<td>29.75%</td>
<td>29.75%</td>
</tr>
<tr>
<td>Small profits rate</td>
<td>21%</td>
<td>21%</td>
</tr>
</tbody>
</table>

- A financial year is the year commencing 1 April (for example the financial year 2010 is the year commencing 1 April 2010).
- The 21% small profits rate normally applies where profits chargeable to corporation tax (with franked investment income other than from certain UK related or consortium companies) do not exceed £300,000. The small profits rate is not available to close investment-holding companies.
- The 28% full rate applies to all profits chargeable to corporation tax where the profits (defined as above) exceed £1,500,000. Where profits (so defined) fall between those two amounts, a marginal rate of 29.75% applies to claw back the benefit of the small profits rate.
- Where there are associated companies (including those overseas) the limits are reduced by dividing them by one plus the number of associated companies carrying on a business.
- The full rate is to be reduced to 27%, and the small profits rate to 20%, both from 1 April 2011. The Government plans to reduce the full rate by a further 1% each year to reach 24% from 1 April 2014.
- For companies with profits from oil extraction and oil rights in the UK and the UK Continental Shelf those ‘ring fence profits’ are subject to corporation tax at rates applicable in 2006 (i.e. a full rate of 30%, upper marginal rate of 32.75% and small companies’ rate of 19%). Where a company has ring fence profits and other profits, these should be split out and taxed as appropriate.
- There are proposals to introduce in FA 2011 a ‘patent box’ regime for UK companies. It is intended that, following consultation, the regime will apply a reduced corporation tax rate of 10% to income arising from 1 April 2013 for patents registered from Royal Assent to the Bill.

Dividends

- Dividends paid by UK companies are not subject to withholding tax but still carry an imputed tax credit, of one ninth of the cash dividend. This is, in general, non-repayable, although it may give rise to a small rebate under certain of the UK’s tax treaties.
- However, with effect from 1 July 2009, all dividends are subject to corporation tax unless an exemption applies. In practice, given the breadth of the exemptions available, most distributions are expected to be exempt.
- Dividends prior to 1 July 2009 were taxed differently depending on whether they were UK or non-UK source. Dividends received from other UK companies were normally exempted from corporation tax, while non-UK source dividends were taxable, with double taxation relief given for overseas tax suffered.
- There are ongoing discussions with stakeholders to align the taxation of branches. Any changes are expected to be included in FA 2011.

Deductions from income

- The normal rule is that revenue expenses incurred wholly and exclusively for the purposes of the trade are deductible from trading income. Generally, expenses are determined using the accruals concept and normal accountancy principles. Revenue expenses of managing investments may also be deducted for corporation tax purposes.
- Interest and other costs of borrowing are generally deductible in the accounting period in which they are charged in the accounts. Care needs to be taken especially if the loan etc is for a non-trading purpose. Numerous anti-avoidance provisions may apply, including the debt cap rules (as to which see ‘Groups of companies’ below).
- Generally, accounting depreciation is not deductible for tax purposes. Instead, companies may obtain deductions for the cost of capital assets through capital allowances. Refer to page 20.
Corporate tax

- Generally, for acquisitions of intellectual property, goodwill and other intangible assets, a company can claim a deduction for the amortisation or impairment loss charged to its profit and loss account or a flat rate of 4% if preferred.
- For qualifying revenue expenditure on research and development (R&D), an additional deduction of 30% is available for large companies. For companies that are small or medium-sized enterprises, for most types of expenditure, the additional deduction is 75%, with the option of a cash rebate if the company has trading losses. For certain other expenditure, the additional deduction for an SME is 30%.
- Most pension contributions made wholly and exclusively for business purposes are deductible in the accounting period in which payment is made. However, relief for contributions may have to be spread over a period of up to four years if they exceed (broadly) 210% of the previous year's contributions.
- Remuneration for directors and employees must be paid before the expiry of nine months following the end of the accounting period if relief is to be obtained in that period. Bonuses paid later than this are deductible in the accounting period in which payment is made.

Note

- ‘Small or medium-sized enterprise’ (SME) for the R&D tax relief for revenue expenditure is defined by reference to EU rules. Taking the company’s data together with that of linked enterprises, and the proportionate data of partner enterprises, there must be fewer than 500 employees, and an annual turnover not exceeding €100m and/or an annual balance sheet total not exceeding €86m.

Capital gains

- Chargeable gains and allowable losses are, in general, calculated in the same way for companies as for individuals (see page 24 and 25). Net gains are included in the calculation of profits chargeable to corporation tax although no annual exemption is available to companies.
- Capital gains and losses arising on disposals by trading groups or stand-alone trading companies from substantial (10% ordinary share capital minimum) shareholdings and related holdings in (broadly) trading companies are exempt in most cases.
- Companies' chargeable gains can be reduced by indexation allowance to take account of inflation. The allowance cannot exceed the unindexed gain, and cannot therefore convert an unindexed gain into an allowable loss or increase an unindexed loss.
- The allowance is calculated on the allowable expenditure (for example the base cost of the asset) by reference to the increase in the retail prices index (see page 21) from the month in which the expenditure was incurred to the month of disposal. For this purpose, assets acquired before 1 April 1982 were normally deemed to have been acquired on 31 March 1982 at their market value on that date.
- Proposals are expected to be published in 2010 to simplify the capital gains legislation for groups of companies.

Losses

- Trading losses can be set against all other income and gains of the same accounting period, with any balance carried back against income and gains of the previous year or carried forward and set against future income arising from the same trade.
- For accounting periods ending between 24 November 2008 and 23 November 2010, losses of up to £50,000 (for each 12 month accounting period) may be carried back for up to three years.
- Excess management expenses and rental losses can be set against all other income and gains of the same accounting period or future accounting periods. They cannot be carried back to previous years.
- Capital losses can only be offset against capital gains arising in the same company in the same accounting period or future accounting periods (though see below for groups of companies).
- Restrictions on losses may apply where the ownership of the company has changed.
- Where a company has a non-sterling functional currency, losses will be carried forward in that currency, unless an election is made.
Corporation tax

Groups of companies

- Current year trading and rental losses, non-trading deficits on loan relationships, surplus management expenses and certain other amounts, may be surrendered as group relief between companies which are members of the same worldwide group and are subject to UK corporation tax. This includes UK trading permanent establishments of foreign companies. The group relationship requires 75% direct or indirect ownership – including economic ownership – of ordinary share capital, but can be traced through foreign companies. There are more complex requirements for consortia. Following amended legislation, the offset right is extended, in limited circumstances, to losses incurred in other EU or EEA territories not otherwise relievable.

- The debt cap rules apply to large groups with UK members with effect from a group’s first period of account that begins on or after 1 January 2010. The principle of the debt cap measure is to restrict the amount of interest that can be deducted from UK income by groups that have operations outside the UK (‘the worldwide debt cap’). The debt cap will not apply if the ‘gateway’ test is met. Broadly this is where UK net debt (internal and external) is less than 75% of the group’s worldwide external debt.

- Capital losses cannot be surrendered, but matching and offset of gains and losses can generally be achieved by electing to transfer the gain or loss within the group. From 21 July 2009 this election extends to deemed disposals and intra-group situations.

- Within the worldwide capital gains group, capital assets can be transferred tax-free between companies and permanent establishments subject to UK corporation tax. A group can include the principal company; companies of which it has 75% direct ownership of ordinary share capital; companies of which those companies have such 75% ownership; and so on. However the principal company’s economic ownership interest in any subsidiary must be more than 50% if it is to be within the group.

Controlled foreign companies

- Broadly a CFC is an overseas company controlled by UK residents which pays less than three-quarters of the tax which it would have paid on its income had it been resident in the UK. Where an overseas company meets this definition it must apportion profits among the persons with interests in it. No apportionment of profits is due if the company satisfies any one of the statutory exclusions. The Government will consult during 2010 on proposals for reform with a view to legislation in both 2011 and 2012.

Transfer pricing and thin capitalisation

- Rules which adjust cross-border non-arm’s length pricing between related parties apply both to UK/non-UK and to UK/UK transactions. As well as monitoring transfer pricing of goods, the rules also apply to financing (‘thin capitalisation’).

- A compensating adjustment is available in the other UK business, to ensure in general that the UK-to-UK rules will not cause double taxation.

- Small and medium-sized enterprises are exempt in many cases.

Anti-avoidance

- As in the case of income tax and capital gains tax, there are numerous specific statutory anti-avoidance rules covering various aspects of corporation tax. There is no general anti-avoidance rule (GAAR) in respect of these taxes, but the Government plans to review this.

Close companies

- A close company, very broadly, is one controlled by five or fewer participators or any number of directors who are participators (all as defined).

- Special rules apply to close companies in connection with the small companies rate of corporation tax, loans to participators and distributions.
### Corporation tax

**Retail Prices Index (for calculating corporate capital gains)**

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Capital allowances

Plant and machinery

- Writing down allowances are available for capital expenditure incurred on the provision of plant and machinery. Qualifying expenditure is added to the asset ‘pool’, and writing down allowances at a rate of 20% p.a. on a reducing balance basis are given on the residue of expenditure in that pool.

- For expenditure on certain long-life plant and machinery, writing down allowances are restricted to 10% p.a. The rules apply broadly to assets whose expected working life is at least 25 years.

- 100% first-year allowances can be claimed for expenditure incurred on designated energy-saving and environmentally beneficial technologies and products, known as the enhanced capital allowances (ECA) scheme.

- For expenditure by loss-making companies, a payable ECA is available of 19% of the loss that is surrendered. The upper limit of payable ECA is restricted to the greater of (a) the total amount of the company’s PAYE and NICs liabilities for payment periods ending in the chargeable period and (b) £250,000.

- An annual investment allowance (AIA) provides individuals, certain partnerships and companies with an annual 100% allowance for the first £100,000 (£50,000 in 2009/10) of expenditure on plant and machinery (other than cars). One annual £100,000 (£50,000 in 2009/10) allowance is available to each individual business or corporate group.

- Writing down allowances of up to £1,000 are available for plant and machinery pools (excluding single asset pools) with unrelieved expenditure of £1,000 or less.

- There are special rules that may restrict allowances on fixtures that are acquired second hand.

- Writing down allowances may be claimed only in part where it is considered advantageous to do so.

- Where short-life plant or machinery (broadly with an expected life of less than five years) is acquired, it is normally possible to elect to have the capital allowances on such items calculated at the same rate, but separately from the main 20% asset pool, with the result that a balancing allowance may arise on disposal.

- Buildings, structures and fixtures in buildings cannot generally qualify as plant unless they fall within certain defined categories. For expenditure on certain listed ‘integral features’ of buildings and structures, writing down allowances of 10% p.a. on a reducing balance basis are available.

- For expenditure on cars incurred on or after 1 or 6 April 2009, writing down allowances on a reducing balance basis are calculated at 20% p.a. for cars with CO\(_2\) emissions between 110g/km and 160g/km and at 10% p.a. for cars with CO\(_2\) emissions greater than 160g/km. 100% FYAs are available for expenditure on cars with CO\(_2\) emissions less than 110g/km. There are transitional rules over five years for existing cars.

- For longer leases of plant and machinery, that are essentially financing transactions (‘long funding leases’), the tax treatment is aligned with that of plant and machinery acquired with other forms of finance, with the capital allowances usually going to the lessee. The regime does not normally apply where plant and machinery is leased as an incidental part of a typical property lease.

Note

- Legislation will be introduced in a future Finance Bill to reduce the main rate of writing down allowance from 20% to 18% and the special rate from 10% to 8%. In addition, the maximum limit of the AIA will reduce from £100,000 to £25,000. Both these changes will have effect from 1 or 6 April 2012 and transitional arrangements will apply for businesses whose chargeable period spans the change date.

Industrial buildings

- Industrial buildings allowances (IBAs) are given on eligible expenditure incurred on the construction of industrial buildings or structures that are used for qualifying purposes. The allowance also covers hotels.

- Writing down allowances on eligible expenditure are available, provided the building is actually in use for a qualifying purpose at the end of the chargeable/basis period.

- A phased withdrawal of IBAs applies from April 2008, with full abolition from April 2011. This is being achieved by a reduction in the writing down allowance (generally 4% p.a.) of 25% in 2008/09, 50% in 2009/10, 75% in 2010/11 and 100% thereafter.

- Expenditure on office accommodation or retail premises normally qualifies for allowances only where it physically forms part of an industrial building and the cost of the non-qualifying accommodation is not more than 25% of the total cost.
Capital allowances

- Allowances of up to 100% are also available for eligible expenditure incurred on the construction of certain commercial buildings (including hotels) located in enterprise zones. These allowances will be withdrawn from 1 April 2011.
- Balancing adjustments and the recalculation of writing-down allowances in respect of qualifying industrial buildings expenditure were withdrawn with effect for disposals on or after 21 March 2007, unless in respect of qualifying enterprise zone expenditure or in pursuance of a ‘relevant pre-commencement contract’ (essentially unconditional contracts entered into before 21 March 2007).

Other Individual savings accounts (ISAs) allowances

- Capital expenditure on research and development attracts a 100% capital allowance in the first year.
- Allowances are also available in respect of various other types of capital expenditure, including ships, mineral extraction, flat conversions, agricultural buildings (phased withdrawal from April 2008 as with industrial buildings) and dredging.
- Capital expenditure on the conversion or renovation of certain business premises which meet two tests (that is they have been vacant for at least one year and lie within a designated disadvantaged area) attracts 100% initial allowances.
Capital gains tax (CGT)

Rates of tax

• Chargeable gains, as reduced by allowable losses, are charged to tax on individuals and trustees at a flat rate of 18% for disposals made before 23 June 2010 (2009/10: 18%).

• The June 2010 Budget announced a new 28% rate of capital gains tax. For disposals by individuals from 23 June 2010, the applicable rate depends on total taxable income. Chargeable gains which, when added to taxable income after all allowable deductions, do not exceed the higher rate threshold (£37,400 for 2010/11) continue to be taxed at 18%, but gains or parts of gains above that threshold are taxed at 28%. The applicable rate is not affected by pre-23 June 2010 gains.

• There are a number of transitional provisions which determine the applicable rate in 2010/11 for temporary non-residents, non-UK domiciled individuals and non-UK resident trusts.

• From 23 June 2010, capital gains tax is charged at a flat rate of 28% for trustees and for personal representatives of deceased persons.

Main exemptions

Annual exemption

• The annual exemption for individuals is £10,100 (2009/10: £10,100). A husband and wife each have a separate exemption. Same-sex couples who acquire a legal status as civil partners are treated in the same way as married couples for CGT purposes.

• Most trusts have an annual exemption of £5,050 (2009/10: £5,050). This figure is generally reduced where more than one trust has been created by the same person, but is not reduced below £1,010 (2009/10: £1,010).

• If the beneficiary is mentally disabled or receiving the middle or higher rate of Attendance Allowance or Disability Living Allowance, the trust gets the same annual exemption as individuals.

• Where the remittance basis is claimed by a non-UK domiciled individual, the taxpayer will not be entitled to the annual exemption.

Chattels exemption

• Chattels with a predictable useful life of 50 years or less (for example caravans and boats) are normally exempt from CGT.

• Gains on other chattels are exempt if proceeds do not exceed £6,000 per item. Marginal relief may be available where proceeds are between £6,000 and £15,000.

Other exemptions

• All assets owned by an individual on death are revalued to current market value free of CGT.

• In general, gains by individuals on the disposal of a main private residence, cars, gilts and qualifying corporate bonds are exempt from CGT.

• Gifts to charities are normally free of CGT.

Main reliefs

Loss relief

• Capital losses are, in principle, calculated in the same way as capital gains. Allowable capital losses are offset against gains and it is the net gains for the year that are subject to tax.

• Net capital losses in a tax year are carried forward (they cannot be carried back) for use against future capital gains. Losses brought forward are only used up to the extent necessary to reduce net gains for the year to the level of the annual CGT exempt amount. The surplus is carried forward indefinitely until exhausted. Where this election has been missed, an amendment can be made to the 2008/09 tax return. The deadline for this is 5 April 2013.

• Non-domiciled taxpayers who are claiming the remittance basis can only claim relief for any offshore capital losses by making an irrevocable election to claim such losses. The election has to be made in respect of the first tax year from 2008/09 onwards for which the remittance basis is claimed.
Capital gains tax (CGT)

Entrepreneurs’ relief

- This relief, which must be claimed, gives a capital gains tax rate of 10% for eligible gains up to £5m. The limit of £5m is a lifetime limit per individual.
- The types of assets qualifying for entrepreneurs’ relief are, broadly, those which previously qualified for business asset taper relief. This covers:
  - a trading business carried on by the individual alone or in partnership;
  - shares or securities in a ‘personal’ trading company where the individual owns 5% or more of the shares/securities and voting rights and is an officer or employee (full or part time); and
  - assets owned by the individual and used in their ‘personal’ trading company or partnership.
- The conditions must have been satisfied throughout a qualifying period of a year before the disposal.
- Various deferred gains are also covered by the relief.

CGT deferral relief

- Capital gains tax may be deferred by reinvestment of the chargeable gain in eligible shares in an enterprise investment scheme (EIS – see page 15) qualifying unlisted trading company (including companies quoted on the alternative investment market (AIM)). The reinvestment must take place during the period beginning one year before and ending three years after the date of disposal.
- Individuals and trustees for individuals may claim the relief. Partial claims are permitted. The gain will continue to be deferred as long as qualifying shares are held, subject to stringent anti-avoidance provisions.

Notes

- It is only necessary to reinvest the chargeable gain, and not the full proceeds of sale, from the asset disposed of.
- Relief will be denied in certain circumstances if borrowings are taken out to purchase the new shares, or the company returns value to investors.
- Property-related activities may disqualify a company from EIS.

Rollover relief

- Rollover relief, or a holdover variant, is available on the disposal of various qualifying assets used for trading purposes, including land, buildings and fixed plant or machinery. In order to obtain a full tax deferral it is necessary to reinvest the full proceeds, and not just the amount of the gain, in new qualifying assets. The reinvestment must take place during the period beginning one year before and ending three years after the date of disposal.

Gifts of business assets

- Capital gains arising on certain gifts of assets can be deferred, usually until the assets are subsequently disposed of by the donee. In most circumstances the relief needs to be claimed jointly by the donor and the donee.
- Broadly speaking, this relief is available in respect of gifts of trading assets, shares in most unlisted trading companies (including companies quoted on AIM), and shares in most listed trading companies where the donor held at least 5% of the voting rights immediately prior to the gift. Relief is also available for certain agricultural land, and gifts that attract a charge to inheritance tax (even where the rate of inheritance tax is nil). Relief is not available for gifts of shares or securities if the donee is a company.
- This relief is not available on the disposal of assets to the trustees of trusts in which a settlor has an interest.

Assets acquired before 31 March 1982

- For disposals from 6 April 2008, gains on disposals of assets held at 31 March 1982 are automatically based on market value at 31 March 1982. Previously taxpayers could base CGT calculations on original cost in some circumstances.

Indexation allowance

- Indexation allowance is no longer available for disposals after 5 April 2008 by individuals or trustees.
Inheritance tax (IHT)

The charge to tax

- Lifetime transfers by individuals to individuals and into trusts for the disabled are treated as potentially exempt transfers (PETs). No inheritance tax (IHT) arises at the time such a transfer is made.
- If the donor dies within seven years, the PET becomes a chargeable transfer and may then attract IHT depending on the value of the transfer and the donor’s cumulative total chargeable transfers.
- The rates of IHT applied to any chargeable transfer (including that made on death and including any PETs which become chargeable) are determined by reference to the donor’s cumulative total, i.e. the total of all chargeable transfers (including any PETs which become chargeable) made in the previous seven years.
- Chargeable lifetime transfers (other than PETs which become chargeable if the donor dies within seven years) are charged to IHT at half the normal death rates. However, where death occurs within seven years of the date of such a transfer, additional IHT may again be payable.
- The value of the deceased’s estate is subject to IHT, taking into account the above points. Anti-avoidance legislation may also treat gifts in which the donor has retained an interest as still comprised in the deceased’s estate for IHT purposes.

Note

- There is an income tax charge (the ‘pre-owned assets tax’) on the benefit people derive from having free or low-cost enjoyment of assets they formerly owned or they provided funds to purchase. As an alternative to the charge, taxpayers can elect for IHT treatment on the relevant property. The time limit for election is the same as the self-assessment deadline for making a tax return for the tax year in which an individual is first liable for the pre-owned asset charge.

Trusts and IHT

- Most trusts are ‘relevant property trusts’ (RPTs) and as such are subject to the IHT trust regime. Lifetime transfers or additions to RPTs are chargeable transfers to the extent that they exceed the available IHT nil rate band. IHT is payable on transfers made into the trust (at 20%); on every ten year anniversary of the creation of the trust (at rates of up to 6%); and when capital leaves the trust (also at rates of up to 6%).
- Interest in possession (IIP) trusts in existence prior to 22 March 2006 remain outside the RPT regime until, broadly, the existing IIP comes to an end. Until that time they are, broadly, treated for IHT purposes as comprised in the estate of the person with the IIP. There is transitional relief for such IIP trusts so that, provided they were appropriately amended before 6 October 2008, they will remain outside the RPT regime while the beneficiary entitled to the interest remains the same. Also, there is a limited exception from the RPT regime where the IIP arises on the death of the settlor.
- Accumulation and maintenance (A&M) trusts in existence prior to 22 March 2006 become RPTs unless they meet certain conditions. There are limited exemptions from the RPT regime for A&M trusts created under the will of a deceased parent for a bereaved minor child or for a disabled person.

Rates of IHT on death

<table>
<thead>
<tr>
<th>Cumulative Total of Chargeable Transfers</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>On first £325,000 (2009/10: £325,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>On the excess over £325,000</td>
<td>40%</td>
</tr>
</tbody>
</table>
Inheritance tax (IHT)

Notes
• These rates also apply to lifetime chargeable transfers (including any PETs which become chargeable) made within three years preceding death.
• Tapered rates apply to lifetime chargeable transfers (including any PETs which become chargeable) made more than three years but within seven years preceding death. Tapering reduces the tax rate, not the chargeable transfer, and so is of no benefit to a transfer within the nil rate band on death. The effective rates of tax on the excess over the nil rate band are:
  - 0 to 3 years before death  40%
  - 3 to 4 years before death  32%
  - 4 to 5 years before death  24%
  - 5 to 6 years before death  16%
  - 6 to 7 years before death  8%
• However, these tapered rates cannot reduce the tax due on a lifetime chargeable transfer below the amount chargeable when the transfer was made.
• A deceased can utilise all or part of an unused nil rate band (NRB) of their previously-deceased spouse or civil partner. If on the first death a proportion of the then NRB was not utilised by that deceased, the unused proportion, applied to the NRB at the time of the second death, is available.

Main exemptions

• Transfers to:
  - UK domiciled spouse*  No limit
  - non-UK domiciled spouse (from non-UK domiciled spouse)*  No limit
  - non-UK domiciled spouse (from UK domiciled spouse)*  Cumulative £55,000
  - UK registered charities  No limit
  - political parties (special definition)  No limit

  * Same-sex couples who acquire a legal status as civil partners are treated in the same way as married couples for IHT purposes.

• Lifetime transfers:
  - annual exemption per donor  £3,000
  - small gifts, annual amount per donee (but not available to cover part of a larger gift)  £250
  - regular gifts out of income  Varies according to circumstance

• Wedding gifts
  - to child of donor  £5,000
  - to grandchild (or remoter issue) of donor or from one party of the marriage to the other  £2,500
  - to others  £1,000

Business property relief (BPR)

<table>
<thead>
<tr>
<th>Percentage reduction in value transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
</tr>
<tr>
<td>100%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>100%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>50%</td>
</tr>
</tbody>
</table>

• Interest in a business
• Farm tenancy held personally
• Listed shares giving control
• Unlisted shares (including companies quoted on AIM)
• Fixed assets used by a company which the transferor controls or by a partnership in which the transferor is a partner
• Trust property used by a life tenant in own business
Inheritance tax (IHT)

Agricultural property relief (APR)

- Agricultural land or pasture including woodlands and certain buildings:
  - with vacant possession (or right to obtain vacant possession within 12 months) 100%
  - tenanted where tenancy started after 31 August 1995 where owner can obtain vacant possession within 24 months 100%
  - other tenanted 50%

Notes
- BPR and APR are generally only available where the donor has owned the property concerned for a minimum period of two years (seven years for tenanted agricultural land) immediately preceding the transfer.
- Business property relief in respect of shareholdings applies only where the company carries on a qualifying business.
- Agricultural property relief applies only to the agricultural value of the property concerned.
- Agricultural property relief is extended to property anywhere in the EEA from 22 April 2009.
- In the case of lifetime gifts, the reliefs may be restricted where the donor dies within seven years of the gift and either the property concerned is no longer owned by the donee (unless the property is disposed of and the proceeds have been reinvested in similar qualifying property within three years of the disposal) or it has ceased to be qualifying property.
Introduction
Stamp duty is payable on transfers of stock or marketable securities where a transfer document (e.g. stock transfer form) is used.

SDRT arises on agreements to transfer chargeable securities. In practice, where stamp duty is paid promptly on a transfer document, no SDRT arises. However, where there is no transfer document (as is the case for transfers through CREST, the UK’s electronic share settlement system) SDRT is the relevant tax.

Rates of duty
- 0.5% stamp duty or SDRT is payable on the purchase price.
- Stamp duty and SDRT at the higher rate of 1.5% applies to bearer shares and to transactions involving transfers or issues to depository receipts or clearance systems. Transactions within such systems are generally exempt. Following a judgment of the European Court of Justice in October 2009, the 1.5% higher rate charge is no longer collected in relation to the issue of shares into clearance services or depository receipt systems within the EU, subject to anti-avoidance rules intended to prevent subsequent transfers to non-EU services and systems.
- A special SDRT regime applies to dealings in unit trusts and open-ended investment companies.

Main exemptions
- Gilts and most bonds.
- Transactions within groups: the test is 75% ownership of ordinary share capital and the right to 75% of distributable profits and assets. This is subject to various anti-avoidance provisions.
- Certain other reconstructions (subject to various anti-avoidance provisions).
- Transfers where the consideration is no more than £1,000.
- Transactions for nil consideration.
- Non-UK securities are generally excluded from SDRT. Although there is no similar exemption from stamp duty, in practice, arrangements can be made to avoid the need to pay stamp duty by executing and retaining documents offshore.

Notes: Compliance
- The purchaser is liable for any SDRT due. Certain financial intermediaries (such as brokers) can be accountable for their clients’ liability to SDRT (they need to collect the tax from the purchaser and give notice of the charge and pay it to HMRC).
- Transactions liable to SDRT need to be reported to HMRC by the purchaser (or by any accountable person) by the seventh day of the month following the date of the transaction. Special rules apply to on-exchange transactions and to transactions settled through CREST.
- Stamp duty should be paid within 30 days of execution of the relevant transfer document being signed.
- Payment of stamp duty on a transfer document within six years usually cancels any SDRT due on the transaction.
- Penalties and interest charges are payable for late submission of documents for stamping or late submission of SDRT notifications.
Stamp duty land tax (SDLT)

Introduction
SDLT is payable on transfers or leases of UK land and interests in property investment partnerships holding UK land and is a liability of the purchaser. Special rules apply to transactions involving partnerships.

Rates of SDLT
SDLT on consideration for sale or premium for leases:

- up to £125,000*  
- over £125,000* (on whole amount)  
- over £250,000 (on whole amount)  
- over £500,000 (on whole amount)

* The threshold is £150,000 for non-residential property and for residential property in disadvantaged areas. The threshold for residential property was raised temporarily to £175,000 from 3 September 2008 to 31 December 2009.

A new higher rate of 5% (on whole amount) will be payable on purchases of residential property where the consideration exceeds £1 million and where the effective date (usually the date of completion) is on or after 6 April 2011.

SDLT on rents payable under new leases:

- 1% of net present value of aggregate of all rentals payable over the term of the lease.
- Rentals discounted at 3.5% per annum.
- Deduction of £125,000 for residential properties/£150,000 for non-residential properties from discounted rentals figures.
- Special rules apply for rent reviews, increases in rents, etc.

Main exemptions

- First-time purchasers of residential property where the consideration does not exceed £250,000 and where the effective date of the purchase (usually the date of completion) falls on or after 25 March 2010 and before 25 March 2012.
- Residential properties in disadvantaged areas – if price does not exceed £150,000.
- Transactions within groups: the test is 75% ownership of ordinary share capital and the right to 75% of distributable profits and assets. This is subject to various anti-avoidance provisions and a clawback of relief if the purchaser is de-grouped within three years.
- Certain other acquisitions of going concerns and reconstructions. These are subject to various anti-avoidance provisions and clawback of relief if control over the acquiring company changes pursuant to arrangements made within three years.
- Sale and leasebacks (leaseback is exempted).
- Alternative finance arrangements – such as Islamic mortgages.
- Transactions for nil consideration (excluding transactions between connected companies).
- New zero-carbon homes.

Notes: Compliance

- SDLT is a self-assessed tax and the purchaser is obliged to submit a SDLT return together with the tax due within 30 days of completion.
- Penalties and interest are payable for late submission of returns or payment.
Value added tax (VAT)

VAT rates

- VAT is due on supplies of goods or services (other than exempt supplies) which are made in the UK in the course or furtherance of business, by a person who is registered or is required to be registered for VAT, and also on the importation and cross-border acquisition of goods and some services.
- If the supply does not fall into the above description, it is likely to be outside the scope of UK VAT. Otherwise all other supplies, unless specifically exempted, are referred to as being taxable supplies and are subject to one of three rates of VAT.
- The three rates of VAT are:
  - the standard rate (17.5%; temporarily reduced to 15% between 1 December 2008 and 31 December 2009);
  - the zero rate (0%); and
  - the reduced rate (5%) which applies to a limited range of goods and services.
- The standard rate will increase to 20% with effect from 4 January 2011, and anti-forestalling provisions are being introduced in substantially the same form as those introduced when the standard rate reverted to 17.5% in 2009.
- The standard rate of VAT applies to all taxable supplies which are not charged at the zero rate or the reduced rate of VAT.
- VAT incurred on the purchase of goods and services by a taxable person for use in making taxable supplies (input VAT) is generally recoverable.

Registration and deregistration

- Any person (including a 'legal' person, such as a company) is liable to register for VAT if the combined value of its taxable supplies in the UK exceeded the registration threshold in the preceding 12 months, or if there are reasonable grounds for believing that the value of taxable supplies to be made in the next 30 days will exceed the registration threshold.
- A business may deregister if the anticipated value of its taxable supplies in the next 12 months is less than the deregistration threshold.
- Where a business is involved only in the making of exempt supplies it is not able to register for VAT and is thus not able to recover any input VAT incurred.
- The current registration threshold is £70,000 (prior to 1 April 2009: £68,000).
- The current deregistration threshold is £68,000 (prior to 1 April 2009: £66,000).
- The current registration and deregistration thresholds for relevant acquisitions from other Member States of the EU are £70,000 (prior to 1 April 2009: £68,000).
- Businesses with taxable turnover below the registration thresholds may apply to be registered on a voluntary basis.

Notes

There are specific provisions for the registration of:
- overseas businesses when they dispose of goods on which UK VAT has previously been recovered; and
- non-EU businesses that provide electronically supplied services to private individuals and non-business organisations in the EU.

Flat-rate schemes

- The flat-rate scheme is open to small businesses with a VAT exclusive annual taxable turnover of up to £150,000. Under the scheme, businesses calculate the VAT due as a percentage of their turnover at a rate that will take into account the likely input VAT recovery on their purchases.
- The flat-rate percentages to be applied vary by trade sector, and are between 3.5% and 13% (6.5% and 14.5% from 4 January 2011 in association with the increase in the standard rate of VAT). The percentages were previously revised from 1 December 2010 to reflect the end of the temporary reduction in the standard rate of VAT (the previous rates range from 2% to 11.5%). Businesses within the scheme will still need to issue tax invoices to their VAT registered customers but will not need to record all the details of the invoices issued or purchase invoices received in order to calculate their VAT.
Value added tax (VAT)

• There are a number of exclusions designed to prevent abuse of the system.
• There is a separate flat-rate scheme available for use by farmers.

VAT groups

• Companies and other corporate bodies, under common control, which have an establishment within the UK, can be registered together as a VAT group. A VAT group has a single VAT registration number and transactions between the VAT group members are disregarded for VAT purposes. HMRC has extensive powers to combat certain types of VAT avoidance using VAT groups.
• There are rules governing the eligibility of large companies to become members of a VAT group registration in circumstances in which VAT grouping would provide a VAT advantage.

Reduced rate supplies

• Reduced rate supplies are subject to VAT, but at a lower rate of 5%. All other consequences of making taxable supplies are the same as if tax were chargeable at the standard rate. The groups of supplies which are eligible for the reduced rate of VAT are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Supplies of domestic fuel or power</td>
</tr>
<tr>
<td>2.</td>
<td>Installation of energy-saving materials</td>
</tr>
<tr>
<td>3.</td>
<td>Grant-funded installation of heating equipment or security goods or connection of gas supply</td>
</tr>
<tr>
<td>4.</td>
<td>Women’s sanitary products</td>
</tr>
<tr>
<td>5.</td>
<td>Children’s car seats</td>
</tr>
</tbody>
</table>

* The group headings shown are only indicative of the types of supplies that may be charged at the reduced rate. It is essential that specific confirmation be obtained before any particular supply is so treated.

Zero rated supplies

• Zero rated supplies are subject to VAT, but at a nil rate. All other consequences of making such supplies are the same as if tax were chargeable at the standard rate. A person making zero rated supplies must still notify HMRC of a liability to register if the value of its taxable supplies (including zero rate supplies) exceeds the registration threshold, and must make returns in the normal manner. However, businesses making only zero rated supplies can request exemption from registration.
• In addition to exports/dispatches of goods and certain services, the groups of supplies which are zero rated are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply†</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food</td>
</tr>
<tr>
<td>2.</td>
<td>Sewerage services and water</td>
</tr>
<tr>
<td>3.</td>
<td>Books, etc.</td>
</tr>
<tr>
<td>4.</td>
<td>Talking books for the blind and handicapped and wireless sets for the blind</td>
</tr>
<tr>
<td>5.</td>
<td>Construction of buildings, etc.</td>
</tr>
<tr>
<td>6.</td>
<td>Protected buildings</td>
</tr>
<tr>
<td>7.</td>
<td>International services</td>
</tr>
<tr>
<td>8.</td>
<td>Transport</td>
</tr>
<tr>
<td>9.</td>
<td>Caravans and houseboats</td>
</tr>
<tr>
<td>10.</td>
<td>Gold</td>
</tr>
<tr>
<td>11.</td>
<td>Bank notes</td>
</tr>
<tr>
<td>12.</td>
<td>Drugs, medicines, aids for the handicapped, etc.</td>
</tr>
<tr>
<td>13.</td>
<td>Imports, exports, etc.</td>
</tr>
<tr>
<td>14.</td>
<td>(No longer applicable)</td>
</tr>
<tr>
<td>15.</td>
<td>Charities, etc.</td>
</tr>
<tr>
<td>16.</td>
<td>Clothing and footwear</td>
</tr>
</tbody>
</table>

† The group headings shown are only indicative of the types of supplies which may be zero rated. It is essential that specific confirmation be obtained before any particular supply is so treated.
Value added tax (VAT)

Exempt supplies

- The groups of supplies which are exempt are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply‡</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Land</td>
</tr>
<tr>
<td>2.</td>
<td>Insurance</td>
</tr>
<tr>
<td>3.</td>
<td>Postal services</td>
</tr>
<tr>
<td>4.</td>
<td>Betting, gaming and lotteries</td>
</tr>
<tr>
<td>5.</td>
<td>Finance</td>
</tr>
<tr>
<td>6.</td>
<td>Education</td>
</tr>
<tr>
<td>7.</td>
<td>Health and welfare</td>
</tr>
<tr>
<td>8.</td>
<td>Burial and cremation</td>
</tr>
<tr>
<td>9.</td>
<td>Subscriptions to trade unions, professional and other public interest bodies</td>
</tr>
</tbody>
</table>

‡ The group headings shown are only indicative of the types of supplies which may be exempt. It is essential that specific confirmation be obtained before any particular supply is so treated.

- Property owners are able to opt to tax most non-residential land and buildings. This means that subsequent supplies by the person making the election will be standard rated. The election is irrevocable for 20 years (subject to a short initial revocation period) and is generally made on a property by property basis.

- Anti-avoidance measures exist which are designed to disapply the option to tax on certain types of supplies of land and property, where the intention or expectation is that the land or property will be put mainly to exempt use.

- In some circumstances, it is necessary to obtain the permission of HMRC before opting to tax a property.

Recovery of VAT incurred and partial exemption

- Where turnover includes some exempt or non-business supplies, a VAT registered business may not be able to reclaim all of its input VAT and a method is required to establish what VAT it can reclaim. It is first necessary to attribute input tax directly to taxable, exempt and non-business activities as far as possible.

- For a business that makes both taxable and exempt supplies, the standard method of recovering any remaining input tax is to apply the ratio of the value of taxable supplies to total supplies, subject to the exclusion of certain items which could prove distortive.

- The standard method is automatically overridden where it produces a result that differs substantially from one based on the actual use of inputs.

- It is possible to agree a special method with HMRC. This must be in writing and where a special method makes no provision for how to deal with certain types of input tax, that input tax is to be recovered on the basis of use.

- In certain circumstances, HMRC may direct that a particular special method should be used. It may also serve a special method override notice where the current special method does not fairly and reasonably reflect the actual use of inputs.

- All businesses applying for a new partial exemption special method (or amending an existing method) are required to make a declaration that the proposed method is fair and reasonable. HMRC has powers to set aside an agreed special method if the person signing the declaration knew, or ought to have known, that it was not fair and reasonable. In such circumstances HMRC may issue a retrospective special method override notice requiring the business to recalculate past VAT returns covered by the method.

- A partly exempt business can be treated as fully taxable, and is therefore able to reclaim all of its input VAT, if the input VAT attributable to the exempt supplies is both not more than the de minimis limit of £625 per month on average and not more than 50% of all input VAT incurred.

- For businesses that carry on both business and non-business activities, similar methods can be used for apportioning non-attributable input VAT. However, with the exception of local authorities and certain other public bodies, none of the input tax attributed to non-business activities can be recovered. Unlike exempt input tax, there are no de minimis limits applicable to input tax attributable to non-business activities.

- There are specific rules for allocating input VAT to certain foreign and specified supplies.
Value added tax (VAT)

The European single market

- There is, in general, a requirement for persons to register for VAT in the UK either when they acquire goods of a value in excess of the UK VAT registration threshold for the purpose of their businesses from other Member States of the EU, or, in the case of overseas suppliers, when they make ‘distance sales’ above certain thresholds to private individuals in the UK from other Member States. Similar rules apply in other Member States.

- Dispatches of goods to other Member States may be zero rated if the customer is acquiring the goods for the purpose of its business and can provide its VAT registration number, which must be quoted on the supplier’s invoice. Evidence that the goods have left the UK must be obtained. Without such evidence, HMRC will assume that the goods have remained in the UK and accordingly UK VAT will be due, at the applicable rate, on the supply.

- UK businesses involved in trade with other Member States must submit detailed statistical returns of their intra-community sales and purchases of goods and services. UK businesses selling goods to business customers in other Member States must complete an EC Sales List. Before 1 January 2010, these obligations did not apply to service providers.

- When the value of the dispatches and/or acquisitions to/from a Member State exceeds the Intrastat threshold, a more detailed return (known as an Intrastat return) will also be required. From 1 January 2010, the Intrastat threshold for arrivals was increased to £600,000 and for despatches to £250,000.

- Special rules have been implemented by the Member States in respect of supplies of electronic services. The legislation is designed to eliminate competitive distortion by subjecting non-EC suppliers to VAT, when they supply electronic services to private individuals and non-business organisations in the EC. Non-EC suppliers that do not have an establishment within the EC are required to electronically register with a VAT authority in one Member State of their choice, charge VAT at the rate applicable in the Member State where the customer is resident, and electronically declare the VAT due on a single VAT return to the Member State of registration. The Member State of registration will reallocate the VAT revenue to the Member State where the customer resides.

Reverse charge

- UK businesses receiving certain services from abroad are liable to account for UK VAT, by way of a reverse charge procedure. The scope of this charge includes all taxable services performed by non-resident suppliers which are supplied in the UK. The scope of the reverse charge was expanded significantly from 1 January 2010 to include most business-to-business (B2B) services.

- Certain supplies of services made by UK suppliers to customers in other jurisdictions are not subject to UK VAT. However, the recipient of the service may be required to account for VAT in its own jurisdiction by way of a reverse charge.

- A domestic reverse charge applies to trade in certain goods (such as mobile phones and computer chips) and to supplies of emissions allowances to counter missing trader VAT fraud.

Disclosure

- There are requirements for businesses to disclose certain arrangements to HMRC. For example, any business which is involved in sale and leaseback arrangements, arrangements with confidentiality clauses, certain business promotions (including those using vouchers) or pre-payments between connected parties may have a requirement to disclose.

- Disclosure is subject to strict time limits and there can be severe penalties for failure to disclose (up to 15% of the tax involved). It is essential that a business knows whether it is required to disclose a particular transaction or series of transactions and the manner and time in which this is required to be done.

- It is possible for professional advisers to make these disclosures on behalf of a business, thus relieving the business of the obligation to disclose.

- From 1 April 2010 there is an extended time limit (20 years) for assessment where the loss of VAT is attributable to a failure to comply with a disclosure obligation.

- The VAT measures on disclosure are significantly different to those for other taxes as set out on page 41.
Customs duty

- Duty is paid when dutiable goods are imported into the UK from outside the EU. Once all import formalities (including customs declarations and release processes) have been complied with and all duties due have been paid, goods may move freely within the EU customs territory without further duty falling due.
- The applicable rate of duty is determined by the classification of the imported goods in the EU customs tariff which is based on the international harmonised commodity description and coding system.
- Duty is normally due as a percentage of the value (under customs valuation rules) of the goods. The valuation rules are based on a World Trade Organisation agreement, to which many of the world’s trading nations subscribe. ‘Specific’ or quantity-based duties also apply to certain products.
- The EU has preferential trade agreements with certain countries, for example many of those in Central and Eastern Europe and most developing countries, which provide for reduced duty rates on importation of goods that originate there and meet the other relevant conditions.
- Conversely, the EU may impose protective additional duty rates, for example on certain goods from named countries or exporters, to protect the EU market from actual or threatened injury caused by low priced (dumped) goods or by subsidised goods.
- There are circumstances in which payment of customs duty on imports can be delayed, for example by using a customs warehousing procedure, or relieved, for example where goods imported into the EU are subject to processing and are subsequently re-exported outside the EU. Such delay or relief would be subject to authorisation and detailed conditions.
**Other indirect taxes**

**Insurance premium tax**
- Insurance premium tax (IPT) is usually charged at 5%. This rate applies to all general insurance such as car and property. Life assurance and other long term insurance remains exempt, though there are anti-avoidance rules surrounding long-term medical care policies.
- A higher rate (17.5%) of IPT applies to certain categories of insurance, as an anti-avoidance measure. This higher rate of IPT applies to insurance sold by suppliers of specified goods and services, for example mechanical breakdown insurance, travel insurance irrespective of who is supplying the insurance, insurance when sold with TV and car hire and ‘non-financial’ guaranteed asset protection (GAP) insurance sold through suppliers of motor vehicles or persons connected to them.
- The standard rate will increase to 6% and the higher rate to 20% with effect from 4 January 2011.
- Anti-avoidance measures bring protected cell companies within the definition of ‘connected persons’ for the purpose of the application of the higher rate of IPT.
- The definition of ‘premium’ makes it clear that any payment received in respect of a right to require an insurer to provide, or offer to provide, cover under a taxable contract of insurance is regarded as a premium.

**Landfill tax**
- Landfill tax applies to disposal of waste in landfill sites.
- Certain inert waste (such as bricks) is taxed at the lower rate of £2.50 per tonne.
- All other waste is taxed at a standard rate of £48 (2009: £40) per tonne for supplies made on or after 1 April 2010 and by a further £8 in each of April 2011, 2012, 2013 and 2014).
- The maximum credit that landfill site operators can claim against their annual landfill tax liability is 6.6%.

**Aggregates levy**
- Aggregates levy is charged at a flat rate of £2 per tonne (£2.10 from 1 April 2011) on sand, gravel and crushed rock extracted in the UK or its territorial waters or imported into the UK. There are a number of exemptions and exclusions. The aggregates become liable to the levy when they are commercially exploited.
- The levy is subject to a phased introduction in respect of aggregates used to manufacture certain products in Northern Ireland, with the full rate applying from 31 March 2012. The relief, fixed at 80% of the full rate, will also apply to virgin aggregate, subject to certain conditions, including the implementation of environmental improvements.
Other indirect taxes

**Air passenger duty**

- Air passenger duty (APD) is a departure tax levied on most air travel.
- APD was recast from 1 November 2009 with rates based on four geographical bands:

<table>
<thead>
<tr>
<th>Band and distance in miles</th>
<th>Reduced rate</th>
<th>Standard rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From 1/11/10</td>
<td>From 1/11/09</td>
</tr>
<tr>
<td>Band A (0-2000)</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Band B (2001-4000)</td>
<td>60</td>
<td>45</td>
</tr>
<tr>
<td>Band C (4001-6000)</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td>Band D (over 6000)</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

- Distances are based on the distances between London and the capital city of the country/territory.

The previous rates of duty were (per passenger):
- Standard rate for destinations within the UK and European Economic Area (EEA) £20
- Standard rate for all other destinations £80
- Reduced rate for economy class travel – within the UK and EEA £10
- Reduced rate for economy class travel to all other destinations £40
- Flights from airports in the Scottish Highlands and Islands Exempt

**Notes**

- The EEA rate also covers Switzerland and Turkey.
- The standard rate applies if only one class of travel is available and that class provides seating in excess of 40 inches.
- The Government intends to explore changes to APD including switching to a per plane duty.

**Climate change levy**

- Climate change levy (CCL) is a levy on certain supplies of fuel for business. The current rates of levy applying are:

<table>
<thead>
<tr>
<th></th>
<th>Since 1 April 2009</th>
<th>From 1 April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>electricity</td>
<td>0.470p per kWh</td>
<td>0.485 kWh</td>
</tr>
<tr>
<td>natural gas</td>
<td>0.164p per kWh</td>
<td>0.169 kWh</td>
</tr>
<tr>
<td>liquid petroleum gas used for heating</td>
<td>1.050p per kg</td>
<td>1.083 per kg</td>
</tr>
<tr>
<td>any other taxable commodity (e.g. coal and other solid fuels)</td>
<td>1.281p per kg</td>
<td>1.321 per kg</td>
</tr>
</tbody>
</table>

- There are a number of exemptions and exclusions such as fuels supplied for domestic heating, for certain forms of electricity generation and energy products used to create new bio fuels such as biodiesel, bioblend bioethanol and bioethanol blend.
- There is an 80% relief available for energy intensive facilities covered by CCL agreements (reducing to 65% from 1 April 2011).
- Energy derived from renewable sources is exempt from CCL.
National non-domestic rates (NDR)

Multipliers (rate poundages) for 2010/11

England 41.4 pence per £ of rateable value
Wales 40.9 pence per £ of rateable value
Scotland 40.7 pence per £ of rateable value
Scotland (rateable value exceeds £35,000) 41.4 pence per £ of rateable value
Northern Ireland Local rates apply
City of London 41.8 pence per £ of rateable value

Revaluation

The rateable values of all non-domestic properties are re-assessed every five years to account for changes in the value of property over time, relative to others. A new Rating List was published on 1st April 2010. Rateable values have been assessed based on rental values that were prevailing in 2008.

Within England and Wales there was an average increase in rateable value of 20%. The London region and Office properties saw the largest increases.

Whilst rateable values have increased, the multipliers have fallen to compensate. However in some cases, there have been significant variations in the actual amounts of rates payable.

Transitional phasing limits for increasing and reducing rate demands

England

A new transitional scheme was introduced to phase in increases and reductions over a five year period.

<table>
<thead>
<tr>
<th>Rate year</th>
<th>Large property RV &gt;= £18,000</th>
<th>Small property RV &lt; £18,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maximum increase in liability</td>
<td>Maximum reduction in liability</td>
</tr>
<tr>
<td>2010/11</td>
<td>12.5%</td>
<td>4.6%</td>
</tr>
<tr>
<td>2011/12</td>
<td>17.5%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2012/13</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>2013/14</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>2014/15</td>
<td>25%</td>
<td>13%</td>
</tr>
</tbody>
</table>

The above percentages have to be adjusted by an inflation factor of 0.986. Therefore a large property will have a maximum increase of 10.9% and a maximum reduction of 5.9% (rounded).

Wales

Wales did not have a transitional relief scheme for the 2005 revaluation and Assembly Government ministers have not proposed a scheme for the 2010 revaluation.

Scotland

The Scottish Executive has confirmed that there will be no transitional relief scheme from April 2010. All annual rate charges will therefore be the product of the rateable value (RV) and the Multiplier.

Business rate supplements

In England and Wales the Government has legislated to allow upper tier local authorities and the Greater London Authority to levy a supplement on the business rate and retain the proceeds to promote economic development in their areas.

The maximum supplement will be 2p per pound of rateable value, and can only apply to businesses with a rateable value of more than £50,000.

The Greater London Authority introduced a supplement of 2p per pound of rateable value for businesses with a rateable value of more than £55,000, starting from April 2010. This is intended to help fund the Cross Rail project and overall it is expected to last between 24 and 31 years.
Rate reliefs for small businesses

England

Small business rate relief scheme

- From 1 April 2010 all non-domestic properties in England with a rateable value of less than £12,000 are eligible for a discount of between 1% and 50% on the rates payable. In addition, for eligible properties, the bill will be calculated using the small business non-domestic rating multiplier, which is 40.7p (41.1p in the City of London). Eligible properties with rateable values between £12,000 and £17,999 (£25,499 in London) will have their bill calculated using the small business multiplier.

- The exact level of relief depends upon the total rateable value of all the properties occupied by the ratepayer and whether or not the property is eligible for either rate relief or charitable relief.

- The Government has temporarily increased the level of Small Business Rate Relief so that eligible ratepayers will receive relief at 100% on properties with rateable values up to £6,000 with a tapered relief of between 100% and 0% for properties with rateable values between £6,001 and £12,000. The new levels of relief will be available for 12 months from 1 October 2010 to 30 September 2011.

Wales

Small business rate relief scheme

- From 1 April 2010 the Welsh Assembly has updated its small business rate relief scheme. In effect a qualifying property with a rateable value of £2,400 or less will get 50% mandatory relief, whilst a qualifying property with a rateable value between £2,401 and £7,800 will qualify for 25% mandatory relief.

- The scheme also grants 100% mandatory relief for post offices with a rateable value of £9,000 or less and 50% for post offices with a rateable value more than £9,000 and less than £12,000.

- Child care premises with a rateable value of up to £12,000 and credit unions with a rateable value of up to £9,000 will be entitled to 50% mandatory relief. Retail premises including petrol stations and public houses with a rateable value more than £7,800 and less than £11,000 will also benefit from mandatory relief of 25%. These reliefs will apply until 31 March 2012.

Scotland

Small business bonus scheme

- From 1 April 2010 all non-domestic properties in Scotland with a rateable value of £18,000 or less are eligible for a discount of between 25% and 100% on the rates payable:

- The exact level of relief depends upon the total rateable value of all the properties occupied by the ratepayer and whether or not the property is eligible for one of the existing non-discretionary rate reliefs, e.g. charitable rate relief.

- Where the combined rateable value of all business properties falls between £18,000 and £25,000, the Scheme will offer 25% relief to individual properties with a rateable value of up to £18,000.

- The levels of relief for 2010/11 are shown below:

<table>
<thead>
<tr>
<th>Combined rateable value of all business properties in Scotland</th>
<th>Percentage relief available, subject to eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to £10,000</td>
<td>100%</td>
</tr>
<tr>
<td>£10,001 to £12,000</td>
<td>50%</td>
</tr>
<tr>
<td>£12,001 to £18,000</td>
<td>25%</td>
</tr>
</tbody>
</table>
Renewable energy producers

- In Scotland, a new targeted relief has been introduced for renewable energy producers. The relief will operate under State aid de minimis rules and will offer discounts of up to 100% dependent on the cumulative RV of the ratepayer’s properties.

<table>
<thead>
<tr>
<th>Cumulative RV</th>
<th>Percentage relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £145,000</td>
<td>100%</td>
</tr>
<tr>
<td>Between £145,000 and £430,000</td>
<td>50%</td>
</tr>
<tr>
<td>Between £430,000 and £860,000</td>
<td>25%</td>
</tr>
<tr>
<td>Between £860,000 and £4m</td>
<td>10%</td>
</tr>
<tr>
<td>Greater than £4m</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Main reliefs, exemptions and allowances

- Empty rates are not payable on certain limited categories of property. Applications for other empty rate exemptions can be accepted where certain qualifying criteria are met. In England and Wales, from 1 April 2008 empty rates have been payable at 100% of the normal rates charged on occupied property after an initial three month free period for commercial property such as offices and retail and a six month free period on industrial and warehouse type property. In England and Wales, for the 2010/11 financial year only, empty rates will not be payable on unoccupied properties with a rateable value of less than £18,000.

- In Scotland, empty rates are only payable at 50% of the normal rates charged on occupied property after an initial three month free period. However, for some properties such as industrial and listed buildings and properties with rateable values of less than £1,700 there are no rates to pay even after the first three months.

- Discretionary allowances are often appropriate where properties are partly occupied for a short time or there is a break in the normal pattern of occupation or use. Claims for these allowances must meet the statutory criteria and local economic policies.

- Discretionary non-productive allowances can be claimed where for any reason a property is wholly or partly out of productive use. This can apply equally to commercial and industrial properties.
Disclosure, claims, filing and payment

Tax avoidance disclosure rules

• Certain corporation tax (and personal tax) planning arrangements must be notified to HMRC. The duty to notify normally falls on the scheme promoter, within five working days of the scheme being made available for implementation. In certain cases the client or an in-house scheme developer must notify. The tax authority issues a reference number which the client must then disclose in the annual tax return together with an indication of when the expected tax advantage arising from the arrangements will be obtained.

• The rules on disclosure cover the whole of income tax, corporation tax and capital gains with adaptations also for National Insurance Contributions. ‘Hallmarks’ determine whether disclosure is required.

• There are broadly similar rules for Stamp Duty Land Tax, though the reference number must be included on a specific form within 30 days.

• The regime for VAT is rather different and is set out on page 34.

Claims, deductions and assessments

• Claims allow you to tell HMRC that you are entitled to a particular tax relief.

• Elections allow you to choose a particular way of having your tax affairs treated by HMRC.

• For most taxes, a process of self-assessment applies with the taxpayer calculating the tax due and adjustments then being agreed with HMRC via adjustment to the tax return. However, assessments allow HMRC to tell you when it believes you have underpaid tax and seeks a formal process to recover it.

Notes

• From 1 April 2010, significant changes have been introduced that align time limits for HMRC assessments, claims and elections across taxes. Six year time limits have been reduced to four years (an increase to four years from three years for VAT) unless, in the case of assessments, HMRC can demonstrate failure to take reasonable care. Time limits for assessment in the case of deliberate understatement remain at 20 years.

• From 1 April 2010, as well as being affected by the reduction in time limits for claims, the criteria that must be met in order to reclaim overpaid tax have been tightened and now exclude obvious mistakes in tax returns.

Filing of returns

Income tax and capital gains tax (CGT)

• Under the self-assessment (SA) regime, taxpayers may self-assess by including a calculation of tax liability in their own tax return; alternatively they may file the tax return only, so that HMRC can do the calculation and advise how much tax is to be paid.

• The time limit for filing a tax return complete with self assessment is normally 31 January in the following year, for example the 2009/10 return should be filed by 31 January 2011. However, this is only applicable for returns filed electronically. Taxpayers who wish to file paper returns have a deadline of 31 October, for example the 2009/10 return is due by 31 October 2010. These dates apply whether or not taxpayers calculate their own tax liability.

• If the taxpayer wants HMRC to collect any tax due via the individual’s tax code, where less than £2,000 is owed, electronic filing must be made by 30 December.

• Individuals do not have to fill in the CGT pages if their chargeable gains do not exceed the annual exempt amount, unless sale proceeds exceed four times the exempt amount, or they have allowable losses.

• Where no tax return is issued, an individual who has income or capital gains on which tax is due must give notice of chargeability within six months of the end of the relevant tax year (i.e. by 5 October).

• Simplified tax returns may be issued to people who have simpler tax affairs. These do not contain the option to calculate the tax bill, are due for filing by 31 October and cannot be filed electronically.

• The HMRC enquiry window is normally 12 months from the date of filing the return, rather than 12 months from the 31 January due date.

• If the notice to complete a return is sent after 31 July, the taxpayer has three months from the date of the notice to file the return.
Disclosure, claims, filing and payment

PAYE and national insurance

• Employers must file forms P14 and P35 by 19 May and forms P11D by 6 July after the year-end. Employers must provide employees with form P60 by 31 May and details of the information on their form P11D by 6 July following the end of the tax year.

• Large employers must file online their end of year PAYE returns and this applies also, from 6 April 2009, to various in-year PAYE forms. For end of year returns, smaller employers have been incentivised to file online but this will become a requirement for all employers by 2011.

Corporation tax

• Under corporation tax self-assessment (CTSA), a company must file with HMRC its corporation tax return, accounts and supporting computations within 12 months after the end of each accounting period. CTSA requires a company's tax return (CT600) to contain a self-assessment of its tax liability for the relevant accounting period.

• In the case of companies which are not members of medium or large groups, the HMRC enquiry window generally closes one year after delivery of the return to HMRC, even where the return is delivered prior to the statutory filing date. However, for other companies the statutory enquiry window remains at 12 months after the statutory filing date for the tax return, provided the return is filed on time, although HMRC announced a non-statutory operational practice to encourage companies in larger groups to file early.

• For periods ending on or after 1 April 2010 (if filed on or after 1 April 2011) company tax returns must be filed online.

• Forms CT61 must be prepared for each return period in which income tax has been deducted at source by the company. Return periods run to the end of each March, June, September and December within an accounting period, and to the end of the accounting period itself if it does not end on one of those dates. The form CT61 must be filed within 14 days after the end of the return period.

Inheritance tax (IHT)

• A return of a lifetime chargeable transfer must be filed within 12 months after the end of the month in which the transfer was made.

• The return of transfers on death, and lifetime transfers where tax or additional tax becomes payable by reason of death, must be filed within 12 months after the end of the month in which death occurs. Only estates with tax to pay normally have to submit a full IHT account.

• Personal representatives are required to include in their account details of any chargeable transfers made by the deceased within the seven years before their death.

Value added tax (VAT)

• VAT returns are normally required for each quarterly VAT period and must be filed within one month of the end of the VAT period. There are schemes available which allow for the submission of annual or monthly returns depending upon the individual circumstances of the taxable person.

• Annual accounting is available for taxable persons with annual turnover below £1,350,000.

• Cash accounting may be followed by taxable persons with annual turnover below £1,350,000.

• Businesses already using the annual accounting scheme will be able to continue to do so until their taxable turnover reaches £1,600,000.

• From April 2010, all businesses with turnover over £100,000, and all newly-registered businesses, whatever their turnover, are required to file online and pay electronically. Obligatory e-filing will be extended to all taxpayers in 2012.
Due dates of payment

Income tax and capital gains tax for 2009/10
Most income tax is settled by PAYE and other deductions at source. Remaining liabilities, particularly those due from the self-employed, are due:

- **31 January 2010**
  First payment on account for 2009/10, normally equal to 50% of the final 2008/09 income tax and Class 4 national insurance liability (net after allowing for tax deducted at source etc).

- **31 July 2010**
  Second payment on account for 2009/10, normally equal to 50% of the final 2008/09 income tax and Class 4 national insurance liability (net after allowing for tax deducted at source etc).

- **31 January 2011**
  Total income tax, Class 4 national insurance and CGT liability for 2009/10 less payments made on account, less tax deducted at source (the ‘balancing payment’).

Notes
- Different arrangements can apply in particular situations. Generally no payments on account are required for liabilities of less than £1,000, and cases in which 80% or more of the overall tax liability is deducted at source.
- Where the remittance basis charge applies, it should, to the extent it represents income tax, be included in payments on account in future years.

Corporation tax
- A quarterly payment system exists for large companies, i.e. those that pay corporation tax at the main rate. Payments are due in months 7, 10, 13 and 16 after the start of the accounting period (usually by day 14 of that month).
- Companies with final tax liabilities of under £10,000 do not have to pay quarterly, even though they may pay tax at the full rate due to the number of companies in the group.
- For companies that pay corporation tax at the small companies’ rate, or the marginal rate, the corporation tax liability is due nine months and one day after the end of the accounting period.
- Income tax deducted at source is due on submission of form CT61.
- From April 2011, corporation tax returns for accounting periods ending after 31 March 2010 must be filed online and corporation tax must be paid electronically.

PAYE and national insurance contributions (NICs)
- PAYE and NICs deducted by an employer, together with the employer’s secondary contributions, are normally due for payment within 14 days (17 days where payment is made electronically) of the end of each tax month.

Inheritance tax (IHT)
- Tax on death is due within six months from the end of the month in which death occurs. Probate will not be granted unless tax due in respect of transfers on death has been paid.
- Tax on a lifetime chargeable transfer must be paid within six months from the end of the month in which the transfer was made or, if the transfer was made between 6 April and 30 September in any year, by 30 April in the following year. Note that tax will often become payable before a return is due to be filed.

Value added tax (VAT)
- Payment of VAT return liabilities is usually required on or before the filing date, i.e. within one month of the period end. The use of the electronic payment system can extend the payment date by up to seven days.
- When a taxable person’s annual VAT liability exceeded £2m in the previous year, the taxable person must make interim payments at the end of the second and third months of each VAT quarter; a balancing payment for the quarter is made with the VAT return. If a taxable person’s VAT liability falls below £1.6m, written application can be made to HMRC for approval to leave the scheme.
Disclosure, claims, filing and payment

- Taxable persons using the annual accounting scheme will be required to make either nine monthly or three quarterly interim payments and a final payment.

Interest on late paid tax

Interest rates

- Interest rates are calculated by reference to base rates. The rate charged on tax paid late is generally higher than the rate paid on tax refunds.
- Interest rates from 29 September 2009 (previous rates from 24 March 2009 to 28 September 2009 shown in brackets):

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax, NICs, CGT and Stamp Duty/SDRT</td>
<td>3% (2.5%) (tax paid late)</td>
</tr>
<tr>
<td></td>
<td>0% (0%) (tax overpaid)</td>
</tr>
<tr>
<td>Inheritance tax (IHT)</td>
<td>3% (0%)</td>
</tr>
<tr>
<td>Corporation tax (CT)</td>
<td>See below</td>
</tr>
</tbody>
</table>

Income tax, CGT and IHT

- Interest arises automatically on tax paid late, even if it does not become clear until after the due date that further tax is payable. In the case of personal tax this applies to both payments on account and balancing payments.
- Repayments generally carry interest from the later of the due date of the tax payment and the date the tax was actually paid.
- Where a personal tax balancing payment is still unpaid more than 28 days after the filing date of the return (i.e. after 28 February 2011 for 2009/10 liabilities) a surcharge of 5% will arise automatically. A further surcharge of 5% will arise if the balancing payment remains unpaid six months after the normal filing date of the return. An appeal may be made within 30 days of the imposition of a surcharge, but will be allowed only if a ‘reasonable excuse’ is accepted.
- Interest on underpaid and overpaid tax is not deductible and not taxable respectively.

Corporation tax

- For large companies in the quarterly payments regime, interest accrues on underpaid and overpaid tax from each instalment date on a running balance basis. Interest is generally charged at base plus 1% and paid at base minus 0.25% up to the nine month due date for payment of tax at which point more punitive rates of base plus 2.5% and base minus 1% respectively apply.
- For small and medium-sized companies outside the quarterly payments regime, interest is generally charged or paid on underpaid or overpaid tax from the due date at base plus 2.5% and base minus 1% respectively. In addition if tax is paid before the normal due date credit interest runs at base minus 0.25%.
- Interest on repayments of corporation tax runs from the later of the date on which the tax was paid or the due and payable date. Where the tax was paid on different dates, the repayment is treated as relating as far as possible to the payments on later dates.
- Interest on underpaid and overpaid tax is deductible and taxable respectively.

PAYE and national insurance

- Interest is chargeable on late payments of PAYE and national insurance by employers, but not until 14 days after the end of the relevant tax year (i.e. from 19 April, or 22 April where payments are made electronically).
- There are also possible surcharges for large employers who will make a late payment. The level of surcharge will depend on how many payments have previously been late.

Value added tax (VAT)

- From 1 April 2010, penalties for failing to notify a liability to register for VAT are calculated in line with the new penalty regime.
- Where either a return is made late or tax is paid late, HMRC is empowered to serve notice that the following year is to be a surcharge period. If any payment in the surcharge period is made late, an automatic surcharge of 2% of the tax due is made. For the second default, the surcharge percentage is increased
Disclosure, claims, filing and payment

to 5%, for the third default to 10% and, for the fourth or subsequent late payment, to 15%. There is a minimum penalty of £30. Each default in the surcharge period results in the period being extended. This includes late filing of returns. For the first two defaults, surcharge assessments for amounts less than £400 are not issued.

- There is a parallel default surcharge regime that operates where payments on account are not made within the period when they are due.
- Tax underdeclared (or overclaimed) on returns generally carries interest from the date when the tax underdeclared should have been paid (or seven days after the date of an excessive repayment) until the date of payment. This period is capped at four years prior to the issue of the relevant assessment. Interest is not normally levied in cases where it can be demonstrated that there has been no net loss of revenue to HMRC.

Note
A new harmonised interest regime is proposed to cover almost all the taxes administered by HMRC. This is likely to apply from 2013; main features will be:

- differential rates between interest charged and interest paid;
- interest rates calculated by reference to Bank of England base rates;
- simple interest, rather than compound;
- interest deductible/taxable for business taxpayers, but not for private taxpayers; and
- interest will also apply to late-paid PAYE, probably following an end-of-year review and reconciliation.

It is not currently planned that quarterly instalment payments of corporation tax will be included in the new system.

Penalties for errors in returns and late registrations

- As part of the review of HMRC’s ‘powers, deterrents and safeguards’, a major recast has taken place of the penalties that will apply to errors made in tax returns and for late registration and similar defaults. The aim is to have a single regime that applies, as far as possible, across all the taxes that HMRC administers.
- The penalties under the new regime are all set as percentages of the ‘potential lost revenue’ (PLR). In general terms, the PLR is the under-assessed or under-declared tax as a result of the error. For errors resulting in a payment of tax in a later period, the PLR is calculated at the rate of 5% p.a. of the tax delayed; there are also rules for losses and multiple errors.

Notes
- HMRC has published extensive guidance on the operation of the new system.
- From April 2011 HMRC will have the power to publish names of individuals and companies penalised for deliberate defaults leading to a loss of tax greater than £25,000.

Errors in returns

- The first phase applies the penalty regime to errors in returns for income tax, CGT, VAT, corporation tax, NICs and the construction industry scheme. Post 31 March 2008 events that are the subject of post-31 March 2009 returns are caught.
- The return error penalties are extended to IHT, IPT, environmental taxes, excise duties, PRT, stamp duties and pension schemes for events post-31 March 2009 that are the subject of post-31 March 2010 returns.
- The framework of penalties is governed by the cause of the error
  - mistake: no penalty;
  - failure to take reasonable care: penalty up to 30%;
  - deliberate understatement: penalty up to 70%;
  - deliberate understatement with concealment: penalty up to 100%.
- The penalties can be reduced for:
  - prompted disclosure: to minima of 15%/35%/50% respectively;
  - unprompted disclosure: to minima of 0%/20%/30% respectively.
- A disclosure would be unprompted if it was, in essence, made before HMRC became aware of the issue during a compliance check.
Disclosure, claims, filing and payment

- Penalties for failure to take reasonable care can also be suspended for up to two years. This would normally be for the taxpayer to improve systems and keep a ‘clean’ record.

**Failure to notify**

- The penalties for late notification follow the same pattern as for errors in returns, though no penalty is due if there is no tax unpaid. However, the penalties for failure to take reasonable care:
  - cannot be suspended;
  - are a minimum of 10%, even with unprompted disclosure, unless the failure is remedied within 12 months when the penalty can be reduced to nil.

**Penalties for late filing and related matters**

**Income tax and CGT**

- Fixed penalties arise automatically when an individual fails to submit their completed tax return by the filing date (for 2009/10: 31 January 2011, though a day’s grace is usually allowed). The initial penalty is fixed at £100, and a further penalty of £100 will generally apply if the tax return is still outstanding six months after the filing date.
- In serious or substantial cases of delay, or where a return is incomplete or incorrect, daily or tax-geared penalties may be charged.
- Penalties may also be charged for failing to keep adequate records in support of the tax return. In general terms all records of a company or an individual taxpayer with a business must be kept for five years after the filing date of the return. This period is normally reduced to one year for individual taxpayers who do not have a business or rental income.

**Corporation tax**

- If a return is not delivered by the filing date, an automatic fixed penalty of £100 applies. This increases to £200 if the return is not delivered within three months of the filing date. These penalties are increased to £500 and £1,000 respectively if the company has been within the charge to corporation tax and has filed a return late for each of the two preceding accounting periods.
- A failure to make a return 18 months after the end of the accounting period attracts a tax based penalty of 10% of the unpaid tax (20% if the return is not delivered within two years of the end of the accounting period).
- Promoters (and in some cases users) of certain tax avoidance arrangements, where the main benefit is the obtaining of a tax advantage, are required to register details of the scheme with HMRC; non-compliance can attract an initial £5,000 penalty (see also page 41).
- Penalties also arise when a company fails to supply documents or to keep and preserve records or fails to notify chargeability.
- Large companies are required to notify HMRC of the identity of their senior accounting officer, who must certify annually that the accounting systems are adequate for the purposes of accurate tax reporting. These obligations are supported by penalties chargeable on the officer personally and the company for careless or deliberate failure of these obligations. The rules apply to accounting periods beginning on or after 21 July 2009.

**Notes**

- As part of the output of the review of HMRC’s powers, deterrents and safeguards, it is intended to introduce a harmonised system of penalties for late filing. This system will probably apply from 1 April 2013 and will replace the system described above.
- It should also be noted that new, harmonised information powers (‘compliance checks’) have been granted to HMRC to inspect records, visit business premises and obtain documents and other information, both from taxpayers and third parties. These powers are available even before a tax return has been submitted for a period.
- From April 2011 HMRC will have the power to publish names of individuals and companies penalised for deliberate defaults leading to a loss of tax greater than £25,000.
Disclosure, claims, filing and payment

PAYE and national insurance
- Penalties may be charged on the late submission of employers’ year end returns. Penalties of up to 100% of any PAYE and national insurance underpaid may also be charged where the underpayment results from the submission of an incorrect year end return.
- The newly self-employed must register with HMRC within three months of the end of the month in which they commence self-employment for Class 2 NIC purposes. Failure to do so can lead to a £100 penalty.

Inheritance tax (IHT)
- Penalties may be charged for failure to render an account or return within the time limits prescribed, generally in line with other parts of the tax system.

Value added tax (VAT)
- As noted above, where either a return is made late or tax is paid late, HMRC is empowered to serve notice that the following year is to be a surcharge period. If any payment in the surcharge period is made late, an automatic surcharge of 2% of the tax due is made. For the second default, the surcharge percentage is increased to 5%, for the third default to 10% and, for the fourth or subsequent late payment, to 15%. There is a minimum penalty of £30. Each default in the surcharge period results in the period being extended. This includes late filing of returns. For the first two defaults, surcharge assessments for amounts less than £200 are not issued. There is a parallel default surcharge regime that operates where payments on account are not made within the period where they are due.
- Civil penalties may also be charged for not complying with various administrative requirements, such as the preservation of records (normally for six years), the supply of information or documents requested by HMRC, notifying changes in registration details etc. Many of these have been superseded by the new powers and penalties available to HMRC for periods after 1 April 2009. Criminal fines can be levied for failure to submit detailed statistical returns of sales and purchases of goods from other EU countries.
- Two penalties relating to disclosure apply:
  - Businesses with supplies of £600,000 or more must disclose to HMRC the use of ‘designated’ avoidance schemes published in a statutory list. Failure to do so attracts a penalty of 15% of the tax avoided.
  - Businesses with supplies exceeding £10m a year must disclose the use of any scheme that has certain of the hallmarks of avoidance. Failure to do so attracts a flat rate penalty of £5,000.

Customs duty
- If the correct amount of duty is not collected when it is due, HMRC can recover any under-payment going back three years or, in the case of fraud, 20 years. No interest is payable provided that the sum demanded is paid within the prescribed period.
- Customs offences, even minor ones, may be subject to criminal penalties. However, HMRC has the power to compound proceedings and to accept what are effectively administrative penalties in lieu of prosecution. They may also, in certain circumstances, use the new civil penalty regime instead (see below).
- A civil penalty regime includes two types of penalty:
  - A civil evasion penalty, which will be used at HMRC’s discretion in less serious cases of evasion of customs duty and import VAT. This penalty is calculated as a sum equal to the relevant duty and tax evaded. It can be reduced (mitigation) by up to 75% depending on the degree to which the taxpayer cooperates with HMRC in its investigations.
  - A penalty for non-compliance of up to £2,500 per contravention, which will be used in cases of contravention of European and national customs law in respect of imports and exports, but excluding cases of evasion. The penalty is not issued automatically and will be preceded by a written warning.
If you have any enquiries concerning the contents of this booklet, please speak to your usual contact at PricewaterhouseCoopers.