

A guide to The 2011 Budget

A SIMPLE GUIDE TO THE KEY ANNOUNCEMENTS IN THE BUDGET 2011

This is a basic guide prepared by the Technical Advisory service for members and their clients. It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

Corporation Tax Changes:

The commitment to encourage large business to the UK was one of the themes of this years budget. There are two important announcements for CT; an additional rate change and regional CT rates.

Corporation Tax Rates

The Chancellor had already announced planned CT reductions but made an additional cut in the main rate. There will be an additional 1% cut in the main rate of Corporation Tax (CT) on top of the four annual reductions announced in the June 2010 Budget, giving a main rate of 26% for 2011 which will drop to 23% in 2014.

Finance (No. 2) Act 2010 had said the main rate of CT for non-ring fenced profits would drop from 28% to 27% for the Financial Year beginning April 2011. As a result of the announcement, the main rate from 1 April 2011 will now be 26% which will be followed by three further 1% cuts to a CT rate of 23% for the Financial Year beginning April 2014.

The small profits rate of CT will drop from 21% to 20% with effect from 1 April 211 as previously announced.

Financial Year beginning 1 April	Corporation Tax	
	Main rate	Small profits rate
2010	28%	21%
2011	26%	20%
2012	25%	20%*
2013	24%	20%*

2014	23%	20%*
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* Assumed.

Corporate Tax Reform

The following further announcements have been made in Budget 2011:

1. Research and Development (R&D) tax credits

The Chancellor has announced that additional deduction for spending on research and development for companies that are SMEs will be increased from 75% to 100% from 1 April 2011. The effective rate of relief for expenditure will therefore be increased from 175% to 200%.

There will also be a further increase of 25% to the deduction for SMEs with effect from 1 April 2012, giving a total deduction of 225%.

The rate of vaccine research relief for SMEs will also be reduced to 20% from 1 April 2011 and from 1 April 2012 SMEs will no longer be able to claim vaccines research relief. These measures allow for the above increases in the deductions, while remaining within State aid intensity thresholds.

The above changes are subject to State aid approval.

The Budget announcement does not propose to change the rate of relief under the Large Company Scheme.

Subject to further consultation, the following further changes will be made to simplify R&D tax relief:

- Abolition of PAYE/NICs cap on the amount of payable tax credit that can be claimed;
- Abolition of the £10,000 minimum expenditure condition; and
- Changes to the rules governing relief for work done by subcontractors under the Large Company Scheme.

The Government will publish a response to the consultation in May 2011.

2. Taxation of foreign branches

As announced in the June 2010 Budget, the Government is reforming the taxation of foreign branches. Legislation will be introduced in Finance Bill 2011 to exempt the profits of foreign branches of UK resident companies from Corporation Tax.

Companies will be able to make an irrevocable election for all its foreign branches, located anywhere in the world, to be exempt from CT on their profits. Exempt profits will include any capital gains attributable to the foreign branch and taxable under the relevant treaty. No relief will be available for foreign branch losses.

The new opt-in exemption will be available for accounting periods beginning on or after the date the Finance Bill 2011 receives Royal Assent.

3. Controlled Foreign Company (CFC) Rules

The package of interim improvements to the current CFC rules will apply for accounting periods beginning on or after 1 January 2011. The aim is to make the existing rules easier to operate and more competitive ahead of full reform in 2012.

The new CFC rules will be introduced in 2012. These will include a finance company partial exemption that will result in an effective UK tax rate of one quarter of the main rate on profits derived from overseas financing arrangements. This will be equivalent to 5.75% by 2014.

A consultation document with details of the new CFC rules will be published in May 2011.

4. Patents

The Government has confirmed that it will introduce a 10% reduced rate of corporation tax on profits arising from patents, with effect from 1 April 2013.

A consultation document will be published in May 2011, with legislation to be introduced in Finance Bill 2012.

Encouraging Business Growth – The Enterprise Investment Scheme

The reluctance of the banks to lend to business has led the Government to identify the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme as being a potentially valuable existing tax relief which, with a few refinements, could help businesses to access finance.

For more detailed guidance on the prevailing EIS scheme requirements prior to the Budget, please click [here](#).

The changes to the EIS and VCT schemes announced in the Budget 2011 are as follows:

From 6 April 2011:

The rate of income tax relief for shares subscribed for under the EIS scheme will be increased from 20% to 30%. This relief is given as a “tax reducer”.

From 6 April 2012:

Qualifying conditions for companies:

There are proposed revisions to the limits for qualifying companies eligible to participate in the EIS scheme. The changes are summarised below:

Condition	Pre 6 April 2012	Post 6 April 2012
Number of employees	Less than 50	Less than 250
Gross assets	Before EIS investment: £7,000,000 After EIS Investment: £8,000,000	Before EIS investment: £15,000,000 After EIS Investment: £TBA
Maximum annual amount of combined EIS and VCT investment	£2,000,000	£10,000,000

The annual maximum amount that an individual investor may invest under the scheme will be increased from £500,000 to £1,000,000 from 6 April 2012.

Capital Gains Tax – Entrepreneurs’ Relief

The lifetime limit for entrepreneurs’ relief will increase from £5,000,000 to £10,000,000 with effect from 6 April 2011. Gains which are eligible for the entrepreneurs’ rate are taxable at 10%, rather than the normal CGT rates of 18% and/or 28%. The lifetime limit has changed several times since the introduction of entrepreneurs’ relief in 2008 and the lifetime limits since inception are as follows:

Dates:	Lifetime Limit:
Disposals between 6 April 2008 and 5 April 2010	£1,000,000
Disposals between 6 April 2010 and 22 June 2010	£2,000,000
Disposals between 23 June 2010 and 6 April 2011	£5,000,000
Disposals from 6 April 2011	£10,000,000

For further details on Entrepreneurs' Relief, click [here](#).

Enterprise Zones and Business Rates

The Chancellor announced 21 new enterprise zones in the Budget to attract business to certain disadvantaged areas. The Government will offer up to 100% discount on their business rates for up to five years for businesses located in enterprise zones.

The 100% business rate discount applicable for a business that moves into an enterprise zone during this Parliament is worth up to £275,000 over five years, so the regime will be attractive to small businesses.

Other advantages for the 21 new enterprise zones are welcomed and include simplified planning processes, superfast broadband and the potential for enhanced capital allowances.

Although the capital allowances regime has not yet been formally announced, when enterprise zones were with us in the 80s and 90s, they attracted 100% capital allowances for expenditure on a commercial building within a designated enterprise zone.

So far, the Chancellor has announced that there will be enterprise zones in the following areas:

- Leeds, Sheffield, Liverpool, Greater Manchester, The West of England, The north-east of England Tees Valley, Nottinghamshire, Black Country, Derbyshire.

Boris Johnson, the Mayor of London, said he had been asked to select a suitable area in the capital and had chosen 125 hectares of land in the historic Royal Docks, in the borough of Newham.

Local authorities have been invited to tender for the remaining zones.

Extension of Small Business Rate Relief (SBRR) Holiday

The SBRR holiday will be extended by one year from 1 October 2011.

Merger of Income Tax and National Insurance

The Chancellor announced that he would be commencing consultation with business and the professions with a view to merging Income Tax and National Insurance contributions into one combined tax.

This would be particularly welcome, particularly as there are a number of areas in tax legislation where disparity exists between the treatment of certain items for income tax and NIC purposes and the costs of getting the treatment wrong can be punitive.

Mr Osborne described this as a “huge task” that would take “a number of years to complete” but this could potentially be a very significant and worthwhile streamlining of our tax system.

Fuel Duty

The main fuel duty rates has been be cut by 1p per litre from 6pm on 23 March 2011. An earlier proposed fuel duty rise will now be delayed until 1 January 2012, when it will increase by 3.02 pence per litre.

The Government has also announced it will abolish the fuel duty escalator and replace it with a fair fuel stabiliser.

Approved Mileage Allowance Payments

Approved Mileage Allowance Payments will increase from 40p per mile to 45p per mile from 6 April 2011.

If an employee uses their own vehicle for business mileage and the cost is claimed from the employer, the Approved Mileage Allowance Payments (AMAPs) rate can be used. Where an

employer pays less than the approved rate, the employee can claim tax relief for the shortfall using Mileage Allowance Relief (MAR).

From 6 April 2011, the rate for cars and vans will increase from 40p to 45p per mile for the first 10,000 business miles per year. When business mileage exceeds 10,000 miles, any additional miles will be at the existing rate of 25p per mile.

Currently, there is also an allowance for passenger payments for employees at a rate of 5p per passenger per mile. This will not change, but will be extended to include volunteers as well employees

Deregulation

The discussion in recent weeks has focussed on cutting red tape. Employment law, primarily the recording of procedures has been one of the main areas of concern. It is good to see the changes for micro business, as employment legislation is a bugbear for all small businesses.

Micro businesses moratorium on new legislation

The Budget has introduced a moratorium exempting micro and genuine start-up businesses from new domestic regulation for three years from 1 April 2011.

Micro businesses are defined as those with less than 10 employees, while genuine start-ups will be businesses starting their trade on or after 1 April 2011 and not having carried out a similar business in the previous six months or not resulting from the transfer of the same activities carried out by another business or resulting from the taking over of an existing business.

Drop costly new regulations

The Government is scrapping proposals for specific regulations which would have cost businesses over £350 million a year, including: not extending the right to request time to train to businesses with less than 250 employees; not bringing forward the Equality Act dual discrimination rules and repealing the right to request flexible working to parents with children under 17.

Review of Health and Safety

The Government will implement the proposals from Lord Young's review of Health and Safety, including new assessment tools, the registration of Health and Safety consultants, combined inspection programmes and taking action to constrain 'no-win, no-fee' legal services.

Review to reduce the stock of regulation

The Government will also launch a public thematic review to reduce the stock of regulation, with the presumption that all regulations identified as burdensome would be removed unless good reasons are given for them to stay.

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