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Tax rates 2010/11

If it counts, it's covered



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These tables are a summary and do not cover all situations. They are based on information in the Budget announcements on 24 March 2010. These may be subject to further amendment during the passage of the Finance Bill through Parliament.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Personal Tax

Income tax rates 2010/11 (2009/10)

Income Band (£)	Dividends (%)	Other Savings Income (%)
Up to 2,440 (2,440)	10	10
2,441 – 37,400 (2,441 - 37,400)	10	20
37,401 – 150,000 (over 37,400)	32.5	40
Over 150,000 (n/a)	42.5	50

Income Band (£)	Other Income (%)	Cumulative Tax (£)
Up to 37,400 (37,400)	Basic rate: 20	7,480 (7,480)
37,401 – 150,000 (over 37,400)	Higher rate: 40	52,520 (n/a)
Over 150,000 (n/a)	Additional rate: 50	

Broadly speaking, the income bands are used in the following order:

- Income other than dividends, other savings income and capital gains.
- Other savings income.
- Dividends.

For basic rate taxpayers the liability on UK dividend income is met by the tax credit attached to the dividend. For non-taxpayers, the tax credit is not refundable.

From 6 April 2008 the non-payable tax credit was extended to dividends from non-UK companies, provided the investor owns less than a 10% shareholding and the company was not an offshore fund.

From 22 April 2009, for shareholders with holdings of 10% or more in a non-UK company, the tax credit will normally be available if the distributing company is resident in a territory with which the UK has a double taxation agreement with a non-discrimination article.

Also from 22 April 2009, the tax credit will normally be available if the company is an offshore fund that is largely invested in equities. This change applies regardless of the size of the investor's holding. If an offshore fund is largely invested in interest bearing securities, distributions will be taxed at Other Savings Income rates.

Dividend income of discretionary trusts and accumulation and maintenance trusts is taxed at 42.5% (2009/10 32.5%) (rather than the normal trust income

tax rate of 50% (2009/10 40%)), subject to a 'standard rate' band which for 2010/11 is £1,000 (2009/10 £1,000).

Personal allowances

	2010/11 (£)	2009/10 (£)
Basic individual ^a	6,475	6,475
Individual aged 65-74 ^b	9,490	9,490
Individual aged 75 and over ^c	9,640	9,640
Married couple (elder aged 75 and over) ^{b,c,d}	6,965	6,965

- From 2010/11 reduced by £1 for each £2 of income (less deductions) in excess of £100,000.
- Reduced by £1 for each £2 of income (less deductions) which exceeds £22,900 (£22,900 for 2009/10). However, this reduction cannot take the allowance below that for an individual (subject to the reduction for income in excess of £100,000 above). The personal allowance is reduced first, then the married couple's allowance.
- Restricted to relief at 10%.
- The minimum age-related married couple's allowance is £2,670 (£2,670 for 2009/10).
- None of these allowances are available to non domiciled individuals who are claiming the remittance basis of taxation.

Income tax reliefs and incentives

Annual limits	2010/11 (£)
Enterprise Investment Scheme (EIS) (maximum) ^a	500,000
Venture Capital Trust (VCT) (maximum) ^b	200,000
Individual Savings Account (ISA)	
– total investment (maximum) ^c	10,200
– stocks and shares ISA (maximum) ^c	10,200
– cash ISA (maximum) ^c	5,100

- Income tax relief restricted to 20%. Capital gains tax deferral relief is also available.
- Rate of income tax relief for investors in VCTs is 30%.
- In each tax year, you can invest in one cash ISA, or one stocks and shares ISA, or one of each, subject to the overall maximum limits. Detailed conditions and additional restrictions may apply.

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

	Earnings cap (£)	Annual allowance (£)	Lifetime allowance (£)
2009/10	123,600 ^a	245,000	1,750,000
2010/11	123,600 ^a	255,000	1,800,000
2011/12 to 2015/16	- ^b	255,000	1,800,000

- a. Notional earnings cap for the purpose of limiting contributions to, and benefits payable from, pre-6 April 2006 schemes that are subject to transitional rules.
- b. No figure will be published for 2011/12 onwards. Instead it should be calculated using the method shown in section 590C of ICTA 1988.

- The normal minimum pension age is 55 from 6 April 2010.
- If contributions to registered pension schemes or growth in value of defined benefit schemes in a pension input period ending in a tax year exceeds the annual allowance for that tax year a tax charge of 40% is payable by the individual.
- An effective tax charge of up to 55% arises on the value of pension funds used to provide benefits insofar as they exceed the individual's available lifetime allowance subject to transitional relief – see below.
- The maximum tax-free lump sum that may be drawn from pension funds is 25% of the value of an individual's uncrystallised pension rights, subject to a cap of 25% of the lifetime allowance and transitional relief – see below.
- Transitional reliefs were available to protect pension rights built up before 6 April 2006 by registering and protecting those rights, including lump sum rights in excess of £375,000. The time limit for making these transitional relief claims has now passed, although late claims are accepted in some circumstances. Certain pre-existing lump sum rights of more than 25% are automatically protected.
- From 6 April 2011 tax relief on pension contributions will be restricted for those whose adjusted taxable income is £150,000 or more per year. Tax relief will be tapered away so that for those whose adjusted taxable

income exceeds £180,000 it is worth 20%, the current basic rate of income tax. Adjusted taxable income broadly includes employer and employee pension contributions and is before deduction of gift aid. Legislation effective from 22 April 2009 prevents those potentially affected from forestalling this change by increasing their pension savings in excess of their normal regular pattern if total pension savings are over £20,000 (or £30,000 in some cases).

Making contributions to pensions is a long term investment decision and individuals should take advice on the suitability of making pension contributions in their particular circumstances.

Taxable car, van and fuel benefits

The taxable car benefit for 2010/11 is calculated as a percentage of the car's list price based on carbon dioxide (CO₂) emissions as follows:

- Cars emitting 120g/km of CO₂ or below – 10%
- Car emitting 121-129g/km of CO₂ – 15%.
- Car emitting 130g/km (the lower threshold) – 15%
- For each additional 5g/km – add 1%.
- Emissions figures should be rounded down to the nearest 5g/km
- Maximum benefit where CO₂ at least 230g/km – 35%.

In 2011/12 the lower threshold will be reduced by 5g/km to 125g/km. This means that cars with CO₂ emissions of between 121-124g/km will have a taxable benefit of 15%. The lower threshold is removed in 2012/13, where the 10% rate applies to cars emitting 99g/km or less and for each additional 5g/km one percent is added. The maximum benefit will therefore be where CO₂ is at least 220g/km (35%).

For ultra-low carbon cars, emitting between 1 and 75g/km, the percentage of list price subject to company car tax will be halved for five years from 6 April 2010.

A 3% supplement applies to most diesel cars, up to the maximum charge of 35% of list price. The diesel supplement is waived if the car achieves the Euro IV emissions standards and was registered before 1 January 2006.

Hybrid cars and those which can run on Liquid Petroleum Gas (LPG) attract discounts of 3% and 2% respectively. There is a 2% reduction for cars able to run on E85 fuel, a mixture of 85% bio-ethanol and 15% unleaded petrol. These reductions and the reduction for Euro IV cars will be abolished from 6 April 2011.

The price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions for private use reduce the taxable benefit pound for pound.

As announced at Budget 2009, from April 2011, the £80,000 cap on the list price of company cars will be abolished.

The private use of vans attracts a scale charge of £3,000 pa, regardless of the age of the vehicle. In addition, if free or subsidised fuel is provided for private use in a company van, a taxable fuel benefit will arise (£550 for 2010/11, £500 for 2009/10).

Fuel benefit for cars is calculated by applying the relevant car CO₂ emissions percentage to a pre-set figure (£18,000 for 2010/11, £16,900 for 2009/10).

Electric vehicles

The appropriate percentage for electric cars for the purposes of company car tax will be reduced from 9% to 0% for five years from April 2010. This will reduce the employee car benefit charge to nil and remove the Class1A NICs charge on employers.

From 6 April 2010, the current flat rate for all vans of £3,000 will be reduced to nil for electric vans for a period of 5 years. This will reduce the employee van benefit charge to nil and remove the Class1A NICs charge on employer

Approved mileage rates

Employers can make tax- and NI- free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 40p per mile for the first 10,000 miles and 25p per mile thereafter (for NIC the 40p rate applies to all miles);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and

- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Capital gains tax (CGT)

A flat rate of capital gains tax of 18% applies to all disposals except for those that qualify for the entrepreneurs' relief (see below).

The annual exemptions apply for individuals and trusts. For 2010/11 they are £10,100 (2009/10 £10,100) and up to £5,050 (2009/10 £5,050) respectively. A chattels exemption applies for proceeds up to £6,000.

Entrepreneurs' relief allows the first £2 million of gains arising on certain disposals in 2010/11 (£1 million for 2009/10) to be charged to CGT at an effective rate of 10%. The £2 million (£1 million) limit is a lifetime limit for affected disposals from 6 April 2008.

The relief applies (subject to conditions) where:

- an individual makes a material disposal of business assets;
- there is a disposal of qualifying business assets held by certain qualifying trustees; or
- an associated disposal is made by an individual.
- a Furnished Holiday Let (FHL) business, which ceases to be as such on 5 April 2010 following the repeal of the FHL rules, is disposed before 5 April 2013.

Inheritance tax (IHT)

IHT is charged on the estate at death, on gifts within seven years of death and on chargeable lifetime transfers of value. For 2010/11 the first £325,000 (£325,000 for 2009/10) of cumulative chargeable transfers are exempt. Over this nil rate band the rate is 20% for lifetime transfers, 40% on death. A tapered inheritance tax rate applies to gifts made between three and seven years before death. When a surviving spouse or civil partner dies on or after 9 October 2007, relief is due on that death in respect of any unused proportion of the nil rate band of the spouse or civil partner who died first. This is in addition to any unused nil rate band of the survivor. Transfers between UK-domiciled spouses are exempt. When a transferor spouse is UK-domiciled and a transferee spouse is not, the spouse exemption is limited to £55,000.

Indirect taxes

Value Added Tax (VAT)

VAT registration is required where taxable supplies exceed £70,000 (previously £68,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £68,000 (previously £66,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Certain fuel and power; some energy saving materials; some residential property works etc	5
Standard rate	17.5
VAT fraction for inclusive price	7/47

Insurance premium tax

The standard rate of insurance premium tax applicable to most general insurance is 5%. Life and other long-term insurance is exempt. A higher 17.5% rate applies to mechanical breakdown and travel insurance, and insurance sold with certain goods.

Stamp duty land tax (SDLT)

The rates below apply to acquisitions of chargeable interests in land including leases.

Relevant consideration (£) -residential	Rate (%)	Relevant consideration (£) - non-residential or mixed	Rate (%)
0 – 125,000 ^a	0	0 - 150,000	0
125,001 – 250,000 ^a	1	150,001 - 250,000	1
250,001 – 500,000	3	250,001 - 500,000	3
500,001 – 1,000,000	4	Over 500,000	4
Over 1,000,000 ^b	5		

^a Except for first-time buyers who continue to benefit from the 0% rate in this band for the period 25 March 2010 to 24 March 2012.

^b From 6 April 2011

In disadvantaged areas residential sales of land and buildings up to £150,000 are exempt.

From 1 October 2007 new zero-carbon homes (including flats) costing up to £500,000 benefit from an exemption from SDLT. This relief is time limited and will expire on 30 September 2012. Where the purchase price exceeds £500,000 the SDLT otherwise due is reduced by £15,000.

The SDLT rate on acquisitions of linked chargeable interests is determined by reference to the total consideration given for all the acquisitions, rather than multiple rates applying according to the consideration given for each individual acquisition.

SDLT on the grant of a lease under which rent is payable is 1% of the net present value of the rent to the extent that value exceeds £125,000 in the case of residential property and £150,000 in the case of other property.

Stamp duty

Stamp duty applies to transfers of shares and securities at a rate of 0.5%. Payment of the appropriate amount of stamp duty generally cancels the parallel charge to stamp duty reserve tax. Since 13 March 2008 there has been an exemption from stamp duty for transfers that would have previously attracted stamp duty (fixed or ad valorem) of no more than £5.

National insurance contributions 2010/11

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
97.00 or less ^a	–	–
97.01 – 110.00 ^b	0%	–
110.01 – 844.00	11%	12.8%
Over 844.00 ^d	£80.74 plus 1% on earnings over £844 pw	12.8%

Contracted out – salary related

97.00 or less ^a	–	–
97.01 – 110.00 ^b	0%	–
110.01 – 770.00 ^{c,e}	9.4%	9.1%
770.01 ^c – 844.00 ^{d,f}	11%	12.8%
Over 844.00 ^d	£70.18 plus 1% on earnings over £844 pw	£69.53 plus 12.8% on earnings over £844 pw

Contracted out – money purchase

97.00 or less ^a	–	–
97.01 – 110.00 ^b	0%	–
110.01 – 770.00 ^{c,e}	9.4%	11.4%
770.01 ^c – 844.00 ^{d,f}	11%	12.8%
Over 844.00 ^d	£70.18 plus 1% on earnings over £844 pw	£84.71 plus 12.8% on earnings over £844 pw

- Monthly and annual lower earnings limits are £412 and £4,940 respectively.
- A zero rate of NIC applies to earnings between the lower earnings limit of £95 pw and the earnings threshold of £110 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £476 and £5,715 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).
- Monthly and annual upper accrual points are £3,337 and £40,040 respectively.
- Monthly and annual upper earnings limits are £3,656 and £43,875 respectively.
- Contracted out rebates apply to the difference between the upper accrual point and the lower earnings limit (not the earnings threshold).
- Contracted in rates apply between the upper accrual point and the upper earnings limit even if the individual has contracted out.

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. In determining the allowable cost of business travel by employees in their own cars employers should use the HM Revenue & Customs authorised mileage rate of 40p per mile.

For contracted out money purchase schemes, in addition to the flat-rate abatement shown above, HM Revenue & Customs pay an age-related rebate directly to the pension scheme.

Since 6 April 2009 the upper earnings limit has been aligned with the higher rate tax threshold for income tax. At the same time, the upper accrual point, a new lower end point for earnings related state second pension accruals, was introduced. Employers and employees who have contracted out of the state second pension receive contracted out rebates on only earnings between the lower earnings limit and upper accrual point and pay NIC at the contracted in rates between the upper accrual point and the upper earnings limit.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NIC at 12.8% on most benefits-in-kind subject to income tax. Benefits-in-kind covered by a dispensation or included in a PAYE Settlement Agreement (but see below) are not subject to Class 1A NIC. Certain other benefits are specifically exempt from both income tax and Class 1A NIC.

Class 1B (employers settling tax liabilities via PAYE settlement agreements)

Class 1B NIC is an employer-only charge, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE Settlement Agreements. The rate is tied to the Class 1 secondary rate (12.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under the PAYE settlement agreement.

Class 2 (self-employed)

Weekly rate	£2.40
Small earnings exception (annual)	£5,075

Class 3 (voluntary)

Weekly rate	£12.05
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Class 4 (self-employed)

Lower limit of profit or gains	£5,715
Upper limit of profit or gains	£43,875
Rate on profits between lower and upper limits	8%
Rate on profits above £40,040	1%

From 6 April 2011 a 0.5% increase in employer, employee and self-employed rates of National Insurance Contributions (both main and additional rates) will be introduced. At the same time the point at which individuals start to pay National Insurance will be aligned with the personal allowance.

From 6 April 2012 a further 0.5% increase (making 1% in all) in employer, employee and self-employed rates of National Insurance Contributions (both main and additional rates) will be introduced.

Business tax

Corporation tax rates

	Year ended 31 March	
	2011	2010
Normal main rate	28%	28%
Small companies' rate ^{a, b, c}	21%	21%
Fraction for 'lower' marginal relief	7/400	7/400

- a. The upper threshold for the small companies' rate is £300,000. Marginal relief applies to profits between £300,000 and £1.5 million, with an effective marginal rate of 29.75%.
- b. The limits are reduced pro rata for associated companies and for accounting periods of less than 12 months.

Corporation tax payments

Large companies pay tax in instalments. Large companies are broadly those with taxable profits of at least £1.5 million (see note b above) and a corporation tax liability in excess of £10,000 for a 12-month accounting period. The £10,000 is reduced proportionately for shorter accounting periods.

In a 12-month accounting period, four instalments are payable as follows:

- 6 months and 13 days from the first day of the accounting period;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the accounting period.

Companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million.

Capital expenditure

	First-year/ initial allowance/ annual investment allowance	Writing-down allowance (WDA) per annum
Plant and machinery	100% ^a	20% reducing balance
Long-life assets ^b and integral features ^c	100% ^a	10% reducing balance
Cars	100% ^d	10%/20% reducing balance ^e
Industrial/agricultural buildings, hotels	–	1% on cost ^f
Research and development (R&D)	100%	–

- First £100,000 (£50,000 for expenditure incurred before 1/6 April 2010) of expenditure per business or group of companies only. Allowance is against total expenditure on plant and machinery (other than cars), long-life assets and integral features. It is optional which class of asset allowance is allocated against.
- Applies to businesses spending more than £100,000 pa on certain assets with a useful life of 25 years or more.
- Applies to a prescribed list of assets covering: electrical systems; cold water systems; space or water heating systems, ventilation, air cooling systems; lifts and escalators; and external solar shading.
- 100% first-year allowance for cars with CO₂ emissions not exceeding 110g/km and electric vans;
- A rate of 20% applies to cars with CO₂ emissions between 111g/km and 160g/km. A rate of 10% applies where the CO₂ emissions exceed 160g/km.
- These allowances are being phased out. The rate before April 2008 was 4%. The rate declines 1% per annum after then so that no relief is due after March 2011.

Under the enhanced capital allowances (ECA) scheme, a 100% first-year allowance is available for expenditure on designated energy saving or water conservation plant and machinery and for the purchase of 'green' vehicles or refuelling equipment. The ECA regime will be expanded in summer 2010 to include some new technologies and remove other existing ones. Payable ECAs allow loss-making companies to surrender the element of their losses attributable to their qualifying expenditure in return for a cash payment from Government. The rate of payable ECAs is 19%, but subject to a cap on the level of a company's PAYE and NI liabilities or £250,000, whichever is the greater.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of

amortisation/impairment recognised in the accounts. A fixed rate of 4% pa may be applied on election.

Business expenditure on cars

A 15% restriction will apply to lease rental payments with CO₂ emissions exceeding 160g/km. There will be no leasing restriction for leased cars with emissions of 160g/km or below. Under the rules (pre 1 April 2009) a restriction applied to all cars with a retail price over £12,000, by reference to cost of the car.

Research and development: revenue costs

The meaning of Research & Development (R&D) for these purposes and for the Capital Research & Development Allowances is set out in the DTI guidelines issued on 5 March 2004.

Large companies (i.e. those that are not SMEs) can claim an additional 30% deduction on their qualifying R&D costs.

Companies that meet the EU definition of an SME (see below) are entitled to an additional deduction of 75% of qualifying R&D expenditure, compared to the additional deduction of 50% previously available. For non-taxpaying SMEs a cash refund alternative of up to 24.5 pence for every pound of qualifying expenditure may be available.

A cap limits the total amount of SME R&D and Vaccine Research Relief aid a company can claim on each project to €7.5m and a going concern requirement applies. For SMEs with accounting periods ended on or after 9 December 2009 the IP ownership requirements were removed.

An SME is a company which, together with certain related companies, has fewer than 500 employees and **either** turnover not exceeding €100m **or** total assets not exceeding €86m.

Vaccine Relief

In addition to the above, qualifying R&D expenditure in relation to specified vaccines and medicines will attract a further 40% deduction from taxable profits for both SMEs and large companies (Vaccine Research Relief). Large companies are required to make a declaration concerning the incentive effect of the relief they are claiming under this relief.

Offices

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Bristol	0117 921 1622	Manchester	0161 832 3555
Cambridge	01223 460222	Newcastle	0191 261 4111
Cardiff	029 2048 1111	Nottingham	0115 950 0511
Edinburgh	0131 221 0002	Reading	01189 508141
Gatwick	01293 510112	St Albans	01727 839000
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