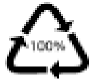
HM Revenue & Customs

HM TREASURY

Overview of Tax Legislation and Rates

21 March 2012



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Introduction

This document sets out the detail of each tax policy measure announced at Budget 2012. It is intended for tax practitioners and others with an interest in tax policy changes, especially those who will be involved in consultations both on the policy and on draft legislation.

The information is set out as follows:

- Chapter 1 provides detail on all tax measures to be legislated in Finance Bill 2012 or that will otherwise come into effect in 2012-13. This includes confirmation of previously announced policy changes and explains where changes, if any, have been made following consultation on the draft legislation. It also sets out new measures announced at Budget 2012.
- Chapter 2 provides details of proposed tax changes announced at Budget 2012 to be legislated in Finance Bill 2013, other future finance bills, programme bills or secondary legislation.
- Annex A includes all Tax Information and Impact Notes published at Budget 2012.
- Annex B provides tables of tax rates and allowances.

Finance Bill 2012 will be published on 29 March 2012.

1 Finance Bill 2012

1.1 This chapter summarises tax changes to be legislated in Finance Bill 2012 or secondary legislation having effect in 2012-13.

1.2 This includes confirmation of previously announced policy changes and explains where changes, if any, have been made following consultation on the draft legislation. It also sets out new measures announced at Budget 2012. For measures announced before the Budget, the Tax Information and Impact Notes can be found on the HMRC website. Those measures which remain unchanged following consultation are set out at the end of this chapter.

Personal tax

1.3 Income tax rates – Income tax rates will be unchanged for the tax year 2012-13. For 2013-14, the main rates of income tax will be the 20 per cent basic rate, the 40 per cent higher rate and the 45 per cent additional rate. The rates for both years will be legislated in Finance Bill 2012. A Tax Information and Impact Note for this measure is available at Annex A. Income tax rates and thresholds are set out in Annex B.

1.4 Income tax additional rate: consequential changes – As a consequence of the reduction in the additional rate of income tax in 2013-14, the charge on benefits paid to non-individuals under an employer-financed retirement benefits scheme will reduce from 50 per cent to 45 per cent in 2013-14. Where capital sums are deemed to be income of a settlor, the rate of tax taken as paid by the trustees will also reduce from 50 per cent to 45 per cent from 2013-14. Legislation will be in Finance Bill 2012.

1.5 Income tax personal allowance 2012-13 – As announced at Budget 2011, the income tax allowance for those aged under 65 will increase by £630 in cash terms to £8,105 in 2012-13. There will be a corresponding £630 cash decrease in the basic rate limit, taking it to £34,370. The higher rate threshold, which equals the sum of the personal allowance and the basic rate limit, will therefore remain unchanged in 2012-13 at £42,475. Legislation will be in Finance Bill 2012.

1.6 Income tax age-related allowances – From 2013-14, the age-related personal allowances will not be increased and their availability will be restricted to people born on or before:

- 5 April 1948 for the allowance worth £10,500; and
- 5 April 1938 for the allowance worth £10,660.

Legislation will be included in Finance Bill 2012. People born on or after 6 April 1948 will be entitled to the personal allowance of £9,205 for 2013-14. A Tax Information and Impact Note for this measure is available at Annex A.

1.7 Seed Enterprise Investment Scheme (SEIS) – As announced in the Autumn Statement 2011, legislation will be included in Finance Bill 2012 to introduce a new Seed Enterprise Investment Scheme. Following consultation, changes have been made to the legislation to allow companies to:

- qualify if they have subsidiaries;
- determine eligibility by reference to the age of any trade rather than to the age of the company;
- remove reference to the holdings of other entities in calculating asset and employee tests;
- allow previous (but not current) employees to qualify; and
- allow directors who have qualified under SEIS to continue to qualify under EIS, subject to time limits.

1.8 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs): simplification and better focus – As announced in Budget 2011, legislation will be introduced in Finance Bill 2012 to make simplifications to the EIS and to VCTs. This will remove some restrictions on qualifying shares and types of investor and, following consultation, will remove the £1 million limit on investment by a VCT in a single company (except for companies in a partnership or joint venture). It will also remove the £500 minimum subscription for EIS. To ensure both EIS and VCTs are targeted at genuine risk capital investments, the Government will also introduce a new disqualifying arrangements test for the schemes to exclude companies set up for the purpose of accessing relief, and will exclude investment in some Feed-in Tariff businesses. Monies used to acquire shares in another company will not be regarded as being 'employed' for the purposes of a qualifying business activity. A Tax Information and Impact Note for this measure is available at Annex A.

1.9 Enterprise Investment Scheme and Venture Capital Trusts: increases to thresholds – As announced in Budget 2011, the EIS annual investment limit for individuals will be increased to £1 million from 6 April 2012. After further consideration of the evidence and impacts on smaller companies, the Government will increase the annual investment limit for qualifying companies to £5 million. The annual investment limit will take account of any other risk capital aid received, and VCTs will be prohibited from making any investment which breaches that limit. Legislation will be in Finance Bill 2012. This legislation is subject to State aid approval, and will take effect through Treasury appointed day orders. A Tax Information and Impact Note for this measure is available at Annex A.

1.10 Enterprise Management Incentives (EMI) – The Government will increase the individual limit on qualifying EMI options from £120,000 to £250,000. The change will be made by statutory instrument, as soon as possible, subject to State aid approval. A Tax Information and Impact Note for this measure is available at Annex A. In addition, HMRC will develop the guidance and resources it makes available to start-up companies wishing to use EMI, so that new resources are available by the end of 2012. Details of future reforms can be found in Chapter 2.

1.11 Reform of the taxation of non-domiciled individuals – Following consultation in summer 2011, legislation will be introduced in Finance Bill 2012 to make changes to the taxation of non-domiciled individuals to:

- allow such individuals to bring their overseas income and gains to the UK tax-free in order to make a commercial investment in a qualifying business;
- increase the existing £30,000 annual charge to £50,000 for those resident in the UK in 12 or more of the last 14 tax years; and
- reduce the complexity of some aspects of the existing remittance basis rules.

These changes will be introduced with effect from 6 April 2012.

1.12 Child Benefit income tax charge – Legislation will be introduced in Finance Bill 2012 that imposes a new charge on a taxpayer who has adjusted net income over £50,000 in a tax year, where either they, or their partner, are in receipt of Child Benefit for the year. This will have effect from 7 January 2013. If both partners have adjusted net income over £50,000, the partner with the higher income is liable for the charge. The income tax charge will apply at a rate of one per cent of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid. Child Benefit claimants will be able to decide not to receive Child Benefit if they or their partner do not wish to pay the new charge. For the tax year 2012-13, the first year of the charge, the amount of income taken into account will be the full amount of income for 2012-13 and the amount of Child Benefit will be that paid in the period from 7 January 2013 to the end of the tax year. For subsequent years, the full amount of Child Benefit and the income for the year will be taken into account. A Tax Information and Impact Note for this measure is available at Annex A.

1.13 Company car tax rates 2014-15 – Legislation will be introduced in Finance Bill 2012 to increase the appropriate percentage for company cars emitting more than 75g of carbon dioxide per kilometre by one percentage point to a maximum of 35 per cent in 2014-15. A Tax Information and Impact Note for this measure is available at Annex A.

1.14 Car and van fuel benefit charge 2012-13 and 2013-14 – A statutory instrument laid after Budget 2012 will increase the car fuel benefit charge multiplier from £18,800 to £20,200 from 6 April 2012. The multiplier will increase by two per cent above the rate of inflation (based on RPI) in 2013-14. The van fuel benefit charge multiplier will be frozen at £550, and will increase by inflation in 2013-14. The 2013-14 changes will be made by statutory instrument in autumn 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.15 Resettlement payments paid to Members of Parliament (MPs) – From April 2012, the MPs' Expenses Scheme administered by the Independent Parliamentary Standards Authority (IPSA) will include provision for the payment of a resettlement payment to any MP who involuntarily leaves Parliament after that date. As a consequence of this change, legislation will be included in Finance Bill 2012 to exempt from income tax the first £30,000 of resettlement payment paid by IPSA. The amendment will ensure that these payments are treated in the same way as similar grants previously paid under the House of Commons Members' Allowances Scheme. The amendment will have effect in relation to any resettlement payment made by IPSA on or after 1 April 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.16 Employer asset-backed pension contributions – On 29 November 2011, the Government announced that legislation would be introduced in Finance Bill 2012 to change the tax rules in relation to employer asset-backed pension contributions, with effect from the date of the announcement. These changes were designed to ensure that unintended, excess tax relief could not arise in respect of such contributions. On 22 February 2012, the Government published further legislation, with immediate effect, with the aim of limiting the circumstances in which up-front relief can be given to asset-backed arrangements, in line with the original policy aim. Further changes to the previously published legislation and structured finance legislation have been announced with effect from 21 March 2012 and will be included in Finance Bill 2012. Details of these changes and those previously announced are available from HMRC and HM Treasury websites.

Charities and philanthropy

1.17 Community amateur sports clubs (CASCs): entitlement to Gift Aid – Legislation will be introduced in Finance Bill 2012 to amend the CASC and Gift Aid legislation to ensure it operates as originally intended. HMRC has been registering CASCs and allowing Gift Aid payments on a concessionary basis. This legislation will put both points onto a statutory basis. A Tax Information and Impact Note for this measure is available at Annex A.

1.18 Community amateur sports clubs: in-year repayment of Gift Aid – Finance Act 2010 put the practice of making in-year repayment of Gift Aid to charitable companies and CASCs onto a statutory basis. Provisions will be introduced in Finance Bill 2012 to amend that legislation to ensure it works as intended. A Tax Information and Impact Note for this measure is available at Annex A.

Corporate tax

1.19 Corporation tax rates – Legislation will be introduced in Finance Bill 2012 to reduce:

- the main rate of corporation tax for non ring fence profits to 24 per cent for the Financial Year commencing 1 April 2012; and
- the main rate of corporation tax for non ring fence profits to 23 per cent for the Financial Year commencing 1 April 2013.

Finance Bill 2012 also sets the small profit rate at 20 per cent for the Financial Year commencing 1 April 2012. A Tax Information and Impact Note for this measure is available at Annex A. Finance Bill 2012 will also set the marginal rate fraction and rate for ring fenced profits. All corporation tax rates are published in Annex B.

1.20 Controlled foreign companies (CFC) reform – Following consultation, legislation will be introduced in Finance Bill 2012 to replace the existing CFC regime. The new CFC rules will better reflect the way that businesses operate in a global economy and strike the right balance between contributing to a more competitive corporate tax system and protecting the UK corporate tax base. A key change arising from consultation is the introduction of separate gateway conditions to make the rules easier to use. The new rules will be effective for CFCs with accounting periods beginning on or after 1 January 2013.

1.21 Patent box – Legislation will be introduced in Finance Bill 2012 to allow companies to elect to apply a 10 per cent corporation tax rate to a proportion of profits attributable to patent and certain other qualifying intellectual property from 1 April 2013. In the first year this proportion will be 60 per cent and increase annually to 100 per cent from April 2017. Following consultation:

- the legislation has been clarified to achieve the policy aim set out in the June 2011 consultation document that worldwide income from inventions covered by a qualifying UK or European Patent Office patent is included;
- the heads of expenditure included in the amounts which have to be marked up have been clarified; and
- the small claims safe harbour that previously applied to all companies has been limited to companies making profits with residual profits of no more than £3 million.

An updated Tax Information and Impact Note for this measure is available at Annex A.

1.22 Business premises renovation allowance (BPRA) – As announced in Budget 2012, from April 2012 the BPRA scheme will be extended for a further five years to April 2017. Changes will also be made to the scheme to ensure continuing compliance with State aid rules. The changes will be made in secondary legislation.

1.23 Capital allowances: Enterprise Zones – As announced in the Autumn Statement 2011, legislation will be introduced in Finance Bill 2012 to provide 100 per cent first-year allowances for trading companies investing in plant or machinery for use primarily in designated assisted areas within Enterprise Zones. Following consultation, changes have been made to ensure the scheme is State aid compliant.

1.24 Capital allowances: fixtures – As announced at Budget 2011, legislation will be introduced in Finance Bill 2012 to make the availability of capital allowances to a purchaser of a fixture subject to certain conditions. Following consultation, changes have been made to help ensure fair application of the legislation.

1.25 Bank Levy rate – As announced in the Autumn Statement 2011, Finance Bill 2012 will set the full rate of the Bank Levy at 0.088 per cent with effect from 1 January 2012. The Government has also announced that legislation will be included in Finance Bill 2012 to set the full rate of the Bank Levy from 1 January 2013 at 0.105 per cent. A Tax Information and Impact Note for this measure is available at Annex A. Bank Levy rates are set out in Annex B.

1.26 Tax treatment of regulatory capital – As announced in Budget 2011, and following consultation, legislation will be introduced in Finance Bill 2012 to introduce a power to determine the tax treatment of regulatory capital instruments issued in accordance with the Basel III and EU Capital Requirements Directive IV (CRD IV) proposals. Regulations will be made under this power and will take effect from the commencement of the CRD IV provisions. A Tax Information and Impact Note will be published alongside the draft regulations.

1.27 Grouping rules: change to equity rules – Legislation will be introduced in Finance Bill 2012 to ensure that the group status of a company will be unaffected where it issues loan notes carrying a right to conversion into shares or securities of quoted unconnected companies. A Tax Information and Impact Note for this measure is available at Annex A.

1.28 Tax transparent fund – As announced in Budget 2011, legislation will be introduced to permit the authorisation of tax transparent funds from summer 2012. Draft regulations to be made under the powers in Finance Bill 2012 will be published after taking into account the responses to the HM Treasury consultation on tax transparent funds which closed on 19 March 2012. Regulations will be made to establish the tax treatment applying to UK investors' holdings in tax transparent funds and to establish the treatment of transactions for the purposes of stamp taxes. In order to clarify the position going forward for all investors in collective investment schemes (CIS) including the new tax transparent funds, the capital gains rules for mergers and reconstructions of CIS will be simplified and rewritten in regulations, and changes may be made to what constitutes a disposal.

1.29 Solvency II and the taxation of life insurance companies – As announced at Budget 2011, legislation will be introduced in Finance Bill 2012 to establish a new regime for the taxation of life insurance companies and Friendly Societies with effect from 1 January 2013. Following consultation, the legislation has been revised to ensure that the new regime will operate effectively and predictably. The legislation will include a targeted anti-avoidance rule to address cases where companies enter into arrangements with a main purpose of securing a tax advantage in connection with the transitional rules. This anti-avoidance rule, which has been modified in the light of consultation, was published on 21 March 2012 on the HMRC website. The rule may apply to arrangements entered into or things done after 21 March 2012.

1.30 Claims equalisation reserves (CERs) – As announced in Budget 2011 and following consultation, the Government will repeal the tax rules relating to CERs from the date that the Solvency II capital requirements come into force. Built-up reserves will be taxed in equal amounts over a six year period commencing from this date, although insurers can elect to tax the remaining balance in any year during the transitional period. Legislation will be in Finance Bill 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.31 Oil and gas: field allowances – A statutory instrument will be laid later this year to introduce a new £3 billion field allowance for particularly deep fields with sizeable reserves, targeted at the West of Shetland, and the Government will continue to work with industry to encourage further investment in the region. The Government will also increase the allowance for small fields to £150 million and increase the size of field qualifying for the maximum allowance to 6.25 million tonnes (approximately 45 million barrels), tapering to no allowance at 7 million tonnes (approximately 50 million barrels). Legislation will also be introduced in Finance Bill 2012 giving the Government the power to introduce targeted measures to support investment in brown fields, and the Government will engage with industry on how any such allowance could be structured to unlock investment while protecting Exchequer revenues. The Government will continue to consider potential changes to the existing allowance for High Pressure High Temperature fields. A Tax Information and Impact Note for this measure is available at Annex A.

1.32 Oil and gas: restriction on decommissioning relief – As announced at Budget 2011, legislation will be introduced in Finance Bill 2012 to restrict tax relief for Supplementary Charge purposes in respect of decommissioning expenditure to 20 per cent. The legislation will also broaden the scope of the extended loss carry back rules that apply to companies with ring fence trades. This will mean that they apply to losses arising from mineral extraction allowances in respect of decommissioning expenditure, consistent with the definition of decommissioning expenditure used in the restriction of relief.

1.33 Enhanced capital allowances: energy saving technologies – The energy saving enhanced capital allowance will be updated by Treasury Order in summer 2012, subject to State aid approval. The main change will be the inclusion of a new technology category: heat pump driven air curtains. A Tax Information and Impact Note for this measure is available at Annex A.

Indirect tax

1.34 Alcohol duty rates – Legislation will be introduced in Finance Bill 2012 to increase the duty rates for all alcoholic drinks by 2 per cent above the rate of inflation (based on RPI) with effect from 26 March 2012. This will add 3 pence to the price of a pint of beer, 2 pence to the price of a litre of cider, 11 pence to the price of a bottle of wine, and 41 pence to the price of a bottle of spirits. The rates are set out in Annex B.

1.35 Tobacco duty rates – Legislation will be introduced in Finance Bill 2012 to increase the duty rates for all tobacco products by 5 per cent above the rate of inflation (based on RPI) from 6pm on 21 March 2012. This will add 37 pence to the price of 20 cigarettes, 12 pence to the price of a pack of five small cigars, 37 pence to the price of a 25g pouch of hand-rolling tobacco, and 20 pence to the price of a 25g pouch of pipe tobacco. A Tax Information and Impact Note for this measure is available at Annex A. The rates are set out in Annex B.

1.36 Machine games duty – As announced at Budget 2011 and following consultation, Finance Bill 2012 will introduce a machine games duty (MGD). MGD will replace Amusement Machine Licence Duty and supplies from dutiable machines will become exempt supplies from VAT from the introduction of MGD on 1 February 2013. There will be two duty rates:

- the lower 5 per cent rate will apply to machines where both the maximum cost to play any game is 10p (or less) and the maximum cash prize for any game is £8 (or less); and
- the standard 20 per cent rate will apply to all other dutiable machine games.

1.37 Amusement machine licence duty (AMLD) and gaming duty – Legislation will be introduced in Finance Bill 2012 to:

- increase AMLD in line with inflation (based on RPI); and
- raise the gross gaming yield (GGY) bandings for gaming duty in line with inflation (based on RPI).

These changes will affect casinos and anyone who provides a gaming machine for play in the UK. The new AMLD rates will be charged for any licence applications that are received by HMRC after 4pm on 23 March 2012. The GGY bandings used to calculate gaming duty must be used for any accounting periods starting on or after 1 April 2012. Tables of AMLD rates and GGY bandings are published in Annex B.

1.38 Air passenger duty (APD): devolution of rate to Northern Ireland – As announced on 21 February 2012, legislation will be introduced in Finance Bill 2012 to devolve power to the Northern Ireland Assembly to set APD rates for direct long haul flights departing from Northern Ireland.

1.39 Red diesel in private pleasure craft – As announced on 20 February 2012, legislation will be introduced in Finance Bill 2012 which will require the declaration made at the time red diesel is purchased for use in private pleasure craft to include an acknowledgement that any restrictions and prohibitions under the national laws of another Member State on the use of fuel for propelling private pleasure craft outside UK waters are not affected by UK provisions. This measure will have effect from 1 April 2012.

1.40 Vehicle excise duty (VED) rates – Legislation will be introduced in Finance Bill 2012 to increase VED rates in line with RPI with effect from 1 April 2012, apart from VED rates for heavy goods vehicles which will be frozen in 2012-13. Rates of VED are published in Annex B.

1.41 Carbon price support (CPS) rates – Budget 2012 announced the CPS rates for 2014-15. It also announced a number of changes to the CPS rate for solid fuels following consultation:

- coal with a calorific value of more than 15 giga joules per tonne will be the only taxable solid fuel;
- coal will be taxed on its calorific value (i.e. joule), rather than its weight (i.e. kilogram);
- the rate for coal will reflect the average calorific value of coal used to generate electricity within the UK; and
- the rate for solid fuel for 2013-14 that was announced at Budget 2011 will be amended.

A number of other changes to the carbon price floor were also announced following consultation, including:

- supplies of fossil fuels to combined heat and power (CHP) stations registered under the CHP Quality Assurance programme will be exempt from the CPS rates if they are intended to be used to generate heat;
- all generators liable to pay the CPS rates of climate change levy (CCL) will be required to register with HMRC if they are not already registered for CCL, and account for the CPS rates of CCL due;
- generators, and any connected persons, that have a combined generation capacity of 2 megawatts or lower will not be liable to the CPS rates of CCL; and
- supplies of fossil fuels to generating stations fitted with carbon capture and storage technology will be entitled to a proportionate abated CPS rate of CCL to reflect the percentage of carbon dioxide abated.

Legislation will be introduced in Finance Bill 2012 with subsequent secondary legislation, bringing these measures into effect from 1 April 2013 (or 1 April 2014 in the case of the 2014-15 rates). A Tax Information and Impact Note for this measure is available at Annex A.

1.42 Climate change levy rates – Legislation will be introduced in Finance Bill 2012 to increase the rates of CCL broadly in line with inflation (based on RPI) from 1 April 2013. The rates are set out in Annex B.

1.43 Climate change levy: **removal of the exemption for indirect supplies of combined heat and power electricity** – Budget 2011 announced the Government's intention to withdraw the exemption from CCL for supplies of electricity generated in a CHP station that are made by an electricity utility to business energy consumers. Following consultation, the Government announced that electricity utilities will be able to continue to allocate CHP levy exemption certificates relating to generation made before 1 April 2013 until 31 March 2018. Legislation will be introduced in Finance Bill 2012 with subsequent secondary legislation. A Tax Information and Impact Note for this measure is available at Annex A.

1.44 Rates of landfill tax – Legislation will be introduced in Finance Bill 2012 to increase the standard rate of landfill tax by £8 per tonne to £72 per tonne for disposals of landfill made, or treated as made, on or after 1 April 2013. The lower rate will remain frozen at £2.50 per tonne for 2013-14.

1.45 Landfill tax: application to Scottish landfill sites – As announced on 21 February 2012, legislation will be introduced in Finance Bill 2012 to correct the definition of a landfill site in Scotland for landfill tax purposes. This will ensure that all sites in Scotland remain liable to the tax following the replacement of waste disposal licences with permits. The legislation will have retrospective effect back to 21 March 2000 and will bring landfill tax legislation in Scotland into line with the rest of the UK.

1.46 Landfill Communities Fund – A statutory instrument laid on 21 March 2012 will maintain the potential value of the fund for 2012-13 at £78.1 million of claimable credit. This will be achieved by amending the maximum credit that landfill site operators may claim against their annual landfill tax liability for relevant contributions, from 6.2 per cent to 5.6 per cent from 1 April 2012.

1.47 VAT: correcting anomalies and closing loopholes – Secondary legislation will be introduced in summer 2012, supported by anti-forestalling provisions in Finance Bill 2012, to address long-standing VAT anomalies and loopholes, with effect from 1 October 2012. These are areas where differences in VAT treatment lead to error, non-compliance and complexity for taxpayers. The changes will simplify the VAT rules by removing the relevant borderlines and will marginally broaden the VAT base. The changes address some anomalies by:

- applying VAT to approved alterations to listed buildings to bring them into line with the VAT treatment of alterations to non-listed buildings, and repairs and maintenance for all buildings; and
- providing consistency of treatment between self-storage and other forms of storage.

They also close a number of loopholes by:

- applying VAT, in the minority of cases where it does not already apply, to hot food and to sports drinks;
- putting beyond doubt the fact that VAT applies to the rental of hairdressers' chairs and the sale of cold food for consumption on the supplier's premises (even if those premises are shared with other suppliers); and
- ensuring that the purchase of holiday caravans is taxed consistently at the standard rate.

Transitional arrangements will be available for alteration works to listed buildings already underway. A consultation on the draft secondary legislation was published on 21 March 2012. Anti-forestalling legislation, effective from 21 March 2012, will apply to changes to the VAT treatment of self-storage and alteration works to listed buildings. Tax Information and Impact Notes for these changes are available at Annex A.

1.48 VAT: revalorisation of registration and deregistration thresholds – The Government has announced that the VAT registration and deregistration thresholds will be changed so that:

- the taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £73,000 to £77,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £71,000 to £75,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £73,000 to £77,000.

A statutory instrument laid on 21 March 2011 will apply the revised thresholds with effect from 1 April 2012. The simplified reporting requirement (three line accounts) for the income tax Self Assessment return will continue to be aligned with the VAT registration threshold.

1.49 VAT: revalorisation of fuel scale charges – A statutory instrument laid on 21 March 2012 will revalorise the VAT fuel scale charges with effect from 1 May 2012. The fuel scale charges are published in Annex B.

1.50 VAT relief for European Research Infrastructure Consortia (ERICs) – Secondary legislation will be introduced in autumn 2012 to provide VAT relief for European Research Infrastructure Consortia.

1.51 Stamp duty land tax (SDLT) rate – Legislation will be introduced in Finance Bill 2012 to charge SDLT at 7 per cent of the chargeable consideration where this is more than £2 million. The measure takes effect for transactions where the effective date (normally the date of completion) is on or after 22 March 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.52 Stamp duty land tax: enveloping of high value residential properties – The Government will introduce legislation in Finance Bill 2012 to apply a 15 per cent rate of SDLT to residential properties over £2 million purchased by certain non-natural persons. This will take effect from 21 March 2012. A Tax Information and Impact Note for this measure is available at Annex A. In addition, the Government will introduce paving legislation for an annual charge (see also Chapter 2).

Anti-avoidance

1.53 Capital allowances: changes to anti-avoidance rules for plant and machinery – Legislation will be introduced in Finance Bill 2012 to make the capital allowances anti-avoidance rules more effective by restricting plant and machinery allowances where there is an avoidance purpose to the transactions, or where the transactions are part of an avoidance scheme or arrangement. On 12 August 2011, the Government announced that the legislation would include the repeal of an exception from the anti-avoidance rules, where the plant or machinery is acquired from a manufacturer or supplier. However, the legislation that will be included in Finance Bill 2012 will not make this particular change in full; the exception will still apply to expenditure incurred on or after 12 August 2011, as long as it is not incurred as a result of a relevant transaction that has an avoidance purpose, or is part of, or occurs as a result of a scheme or arrangement that has an avoidance purpose. A Tax Information and Impact Note for this measure is available at Annex A.

1.54 Debt buybacks – Legislation will be introduced in Finance Bill 2012 to amend the corporation tax rules on loan relationships held between connected companies. This was announced on 27 February 2012, with effect from that date. The calculation of deemed releases of debts becoming held by connected companies will be amended and a targeted anti-avoidance rule (TAAR) to counter arrangements that aim to circumvent the deemed release rules will be inserted. The legislation will include limited retrospective provision for certain arrangements entered into between 1 December 2011 and 27 February 2012.

1.55 Corporate investors in authorised investment funds (AIFs) – The Government has introduced secondary legislation to address a tax avoidance scheme which seeks to obtain tax benefits for a corporate investor in relation to a distribution made by an AIF where no underlying tax has been suffered. The measure is intended to ensure that corporate investors cannot use holdings in AIFs to obtain credit for tax not suffered or to reduce their tax liability below that which would apply if the underlying assets were held directly by the investor. This was announced on 27 February 2012, with effect from that date.

1.56 Post-cessation trade relief and post-cessation property relief – As announced on 12 January 2012, legislation will be introduced in Finance Bill 2012 to counter avoidance involving post-cessation trade relief. This measure will introduce a TAAR that will prevent the relief from being available where a payment is made, or an event occurs, which is directly or indirectly in consequence of, or in connection with, relevant tax avoidance arrangements. The TAAR will apply to payments made, or events occurring, on or after 12 January 2012 except where the payment is made pursuant to an unconditional obligation in a contract made before that date. On 13 March 2012, the Government announced that this restriction would be extended to post-cessation property relief with effect from that date.

1.57 Property business loss relief – As announced on 13 March 2012, legislation will be introduced in Finance Bill 2012, with effect from that date, to prevent property business loss relief being given where allowable agricultural expenses arise from arrangements entered into in which the main purpose, or one of the main purposes, is to obtain a tax reduction.

1.58 The following measures have effect from 21 March 2012 and draft legislation and supporting documents are available on the HM Treasury and HMRC websites.

1.59 Stamp duty land tax: sub-sales rules – Legislation will be introduced in Finance Bill 2012 to put beyond doubt that an SDLT avoidance scheme that abuses the subsales rules does not work. The change makes it explicit that the grant or assignment of an option cannot be a "transfer of rights". The change is effective on or after 21 March 2012 and draft legislation is available on the HMRC website. A Tax Information and Impact Note for this measure is available at Annex A. The Government will also consult on the wider approach to addressing SDLT sub-sales avoidance.

1.60 Inheritance tax: offshore trusts – Legislation will be introduced in Finance Bill 2012 to amend the excluded property and settled property provisions in order to close an avoidance scheme involving the acquisition of interests in offshore trusts by UK-domiciled individuals. The changes will ensure that any reduction in the value of a person's estate as a result of the arrangements is charged to inheritance tax. The changes will largely replicate the tax treatment that a UK-domiciled individual using such a scheme would incur if the assets within the offshore trust had instead been transferred to a UK trust. This measure will have effect from 21 March 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.61 Income tax: corporate settlor-interested trusts – Legislation will be introduced in Finance Bill 2012 to amend the settlements legislation (Part 5, Chapter 5, Income Tax Trading and Other Income Act 2005) in order to close an avoidance scheme involving corporate settlors. The changes will confirm that income which arises under a settlement and originates from any settlor who is not an individual is not treated as that of the settlor. This measure will have effect from 21 March 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.62 Sale of lessor companies – Legislation will be introduced in Finance Bill 2012 to make changes to the sale of lessor company provisions to maintain the effectiveness of the legislation in protecting revenues. The changes will introduce a new "trigger" event when a lessor company comes within the charge to tonnage tax and will prevent losses being carried back against profits specifically brought into charge as a consequence of the sale of lessor company legislation. The changes will apply where on or after 21 March 2012 a lessor company enters tonnage tax or there is a change in the ownership of a lessor company. A Tax Information and Impact Note for this measure is available at Annex A.

1.63 Plant or machinery leasing – Legislation will be introduced in Finance Bill 2012 to ensure that the total amount of capital allowances received by lessees under long funding leases for the period of the lease will equal their net "capital" expenditure under that lease. This measure counters arrangements where lessees under long funding leases seek to avoid including amounts received connected to the lease, which are not otherwise brought into account for tax purposes, within the specified disposal formula for long funding leases. Changes will be made to the definitions for the disposal formula to ensure such payments for the benefit of a lessee, or a connected person, are brought into account. The changes will apply to disposal events for long funding leases occurring on or after 21 March 2012. A Tax Information and Impact Note for this measure is available at Annex A.

1.64 Life insurance: income tax avoidance – Legislation will be introduced in Finance Bill 2012 to amend the rules for calculating chargeable event gains that may be liable to income tax. The changes will put beyond doubt that when calculating the amount of a chargeable event gain under a life insurance policy, a deduction for certain gains will only be allowed to the extent that the earlier gains are attributable to one of the persons chargeable to tax under the chargeable event gain regime. The legislation will also ensure that interdependent policies (where the value of benefits payable from one policy is dependent on premiums paid into another policy) will be treated as a single policy for the purposes of the chargeable event gain regime. The changes will apply to policies issued on or after 21 March 2012, and to policies issued before this date where certain events occur on or after this date. Draft legislation was published on 21 March 2012 on the HMRC website and a Tax Information and Impact Note for this measure is available at Annex A.

1.65 Site restoration payments – Legislation will be introduced in Finance Bill 2012, with effect on or after 21 March 2012, to prevent relief being given where arrangements are entered into where the main purpose is obtaining a deduction as the result of a site restoration payment. A Tax Information and Impact Note for this measure is available at Annex A.

1.66 Disclosure of tax avoidance schemes (DOTAS) - In 2011, HMRC consulted informally about extending the DOTAS "hallmarks" (the descriptions of schemes required to be disclosed for income tax, capital gains tax or corporation tax). The Government will be formally consulting over the summer on extending the hallmarks so as to capture avoidance schemes that do not currently have to be notified, with a view to publishing draft regulations later in the year.

Tax administration

1.67 UK/Switzerland Agreement – Budget 2012 confirmed that legislation will be introduced in Finance Bill 2012 to give effect to the Agreement between the UK and Switzerland on cooperation in tax matters that was signed on 6 October 2011. As a result of the Protocol signed on 20 March 2012, two changes have been made to the Agreement which will be reflected in the legislation. Firstly, from when the Agreement takes effect, where a retention is made under the 2004 Agreement between the EU and Switzerland on the Taxation of Savings, a separate tax finality payment is made which together with the retention achieves an outcome equivalent to the single withholding rate under the October Agreement. Secondly, there is a provision for a levy on the assets of an individual who dies on or after 1 January 2013. These charges will not apply where authorisation is given to disclose full bank account details to HMRC.

1.68 Tax agents: dishonest conduct – As announced in Budget 2011, legislation will be introduced in Finance Bill 2012 to address dishonest tax agents. The legislation will provide for a civil penalty, Tribunal approved access to an agent's working papers and the power to publish the details of agents that have been penalised. Following consultation, a third party organisation whose details HMRC intends to publish to identify the agent penalised now has the explicit right to make representations. The legislation is intended to have effect from 1 April 2013.

Measures unchanged following consultation

1.69 This section lists those measures where draft legislation has been published for consultation and no changes were made as a result or small, technical amendments have been made to the final legislation to be introduced in Finance Bill 2012.

Personal tax

- Capital gains tax: foreign currency bank accounts
- Capital gains tax: annual exempt amount
- Capital gains tax holiday for the Seed Enterprise Investment Scheme
- Single payment scheme and capital gains tax roll-over relief
- Tax exemptions: international military headquarters, EU forces, etc.
- Income tax exemption: armed forces continuity of education allowance
- Company car tax: security enhanced cars
- Taxation of non-residents: Champions League final 2013
- Qualifying time deposits
- Inheritance tax nil rate band: switch to CPI

Charities and philanthropy

- Gifts of pre-eminent objects
- Inheritance tax: reduced rate for estates leaving 10 per cent or more to charity
- In year repayments of tax to charities
- Self assessment donate

Corporate taxes

- Research and development tax relief
- Capital allowances: feed-in tariffs and the renewable heat incentive
- Improvements to the real estate investment trust regime
- Bank levy amendments
- Lloyd's: stop-loss insurance
- Corporation tax: distributions in the form of assets and liabilities
- Amendments to the tax treatment of financing costs and income (debt cap)
- Changes to the UK generally accepted accounting practice
- Oil and gas: scope of the supplementary charge

Indirect taxes

- Repeal of section 22 of the Alcoholic Liquor Duties Act 1979
- Double taxation relief on gambling duties
- Climate change levy: change to the reduced rate on electricity
- Climate change levy: reform of climate change agreements
- Climate change levy: metal recycling processes
- Air passenger duty: business jets
- Air passenger duty: Northern Ireland rate
- VAT: low value consignment relief
- VAT: cost sharing exemption
- VAT: tackling VAT fraud on imported road vehicles – This will have effect from 15 April 2013.

- VAT: online registration – The online system will be introduced with effect from 31 October 2012, certain VAT forms will be removed from the law from the same date. The VAT threshold for businesses not established in the UK will be removed from 1 December 2012.
- VAT: grouping extra statutory concession
- VAT: supplies of goods or services by public bodies
- Stamp duty land tax: relief for National Health Service bodies

Anti-avoidance

- Stamp duty land tax: disclosure of tax avoidance schemes
- Manufactured overseas dividends

Tax administration

- Incapacitated persons: a modern approach
- Real time information
- Information powers

Office of Tax Simplification: review of reliefs

- Mineral royalties: repeal
- Stamp duty land tax: disadvantaged areas relief: repeal
- Grants for giving up agricultural land: repeal of relief
- Angostura bitters: removal of certain reliefs
- Black beer: removal of relief. An updated Tax Information and Impact Note for this measure is available at Annex A.
- Luncheon vouchers: repeal of relief
- Certain payments arising from a reduction in pool betting duty: repeal of reliefs
- Stamp Duty: relief on certain transactions in shares
- Tax reserve certificates issued by HM Treasury: repeal of relief
- Payments for the benefit of family members: repeal of relief
- Capital allowances: safety at sports grounds: repeal of relief
- Capital allowances: flat conversion allowances: repeal of relief
- Stamp Duty: relief for certain transactions in land
- Harbour reorganisation schemes: corporation tax and stamp duty: repeal of reliefs
- Pensions for 1947 redundancies: repeal
- Deeply discounted securities: incidental expenses: repeal of relief
- Life assurance premium relief: repeal
- Life assurance premiums paid by employers under an employee financed retirement benefit scheme: repeal of relief

2 Future Tax Changes

2.1 This chapter summarises new tax changes announced in Budget 2012, where the change is to be made in Finance Bill 2013, other future finance bills, programme bills or secondary legislation. In line with the Government's new approach to tax policy making, the vast majority of these measures will be subject to consultation. To assist those who wish to take part in tax consultations, a "tracker" will be published on the HM Treasury and HMRC websites setting out the planned dates of future consultations. Where the policy changes are straightforward (for example routine rate changes or where the policy is settled and will not be subject to consultation), Tax Information and Impact Notes have been published (see Annex A). For other measures, the Government will assess the impacts as part of the consultation and publish a Tax Information and Impact Note alongside the draft legislation in the autumn.

Personal tax

2.2 Income tax personal allowances for 2013-14 – Legislation will be introduced in Finance Bill 2013 to set the personal allowance for those aged under 65 at £9,205 and the basic rate limit at £32,245. A Tax Information and Impact Note for this measure is available at Annex A. Income tax rates and allowances are published in Annex B. The Class 1 Upper Earnings Limit and the Class 4 Upper Profits Limit for National Insurance contributions (NICs) will be aligned with the point at which the higher rate tax becomes payable (£41,450).

2.3 Cap on unlimited tax reliefs – Legislation will be introduced in Finance Bill 2013 to apply a cap on income tax reliefs claimed by individuals from 6 April 2013. The cap will apply only to reliefs which are currently unlimited. For anyone seeking to claim more than £50,000 in reliefs, a cap will be set at 25 per cent of income (or £50,000, whichever is greater). Draft legislation will be published for consultation later this year.

2.4 Statutory residence test – At Budget 2011, the Government announced its intention to introduce a statutory residence test with effect from April 2012. On 6 December 2011, following public consultation over the summer, the Government announced that the test would be legislated in Finance Bill 2013 and take effect from 6 April 2013, to allow further time to finalise the detail of the test. A summary of responses and draft legislation for consultation will be published after Budget 2012.

2.5 Ordinary residence – At Budget 2011, the Government announced its intention to reform ordinary residence with effect from April 2012. On 6 December 2011, following public consultation over the summer, the Government announced that the introduction of any reforms would be deferred until April 2013. At Budget 2012, the Government announced that ordinary residence will be abolished for tax purposes but overseas workday relief will be retained and placed on a statutory footing. A summary of responses will be published with draft legislation after Budget 2012 for consultation. Legislation will be in Finance Bill 2013 and have effect from 6 April 2013.

2.6 Statement of practice 1/09 (SP1/09) – As announced in the consultation on reform of non-domicile taxation in June 2011, the Government will put SP1/09 on a statutory footing. SP1/09 provides an administrative easement for employees who are resident but not ordinarily resident in the UK and have a single contract of employment covering duties carried out in the UK and overseas. The Government will consult on draft legislation which will be introduced in Finance Bill 2013 and will be effective from 6 April 2013. The existing SP1/09 will remain in force for the 2012-13 tax year.

2.7 CGT charge on non-resident non natural persons – The Government will consult on the introduction of a CGT charge on residential property owned by non resident, non natural persons. Legislation will be introduced in Finance Bill 2013 with the measure coming into effect in April 2013. This measure will be consulted on in conjunction with the SDLT enveloping annual charge for high-value residential properties.

2.8 Enterprise Management Incentives (EMI) – EMI is a share option scheme which allows small and medium sized businesses to grant tax-advantaged share options to employees. The Government will make reforms to the EMI scheme in Finance Bill 2013, subject to State aid approval:

- so that gains made on shares acquired through exercising EMI options on or after 6 April 2012 will be eligible for capital gains tax entrepreneurs' relief; and
- the Government will consult on ways to extend access to EMI for academics who are employed by a qualifying company.

2.9 Review of tax advantaged employee share schemes – The Government will consider the recommendations of the Office of Tax Simplification's review of tax advantaged share schemes, and will consult shortly on how to take a number of these proposals forward. Legislation will be in future finance bills.

2.10 Glasgow 2014 Commonwealth Games tax exemption – As announced on 26 January 2012, the Government will provide an exemption from UK taxation for money earned by non-resident athletes in relation to a performance at this event. Legislation will be in Finance Bill 2013.

2.11 Expenses of members of devolved administrations – Legislation will be introduced in Finance Bill 2013 to formalise aspects of the existing income tax treatment of travel and accommodation expenses incurred by Members of the Scottish Parliament, Welsh Assembly Members and Members of the Legislative Assembly on parliamentary or assembly duties. It will also introduce a new tax exemption for expenses incurred on travel by spouses or partners of devolved administration members where they share caring responsibilities for a dependant. These changes will have effect from 6 April 2013.

2.12 Company car tax rates 2015-16 and 2016-17 – In both 2015-16 and 2016-17, the appropriate percentages of the list price subject to tax will increase by two percentage points, to a maximum of 37 per cent. From April 2016, the Government will remove the three percentage point diesel supplement so that diesel cars will be subject to the same level of tax as petrol cars. From April 2015, the five year exemption for zero carbon cars and the lower rate for ultra low emission cars will come to an end as legislated in Finance Act 2010. The appropriate percentage for zero emission and all low carbon cars emitting less than 95g of carbon dioxide per kilometre will be 13 per cent in 2015-16, and will increase by two percentage points in 2016-17. Legislation will be in a future Finance Bill.

2.13 Pensions tax relief – Legislation will be introduced in Finance Bill 2013 to amend the rules which currently allow employers to pay pension contributions into their employees' family members' pensions as part of their employees' remuneration package to remove the tax and NICs advantages from these arrangements. A regulation making power will also be introduced to allow changes to be made to the lifetime allowance fixed protection legislation. Technical improvements will also be made to the annual allowance rules through secondary legislation.

2.14 Pensions tax: abolition of contracting out – Contracting out through a defined contribution scheme will be abolished from 6 April 2012. Legislation will be introduced in Finance Bill 2013 to bring tax legislation into line with Department for Work and Pensions legislation.

2.15 Bridging pensions – Legislation will be introduced in Finance Bill 2013 to amend the pensions tax legislation for bridging pensions to reflect the changes in state pension age. A power will also be created to allow for regulations to be made changing the tax rules on bridging pensions to fit with any further changes to state pension rules.

2.16 Qualifying Recognised Overseas Pensions Schemes (QROPS) – Changes in primary legislation will be introduced in Finance Bill 2013 to strengthen reporting requirements and powers of exclusion relating to the QROPS regime. They will support the changes in secondary legislation published for consultation on 6 December 2011. The Government also announced that where the country or territory in which a QROPS is established makes legislation or otherwise creates or uses a pension scheme to provide tax advantages that are not intended or available under the QROPS rules, the Government will act so that the relevant types of pension scheme in those countries or territories will be excluded from being QROPS.

2.17 Transfer of assets abroad and gains on assets held by foreign companies – The Government will propose amendments in Finance Bill 2013 to two pieces of legislation designed to protect the UK tax base. These are contained in sections 714 to 751 of the Income Tax Act 2007 (transfer of assets abroad) and section 13 of the Taxation of Chargeable Gains Act 1992 (gains on assets held by foreign companies closely controlled by UK participators). The Government will publish a consultation including draft legislation after the Budget.

2.18 Inheritance tax: spouses and civil partners domiciled outside the UK – The Government will consult on legislation to increase the IHT-exempt amount that a UK domiciled individual can transfer to their non UK domiciled spouse or civil partner. The Government similarly proposes to allow individuals who are domiciled outside the UK and who have a UK domiciled spouse or civil partner to elect to be treated as domiciled in the UK for the purposes of IHT. Legislation will be in Finance Bill 2013.

2.19 Income tax rules on interest – The Government will consult on changes to the income tax rules on the taxation of interest and interest-like returns, and the rules on the deduction of tax at source from such amounts. Following the consultation period there will be further opportunities to contribute to the development of policy. Any legislation will be in Finance Bill 2013.

2.20 Heritage maintenance funds (HMF) – The Government will introduce legislation in Finance Bill 2013 to ease a restriction for trusts that are HMFs and which have deferred, or may defer, capital gains tax charges arising from the re-settlement of assets from one to another. This will apply with retrospective effect to April 2012 and will be subject to informal consultation.

2.21 Inheritance tax: periodic charges on trusts – The Government will consult on simplifying the calculation of IHT periodic and exit charges for trusts. Legislation will be in Finance Bill 2013.

2.22 Community Investment Tax Relief (CITR) – The Government will introduce legislation in Finance Bill 2013 to relax the CITR on-lending requirements that currently place conditions on the speed with which Community Development Finance Initiatives must on-lend the funding they receive, and introduce new rules to allow investors to carry unused relief forward.

2.23 Personal Independence Payment (PIP): tax reliefs – PIP will replace Disability Living Allowance (DLA) from 2013-14. A number of tax reliefs are available to people in receipt of DLA. The Government will publish draft legislation in the autumn on how those reliefs will apply to PIP claimants; and to help inform decisions in relation to trusts for vulnerable and disabled people will consult over the summer on how they are best defined.

2.24 Income tax and NICs reform – The Government announced in Budget 2011 that it would consult on the options, stages and timing of reforms to integrate the operation of income tax and NICs. Since then, the Government has issued a call for evidence, published a response and set out an indicative timetable for reform in *Integrating the operation of income tax and National Insurance contributions: Next steps*. Following detailed work with interested parties over recent months, the Government will consult shortly after Budget 2012 on a broad range of options for employee, employer and self employed NICs.

Corporate tax

2.25 Corporation tax rates – Legislation will be introduced in Finance Bill 2013 to reduce the main rate of corporation tax for non ring fence profits to 22 per cent for the Financial Year commencing 1 April 2014. A Tax Information and Impact Note for this measure is available at Annex A.

2.26 Research and development (R&D) tax credits – As announced at the Autumn Statement 2011, the Government intends to introduce an 'above the line' R&D tax credit in Finance Bill 2013 to encourage R&D activity by larger companies. The Government will consult on the detail but will ensure that SME R&D incentives are not reduced as a result of this change.

2.27 Corporation tax reliefs for the creative sector – The Government will introduce corporation tax reliefs for the production of culturally British video games, television animation programmes and high end television productions. Consultation on the design will take place over the summer. Legislation will be in Finance Bill 2013 and will take effect from 1 April 2013, subject to State aid approval.

2.28 First year capital allowances for gas refuelling equipment – Legislation will be introduced in Finance Bill 2013 to extend the 100 per cent first year capital allowance for plant and machinery used in gas, biogas and hydrogen refuelling stations for two years beyond the current expiry date, to 31 March 2015.

2.29 First-year capital allowances for low emission cars – Legislation will be introduced in Finance Bill 2013 to extend the 100 per cent first year capital allowance for businesses purchasing low emission cars for two years beyond the current expiry date of 31 March 2013, except for leased cars. The qualifying threshold will also be reduced to 95g/km driven from the same date, to match EU emissions targets for 2015.

2.30 Capital allowances: emissions threshold for a main rate car – Legislation will be introduced in Finance Bill 2013 to reduce the threshold for a main rate car to 130g/km, to match EU emissions targets for 2020, and the associated lease rental restriction will also be revalorised in line with this change. These changes will have effect from 1 April 2013 (for businesses in the charge to corporation tax) or 6 April 2013 (for businesses in the charge to income tax).

2.31 Tax credits for expenditure on environmentally beneficial plant or machinery – Legislation will be introduced in Finance Bill 2013 to extend the availability of first-year tax credits, for companies surrendering losses attributable to their expenditure on designated energy-saving or environmentally beneficial plant or machinery, for a further five years from 1 April 2013.

2.32 Tax simplification for small businesses – Following the Office of Tax Simplification review of small business taxation, the Government will consult on introducing a voluntary cash accounting basis for unincorporated businesses up to the VAT registration threshold, with a view to introducing legislation in Finance Bill 2013. It will also consult on a simplified expenses system for business use of cars, motorcyles and home. Finally, the Government will also consult on proposals to introduce a disincorporation relief. The consultation will look at the potential demand for such a relief as well as the practicalities of how it would work.

2.33 Lease premium relief – The Government will consult on an informal basis on the potential implications of amending a complex element of lease premium relief, concerning the deemed tax treatment of long leases as shorter leases. Any legislation will be in Finance Bill 2013.

2.34 Life insurance: Qualifying Policies – The Government has announced that it will limit the premiums that can be paid into qualifying life insurance policies each year with effect from 6 April 2013. Policies issued on or after this date will only be Qualifying Policies where the premiums payable for an individual into a policy or policies do not exceed £3,600 each year. Transitional provisions will also apply to qualifying policies issued on or after 21 March 2012 and before 6 April 2013, and before 21 March 2012 where certain variations are made after this date. These provisions will ensure that income tax relief continues to apply to benefits from these policies but only in respect of the premiums paid before 6 April 2013 and premiums paid up to the limit on or after this date. This measure will be the subject of formal consultation with legislation to be introduced in Finance Bill 2013. A Technical Note with further detail about this measure is available on the HMRC website.

2.35 Life insurance policies – The Government will consult on reforming the time apportionment rules in the chargeable event gain regime that reflect a policyholder's period of residence outside the UK. Any legislation will be in Finance Bill 2013.

2.36 Foreign currency assets and corporate chargeable gains – The Government will consult over the summer on whether to introduce a rule allowing companies with a non-sterling functional currency to compute their capital gains and losses in their functional currency. It aims to provide simpler and fairer tax treatment, as well as reducing administrative burdens for the companies impacted. Any legislation will be in Finance Bill 2013.

2.37 Corporation tax: NHS bodies – Following changes to be introduced by the Health and Social Care Bill, the Government will legislate in Finance Bill 2013 to exempt certain NHS bodies from corporation tax.

2.38 Oil and gas: decommissioning certainty – The Government will introduce legislation in Finance Bill 2013 giving it statutory authority to sign contracts with companies operating in the UK and UK Continental Shelf, to provide assurance on the relief they will receive when decommissioning assets. The Government will consult further on the precise form and details of such contracts in the coming months.

2.39 Real Estate Investment Trusts (REITs) – The Government will consult on:

- the role REITs can play in supporting the social housing sector; and
- whether to change the treatment of income received by a REIT when it invests in another REIT.

Any legislation will be in Finance Bill 2013.

Indirect tax

2.40 Remote gambling – The Government will introduce a place of consumption based taxation regime for remote gambling. This follows a review of remote gambling taxation announced on 18 July 2011. Under the revised taxation regime, operators will pay tax on gambling profits generated from customers in the UK, whether the supplier is in the UK or elsewhere. A consultation on detailed design characteristics will follow shortly after Budget 2012. Legislation will be introduced in a future finance bill and the measure is planned to be introduced in December 2014, although the implementation date will be kept under review.

2.41 Combined bingo – Subject to consultation the Government will relax the current bingo duty arrangements for combined bingo involving non-UK participants. An informal consultation will start in June and any legislation will be introduced in Finance Bill 2013.

2.42 Alcohol fraud – The Government will consult on alcohol anti-fraud measures, including the introduction of fiscal marks for beer, supply chain legislation and a licensing scheme for wholesale alcohol dealers. Any legislation will be introduced in a future finance bill.

2.43 Herbal smoking products – The Government will bring the tax treatment of legally available herbal smoking products in line with the treatment of those containing tobacco. A consultation will be published shortly after the Budget and legislation will be in Finance Bill 2013.

2.44 Aviation tax: rates – Legislation will be introduced in Finance Bill 2013 to increase air passenger duty rates in line with RPI from 1 April 2013.

2.45 Vehicle excise duty (VED) administration – The Government will introduce legislation in Finance Bill 2013 to:

- extend the amount of time that a tax disc does not have to be displayed following the payment of tax from five working days to 14 days; and
- allow additional days on nil rate VED licences, to deregulate licensing for vehicle leasing businesses.

2.46 Aggregates levy rate – At Budget 2011, the Government announced that the rate of aggregates levy would increase from £2.00 to £2.10 per tonne from 1 April 2012. Budget 2012 delayed the planned increase until 1 April 2013. This will avoid putting additional pressure on the aggregates industry in Northern Ireland, following the suspension of the aggregates levy credit scheme. Legislation will be in Finance Bill 2013.

2.47 VAT: reduced rate for energy-saving materials in charitable buildings – Charitable buildings, i.e. buildings that are used by charities for non-business purposes, and/or as village halls, will be removed from the scope of the reduced rate of VAT for the supply and installation of energy-saving materials. The reduced rate of VAT will continue to apply to the supply and installation of energy-saving materials in residential accommodation, including accommodation operated by charities. Legislation will be introduced in Finance Bill 2013.

2.48 VAT: zero rate for adapted motor vehicles and boats for wheelchair users – The Government will introduce a voluntary disclosure scheme to gather further information about the use of the VAT zero rate relief on the supply of motor vehicles and boats adapted for use by wheelchair users. The relief is open to wide interpretation, difficult for suppliers to administer and vulnerable to abuse.

2.49 VAT: fuel scale charges – The Government will consult on legislation to be introduced in Finance Bill 2013 to give effect to extra statutory concessions relating to fuel scale charges and the proposal that the revalorised fuel scale charges will be set out in an annual public notice having the force of law instead of an annual statutory instrument.

2.50 VAT: refunds for NHS bodies – Following changes to be introduced by the Health and Social Care Bill, the Government will introduce legislation in Finance Bill 2013 to include certain NHS bodies within the Section 41 VAT Refund Scheme.

2.51 VAT: invoicing rules – Following changes made by the EU Invoicing Directive, secondary legislation will be introduced to simplify the VAT invoicing rules, with effect from 1 January 2013.

2.52 VAT: Universal Credit consequential changes – The rules governing the VAT zero and reduced rates will be amended to ensure claimants of Universal Credit (UC) get the same VAT relief as those who are claiming the benefits that the UC replaces. These changes will be introduced by statutory instrument with effect from 1 April 2013.

2.53 VAT: exemption for education providers – The Government will consult on and review the VAT treatment of education, particularly at university degree level, to ensure that commercial universities are treated fairly.

2.54 VAT: freight transport services - The Government will introduce secondary legislation in autumn 2012 to formalise the temporary arrangements under which supplies of freight transport and related services taking place wholly outside the EU are not liable to UK VAT when performed for UK businesses and charities.

2.55 VAT treatment of small cable-based transport – The rate of VAT applicable to the carriage of passengers on small cable-based transport will be reduced from 20 to 5 per cent with effect from 2013. This will apply where vehicles carry fewer than 10 people each, as transport in larger vehicles is zero-rated. This reduction will be evaluated after three years. Consultation on implementation, impact, administrative burdens and proposals for evaluation will take place in summer 2012.

2.56 Enveloping annual charge for high-value residential properties – The Government will consult on the introduction of an annual charge on properties over £2 million owned by certain non-natural persons. Legislation will be introduced in Finance Bill 2013 with the measure coming into effect in April 2013.

2.57 Stamp duty land tax (SDLT): leases simplification – The Government will explore ways of simplifying the complex rules that apply to lease arrangements that involve an abnormal rent increase, the substantial performance of an agreement for lease or a lease that continues after a fixed term. Informal consultation will take place through the SDLT working group, commencing in April 2012. Any legislation will be in Finance Bill 2013.

Anti-avoidance

2.58 General anti-abuse rule (GAAR) – The Government accepts the recommendation of the Aaronson Report, published on 11 November 2011, that a GAAR targeted at artificial and abusive tax avoidance schemes would improve the UK's ability to tackle tax avoidance whilst maintaining the attractiveness of the UK economy as a location for genuine business investment. The Government will consult on: new draft legislation which will be based on the recommendations of the Aaronson Report; establishment of the Advisory Panel; and the development of full explanatory guidance. In addition it will extend the GAAR to SDLT. The consultation will be issued in summer 2012 with a view to introducing legislation in Finance Bill 2013. The Government is committed to ensuring that this legislation effectively tackles abusive tax avoidance and that the supporting guidance is practical both for taxpayers and for HMRC.

2.59 Manufactured payments – On 15 September 2011, the Government announced its intention to legislate to block a tax avoidance scheme involving manufactured overseas dividends, a type of manufactured payment. At the same time it announced that it would consult on proposals to simplify the manufactured payments tax rules, as part of its rolling review of high risk areas of the tax code. A consultation will be published after Budget and there will be further opportunities for interested parties to contribute to development of the policy. If legislation follows in Finance Bill 2013 it will not have effect before Royal Assent to Finance Bill 2013.

2.60 Review of the taxation of unauthorised unit trusts – Following consultation on reforms to the tax rules for unauthorised unit trusts in 2011, the Government will issue a further consultation in April 2012, which sets out detailed proposals for change. Legislation will be in Finance Bill 2013.

2.61 Personal services companies and IR35 – The Government is bringing forward a package of measures to tighten up on avoidance through the use of personal service companies and to make the existing IR35 legislation easier to understand. This will include HMRC strengthening specialist compliance teams, simplifying the way IR35 is administered, and consulting on proposals which would require office holders/controlling persons who are integral to the running of an organisation, to have PAYE and NICs deducted at source.

Tax administration

2.62 Simplification of regulatory penalties – Following consultation in June 2011, the Government intends to introduce a new power in Finance Bill 2013 to increase the value of fixed penalties in line with inflation. In addition, a small number of defunct penalties will be repealed. The Government has decided that the benefits of simplifying regulatory penalties are not sufficient to justify the cost of major reform.

2.63 Withdrawing a notice to file a self-assessment tax return – HMRC will consult later this year on new legislation to enable them to withdraw a notice to file a Self Assessment (SA) tax return in appropriate cases. Legislation will be in Finance Bill 2013.

2.64 PAYE late payment and filing penalties – HMRC will consult before the summer on new models for late payment and late filing penalties under Real Time Information. Legislation will be in Finance Bill 2013.

2.65 Information powers – The Government announced on 8 February 2012 that it has agreed to work with the governments of France, Germany, Italy and Spain to facilitate exchange of information between financial institutions and the US Internal Revenue Service for the purposes of the US Foreign Account Tax Compliance Act (FATCA), which aims to combat cross-border tax evasion. HMRC will consult with the financial institutions affected about how this can be done, with a view to legislation in Finance Bill 2013.

2.66 Criminal investigations – Legislation will be introduced in Finance Bill 2013 to allow HMRC officers undertaking criminal investigations into direct tax or tax credits (former Inland Revenue) offences to:

- seize suspected criminal cash under the Proceeds of Crime Act 2002 (POCA); and
- exercise POCA search and seizure warrants.

This will bring the powers into line with those for indirect taxes and duties.

2.67 Customs and excise modernisation – Following consultation, the Government will update legislation in relation to detention and definition of goods and the size of penalties for smuggling on ships. Legislation will be in Finance Bill 2013.

A Tax Information and Impact Notes: Introduction

A.1 Tax Information and Impact Notes (TIINs) are designed to provide a clear statement of changes the Government proposes making to the tax system, including why it proposed the change and what it expects the impacts of the change to be. A TIIN is published for most tax policy changes at the point at which the policy design is final or near final. Depending on the nature of the policy change, a TIIN could be published alongside the Budget, draft legislation or final legislation. The Government will produce a TIIN for the majority of substantive changes in tax and NICs policy by primary and secondary legislation.

A.2 The TIINs published in this document are for measures that fall into the following categories:

- new tax changes announced in Budget 2012 for inclusion in Finance Bill 2012;
- tax changes that will be legislated for in Finance Bill 2012 that have been previously announced, but where a change in policy or legislation is substantive; and,
- new tax changes announced in Budget 2012 but planned for Finance Bill 2013 or beyond where the changes are straightforward and will no be subject to more detailed consultation.

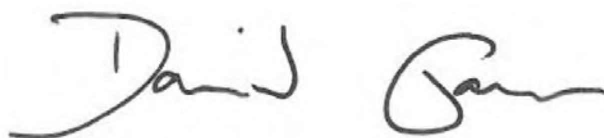
Impact of policy changes

A.3 The tax changes contained in this document have been tested against the list of possible impacts used in regulatory impact assessments. Except where specified, the commentary on these is recorded under the "other impacts" section of the TIIN. Those tests which result in no impact have not been recorded. The full list of these 'other' impacts against which each policy has been tested is as follows:

- equality;
- competition;
- small firms;
- carbon emissions;
- wider environment;
- health;
- sustainable development;
- rural proofing;
- justice; and privacy.

Ministerial sign-off for Tax Information and Impact Notes

I can confirm that Treasury Ministers have read the attached Tax Information and Impact Notes and are satisfied that, given the available evidence, each represents a reasonable view of the likely costs, benefits and impacts of the measures.



David Gauke MP

Exchequer Secretary to the Treasury

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Income Tax Rates 2013-14

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

The measure sets the main rates of income tax, for 2013-14, at 20 per cent for basic rate, 40 per cent for the higher rate and 45 per cent for additional rate.

The dividend additional rate will be set at 37.5 per cent, the trust rate will be set at 45 per cent and the dividend trust rate will be set at 37.5 per cent.

The charge on benefits paid to non-individuals under and employer-financed retirement benefits scheme will reduce from 50 per cent to 45 per cent. Where capital sums are deemed to be income of a settlor, the rate of tax taken as paid by the trustees will also reduce from 50 per cent to 45 per cent.

Policy objective

Maintaining the basic and higher rate of income tax at 20 per cent and 40 per cent respectively creates a stable environment in which the majority of taxpayers can plan for the future.

The additional rate will be reduced from 50 per cent to 45 per cent to improve the competitiveness of the UK, encourage entrepreneurship and support growth.

Background to the measure

The 50 per cent additional rate of tax was applied from 2010-11.

The Chancellor has been clear that the additional rate of tax would be temporary and that such a high top rate of tax risks damaging the UK's economy in the longer-term.

The Chancellor asked HM Revenue and Customs (HMRC) to assess the revenue from the 50 per cent additional rate of income tax, the results of which were published alongside the 2012 Budget.

Other tax rates increased in line with the highest rate of income tax, so for consistency purposes, these rates will be reduced in line with the highest rate of income tax.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2013.

Current law

Section 4 of Income Tax Act 2007 (ITA) provides that income tax is an annual tax, re-imposed each year. Section 6 of ITA provides that there are three main rates of income tax: the basic rate, the higher rate and the additional rate. Section 6 also provides that these main rates are set by Parliament for a tax year.

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2011 provides that for 2011-12, the basic rate is 20 per cent, the higher rate is 40 per cent and the additional rate is 50 per cent.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to provide for income tax and the main tax rates for 2012-13. The basic rate of income tax will be set at 20 per cent; the higher rate will be set at 40 per cent; the additional rate of income tax will be set at 50 per cent.

Legislation will be introduced in Finance Bill 2012 to also provide the main tax rates for 2013-14. The basic rate of income tax will be set at 20 per cent; the higher rate will be set at 40 per cent; the additional rate will be set at 45 per cent.

Legislation will be introduced in Finance Bill 2013 to provide for the income tax charge for 2013-14.

Summary of impacts

		2012-13	2013-14	2014-15	2015-16	2016-17
Exchequer impact (£m)	Yield	nil	-50	-100	-100	-110
	Forestalling impact	-2,400	900	1,710	-370	nil
	The yield figures are set out in Table 2.1 of Budget 2012 and along with the forestalling impacts have been certified by the Office for Budget Responsibility. More detail on the yield and forestalling impact can be found in HMRC's *Exchequer effect of the 50 per cent additional rate of income* document published on 21 March 2012.					
Economic impact	A decrease in the additional rate of income tax from 50 per cent to 45 per cent will improve the competitiveness of the UK, encourage entrepreneurship and support growth.					
Impact on individuals and households	This measure will impact upon the 330,000 individuals with incomes above £150,000 who will see a reduction in their tax liability. The impact on an individual and their household will depend upon their personal circumstances.					
Equalities impacts	In 2013-14, women are projected to account for 43 per cent of all taxpayers. From this measure, HMRC project that of the 330,000 people who have incomes above £150,000: 15 per cent will be women; 37 per cent are estimated to be aged between 40 and 49; and a further 26 per cent estimated to be aged between 50 and 59.					
Impact on business including civil society organisations	Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HMRC.					
Operational impact (£m) (HMRC or other)	Operational impact will be minimal as the changes can be implemented as part of the normal annual cycle of systems changes with minimal marginal costs.					

Other impacts	Small firms impacts test: This change will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website. This is provided free of charge and will contain the new amounts which will minimise the burden on employers if they choose to take advantage of it. Small businesses will need to acquaint themselves with the rates. For those businesses which do not have access to computers or payroll software, HMRC will provide manual tables.

Monitoring and evaluation

HMRC and HM Treasury will seek to assess the impact of this measure in line with other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

Income Tax Personal Allowance for Those Aged Under 65, Basic Rate Limit and Upper Earnings Limit for 2013-14

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

For 2013-14, the measure will increase the personal allowance (currently available to those aged under 65) to £9,205 and reduce the basic rate limit to £32,245.

The National Insurance contributions Upper Earnings Limit and Upper Profits Limit will continue to be aligned with the level of the higher rate threshold (the total of the personal allowance and the basic rate limit) by separate regulations.

Policy objective

The increase to the personal allowance, which from 2013-14 will be available to those born after 5 April 1948. This furthers the Government's stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax.

The reduction to the basic rate limit is designed so that most higher rate taxpayers will get one quarter of the benefit from the personal allowance that a typical basic rate taxpayer will receive.

Background to the measure

For 2011-12 the personal allowance was increased by £1,000 to £7,475. For 2012-13, the personal allowance will be increased by £630 to £8,105. The cash increase of £1,100 to £9,205 in 2013-14 is the next step towards the Government's longer-term commitment to increase the personal allowance to £10,000.

For 2011-12, the basic rate limit was reduced by £2,400 to £35,000 to target the benefit on basic rate taxpayers. For 2012-13, the basic rate limit will be reduced by £630 so that most higher rate taxpayers receive the same benefit as basic rate taxpayers. For 2013-14, the basic rate limit will be reduced by £2,125 to £32,245. Taken together with the increase to the personal allowance and the reduction to the Upper Earnings Limit and Upper Profits Limit, most higher rate taxpayers will receive one quarter of the benefit that basic rate taxpayers will receive.

Detailed proposal

Operative date

The measure will take effect on and after 6 April 2013.

Current law

The annual Finance Act provides the charge and main income tax rates (the basic rate, higher rate and additional rate). Section 1 of Finance Act 2011 provides for income tax and sets the main tax rates for 2011-12. Section 2 of Finance Act 2011 sets the basic rate limit at £35,000 for 2011-12. Section 3 of Finance Act 2011 sets the personal allowance for those aged under 65 at £7,475 for 2011-12.

The Finance Bill 2012 will set the personal allowance for those aged under 65 at £8,105 and the basic rate limit at £34,370 for 2012-13.

Existing legislation requires the Government to increase personal allowances and rate limits (except the £100,000 income limit and the higher rate limit) by the annual percentage increase in the Retail Prices Index to the September preceding the new tax year. This is often referred to as "indexation". The amounts are set by an Indexation Order. The Government made the Order for 2012-13 on 6 December 2011. The legislation to be introduced in Finance Bill 2012 will over-ride the amounts set in the Order for the personal allowance for those aged under 65 and the basic rate limit.

Proposed revisions

For 2013-14, the personal allowance will be £9,205 and the basic rate limit will be £32,245. The personal allowance will be available to people born after 5 April 1948. These provisions will be included in Finance Bill 2013.

Finance Act 2011 and Finance Bills 2012 and 2013 will provide the following amounts:

	2011-12	2012-13	2013-14
Personal allowance for those aged under 65[A]	£7,475	£8,105	£9,205
Basic rate limit	£35,000	£34,370	£32,245

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	-3,320	-3,450	-3,510	-3,580
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2012.				
Economic impact	This measure will reduce income tax for low and middle income individuals, improving incentives to enter employment and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. Overall employment outcomes will also depend on other measures announced at Budget relating to personal tax as well as aggregate labour demand and the performance of the wider economy.				

A Up to and including 2012-13, the amount of an individual's personal allowance depends upon their age and their income in the tax year. From 2013-14, the amount of an individual's personal allowance depends their date of birth and their income in the tax year.

Impact on individuals and households	The increase in the personal allowance will remove 840,000 individuals out of income tax altogether in 2013-14. The increase will provide a real terms gain of £170 to most basic rate taxpayers and £42.50 to most higher rate taxpayers in 2013-14. 23.6 million individuals will benefit in total. 1.8 million individuals will have an average loss of £185 a year. This includes those with incomes above £118,410, whose personal allowance will be reduced to zero, and therefore will not benefit at all from the increase to the personal allowance (around 520,000 individuals). There will also be other taxpayers with incomes between £41,450 and £118,410 whose tax loss is not offset by the reduction in the NICs Upper Earnings Limit. In addition, 300,000 will be brought into the higher rate of tax.
Equalities impacts	In 2013-14, women are projected to account for 43 per cent of all taxpayers. As a result of this measure, 45 per cent of the 23.6 million people better off will be women; 59 per cent of the 840,000 individuals taken out of tax will be women; 24 per cent of the 1.76 million individuals worse off will be women. These changes will also have a beneficial impact on people who are entitled to the age-related allowances, but whose incomes reduce their age-related allowance to the amount of the personal allowance, which from 2013-14 will be available to those born after 5 April 1948. In 2013-14, individuals aged 65 and over are projected to account for 17 per cent of all taxpayers. As a result of this measure, 2 per cent of the 23.6 million people better off will be aged 65 and over and 25 per cent of the 1.76 million individuals worse off will be aged 65 and over.
Impact on business including civil society organisations	Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HMRC.
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible because changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	Small firms impact test: This measure will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website. This is provided free of charge and will include the new amounts, which will minimise the burden on employers if they choose to take advantage of it. Small businesses will need to acquaint themselves with the new limits and thresholds. For those businesses that do not have access to computers or payroll software, HMRC will provide manual tables.

Monitoring and evaluation

A key aim of this policy is to boost the rewards of employment and HMRC and HM Treasury will seek to assess the cumulative labour market effects of increases to the personal allowance in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

Income Tax: Changes to the Higher Personal Allowances for People Aged 65 to 74 and Aged 75 and Over

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

From 2013-14, the availability of the "age-related" income tax personal allowances will be restricted. The allowance of £10,500 for 2012-13, available to people aged 65 to 74 will be restricted to people born after 5 April 1938 but before 6 April 1948. The allowance of £10,660 for 2012-13, available to people aged 75 and over will be restricted to people born before 6 April 1938.

From 2013-14, the amounts of these allowances will not be increased.

From 2013-14, people born after 5 April 1948 will be entitled to a personal allowance of £9,205 for 2013-14.

Policy objective

This measure will support the goal of a single personal allowance for all taxpayers regardless of age, and spread tax relief fairly across working age people and pensioners. These changes will simplify the system and reduce the number of pensioners in self assessment.

Background to the measure

This measure was announced at Budget 2012.

Detailed proposal

Operative date

These changes will apply from the 2013-14 tax year, commencing 6 April 2013.

Current law

Section 35 of the Income Tax Act 2007 (ITA) provides a personal allowance for people aged under 65. Sections 36 and 37 of ITA respectively, provide higher personal allowances for people aged 65 to 74 (£10,500 for 2012-13) and aged 75 and over (£10,660 for 2012-13).

These higher allowances are subject to an income limit. Where an individual's income exceeds an income limit, their personal allowance is reduced by £1 for every £2 above the income limit. However, the personal allowance for someone aged 65 to 74 and aged 75 and over is not reduced below the amount of the personal allowance for people aged under 65 (£8,105 for 2012-13). There is an exception for people with incomes exceeding £100,000, where a separate reduction applies to the individual's personal allowance, regardless of their age.

Section 57 of ITA requires the Government to increase personal allowances by the annual percentage increase in the Retail Prices Index for the year to September preceding the start of the new tax year ("indexation").

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to provide that from the 2013-14 tax year:

- people born after 5 April 1948 will be entitled to a personal allowance of £9,205 for 2013-14;
- people born after 5 April 1938 but before 6 April 1948 will be entitled to a personal allowance of £10,500;
- people born before 6 April 1938 will be entitled to a personal allowance of £10,660.

The indexation provisions will not apply to the personal allowances for people born before 6 April 1948.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>nil</td><td>+360</td><td>+670</td><td>+1,010</td><td>+1,250</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure will gradually reduce real disposable incomes for affected households over time. The overall macroeconomic impacts on employment, consumption and savings are expected to be minimal.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There will be no cash losers from this measure.

In 2013-14, 4.41 million people will be worse off in real terms with an average loss of £83. Within the total, 360,000 individuals aged 65 lose an average £285, reflecting the changes in entitlement to age-related allowances. 230,000 people will be brought into income tax.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Without these changes, it is projected that in 2013-14, there will be 3.17 million people aged 65 to 74 and 1.95 million people aged 75 and over who will be liable to income tax in 2013-14. Of these populations, women are projected to comprise 1.01 million (32 per cent) in the 65 to 74 age group and 810,000 (42 per cent) in the 75 and over age group.

In 2013-14, 4.41 million people aged 65 and over will be worse off compared to 2012-13 when RPI indexation to the age-related allowances is taken into account. Of these populations, women are projected to comprise 930,000 (35 per cent) in the 65 to 74 age group and 780,000 (44 per cent) in the 75 and over age group.

There are an estimated 360,000 losers aged 65 with an average loss of £285, of which females represent 42 per cent.

In 2013-14, 230,000 people will be brought into income tax, of which 50 per cent are female.</td></tr>
</table>

Impact on business including civil society organisations	Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HM Revenue & Customs (HMRC).
Operational impact (£m) (HMRC or other)	HMRC estimates that there will be a one-off IT cost of approximately £175,000. There will be changes in the number of people who complete a self assessment tax return because they have incomes in the taper range (the range for which the allowances are tapered down as income rises). Overall, the operational impact on HMRC is likely to be negligible. Simplification will provide savings in the longer-term.
Other impacts	Small firms impact test: This change will have a minimal impact on small firms. To minimise the impact on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website. This is provided free of charge and will contain the new amounts which will minimise the burden on employers if they choose to take advantage of it. Small businesses will need to acquaint themselves with the new amounts. For those businesses which do not have access to computers or software, HMRC will provide manual tables.

Monitoring and evaluation

The policy will be monitored through information collected from tax receipts alongside other measures in the Government's package for personal taxes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

HM Revenue & Customs

Enterprise Investment Scheme and Venture Capital Trusts: Simplification

Who is likely to be affected?

Companies raising money under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) and individuals investing under those schemes.

General description of the measure

This measure will amend the EIS to:

- relax the rules defining when a person is connected to a company through an interest in its capital;
- widen the definition of shares which qualify for relief; and,
- remove the £500 minimum investment limit.

It will also remove the £1 million limit on investment by a VCT in a single company (except for companies in a partnership or a joint venture).

Policy objective

The aim of the EIS and VCT schemes is to help smaller, riskier UK companies to compete for equity finance, recognising a market failure in the supply of such finance.

The measure simplifies the rules of the schemes making them easier for companies, VCTs and investors to use.

Background to the measure

The Government announced its intention to consult on simplification of the scheme in Budget 2011; and a consultation document, *Tax-advantaged venture capital schemes: a consultation* was published on the Treasury website on 6 July 2011.

The measure takes account of views expressed in the consultation.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The changes to EIS will apply to shares issued on or after 6 April 2012. The change to the VCT scheme will apply to shares issued on or after 1 April 2012.

Current law

The EIS is in Part 5 of the Income Tax Act (ITA) 2007.

Within that part, the rule defining when an individual is "connected" to a company (and so not eligible under EIS for relief on investment in the company) is at section 170 ITA. In particular, it provides that an individual must not possess or be entitled to acquire more than 30 percent of the loan capital and issued share capital of the company (s170(1)(b)).

The rule defining the type of shares which can qualify for relief under the scheme is at section 173 ITA. It provides (at s173(2)) that the shares must not be entitled to any present or future preferential rights to dividends.

The rule relating to the minimum investment limit is at section 157(2) ITA. It provides that to be eligible for EIS relief in respect of an amount subscribed for shares issued by the issuing company in a tax year, the investor must have subscribed at least £500 for shares in that company.

The Venture Capital Trust Scheme is in Part 6 of ITA 2007.

Within that part, the rules defining what investments, by a VCT, in a company, count as "qualifying holdings" are in Chapter 4. In particular, section 287 - the "maximum qualifying investment requirement" - provides that in any period, up to £1million may be invested by a VCT in a company as part of the VCT's qualifying holdings. If the company is a member of a partnership or joint venture, this amount is divided between the members so that the partnership or joint venture as a whole cannot receive more than £1million of investment.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to:

- disregard loan capital for the purposes of the limit on the proportion of a company's capital which an investor can hold without being treated as "connected";
- allow shares to carry a preferential right to dividends providing their amount and the date that they are payable is not dependent on a decision of the company, the holder or anyone else, and providing that the dividends are not cumulative;
- remove the £500 minimum investment limit; and,
- remove the £1 million limit for VCT investment for companies not in partnership.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The changes in this measure will make it easier for companies and individuals to benefit under EIS and VCTs and therefore easier for companies to raise equity for investment and growth.				
Impact on individuals and households	Individual investors investing under EIS and VCTs will benefit from these simplifications to the rules of the schemes. The removal of the minimum investment limit will increase the number of investors able to invest small amounts. Around 10,000 individuals invested through EIS in 2008-09, the last year for which figures are available, and around 6,300 through VCTs.				
Equalities impacts	Compared to the self-assessment population, EIS investors tend to be male, located in the South of England and have higher overall income levels. The changes to the schemes are not likely to change that position. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.				

Impact on business including civil society organisations	The simplification proposals set out here are deregulatory overall although the level of any savings will be small. (There may be a one-off administrative impact in familiarisation with the new rules, though this is expected to be negligible.) HM Revenue & Customs operates an advance assurance system for the schemes under which companies can seek advice before making a share offer and this will assist companies in using the new definition of eligible shares. (Shares which would have previously qualified will continue to do so.) The removal of the minimum investment limit may assist companies in attracting investment via alternative sources such as crowdfunding organisations. Around 2,000 companies raise funds under EIS each year and in total around 1,600 through VCTs for all years up to 2007-08.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating forms and guidance.
Other impacts	Small firms impact test: The EIS is designed to incentivise investment in smaller companies. The changes being introduced are based on consultation with this sector and should have a positive effect. Competition assessment: The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment, are regularly monitored, and published as National Statistics.

Further advice

If you have any queries about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).

HM Revenue & Customs

Enterprise Investment Scheme and Venture Capital Trusts: Increases to Thresholds

Who is likely to be affected?

Companies raising money under the Enterprise Investment (EIS) and Venture Capital Trust (VCT) schemes, and individuals investing under the schemes.

General description of the measure

This measure will increase the annual amount that an individual can invest under the EIS.

Subject to State aid approval, legislation will also be introduced in Finance Bill 2012 to increase:

- the thresholds for the maximum size of qualifying company for both EIS and VCTs; and,
- the maximum annual amount that can be invested in an individual company under all the venture capital schemes.

To ensure compliance with State aid obligations, the legislation will also cap the amount of investment which a company may receive under the schemes, where it has received other State-aided risk capital investment in the preceding 12 months.

Policy objective

The aim of this measure is to help smaller, riskier UK companies, which face barriers in raising external equity finance, to compete for finance, making it easier for these companies to be established and to grow.

Background to the measure

Budget 2011 announced a number of changes to the EIS and VCT rules, including increases to the company size limits, the rate of EIS income tax relief and the annual EIS investment limit, as well as proposals to focus the reliefs better and simplify the rules, which were consulted on in summer 2011.

State aid approval for the increases in the rate of EIS relief and the EIS annual amount was received in September 2011.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The increases to the company size limits, and the annual amount of investment that a company may receive will, subject to State aid approval, have effect for investee company shares issued on or after 6 April 2012.

The increase in the annual amount that an individual can invest under the EIS has already received State aid approval and will apply to the tax year 2012-13 and subsequent years.

Current law

The EIS and VCT legislation is in Parts 5 and 6 (respectively) of the Income Tax Act (ITA) 2007.

The limit (currently £500,000) on the annual amount which an individual can invest under EIS) is set by section 158 ITA.

The company size threshold (gross assets of no more than £7million immediately before the share issue and £8 million after) is set by section 186 ITA (for EIS) and section 297 ITA (for VCTs).

The limit on the number of employees (currently, fewer than 50) is at sections 186A ITA and 297A ITA.

The £2 million limit on the amount of investment that a company can raise under both schemes is defined at section 173A ITA (for EIS) and section 292A ITA (for VCTs).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to increase:

- the employee limit to fewer than 250 employees;
- the size threshold to gross assets of no more than £15 million before investment and £16 million after; and,
- the maximum annual amount that can be invested in an individual company, to £5 million.

Subject to State aid approval these changes will apply to shares in investee companies that are issued on or after 6 April 2012. There is provision for the legislation to take effect subject to a Treasury appointed day order, once State aid approval has been received.

Legislation will also restrict to £5 million in total the amount of investment which a company may receive in a 12-month period from any State-aided risk capital measure, including EIS and VCT.

Legislation will also increase the annual amount that an individual can invest under the EIS to £1 million. This has already received State aid approval and will apply to the tax year 2012-13 and subsequent years.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out as part of a wider reform to the EIS and VCTs in Table 2.1 of Budget 2011 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2011. This element of the reform is expected to reduce receipts by approximately £45 million per annum.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Smaller, higher risk companies tend to face barriers in raising equity finance, and tax relief is given under the EIS and VCT schemes to address this market failure and incentivise such investment.

The Government is proposing to increase company size and investment thresholds because of evidence that the market failure goes wider than the companies and investments included by the current limits.</td></tr>
</table>

Impact on individuals and households	Around 10,000 individual investors and households invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs. Individuals investing under the schemes benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies and favourable capital gains tax treatment on eligible investment.
Equalities impacts	Analysis of self-assessment returns indicates that EIS and VCT investors tend to be male, located in the South of England and have higher overall income levels. The changes to the schemes are not likely to change that position. The Government has no data to suggest that there will be impacts on other groups. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.
Impact on business including civil society organisations	Around 2,000 companies raise funds under EIS each year and in total around 1,600 through VCTs for all years up to 2007-08. The change is expected to increase the amount of equity investment in smaller companies, potentially including some civil society organisations. There may be some on-going administrative impact on companies who have to advise HMRC of any other State-aided risk capital investment in the preceding twelve months. However, as this is information which they will already have, the impact is expected to be negligible. VCTs have to apply the rules to determine whether or not a potential investee company will qualify. However, as they already apply limits, albeit lower ones, there should be only a one-off compliance cost of familiarisation with the higher limits, which is expected to be negligible. Overall the impacts on businesses and civil society organisations is expected to be negligible.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating the forms and guidance.
Other impacts	Small firms impact test: There will be a positive impact for smaller firms receiving investment under the Enterprise Investment Scheme, as individuals will be able to invest higher amounts and a wider range of companies will be able to benefit from investment. Competition assessment: The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment, are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).

Enterprise Management Incentives

Who is likely to be affected?

Companies wishing to grant share options to their employees under Enterprise Management Incentives (EMI).

General description of the measure

Qualifying businesses can grant tax-advantaged share options to their employees under EMI. The limit on the value of shares over which options may be held by an employee under EMI will be increased from £120,000 to £250,000.

Policy objective

The measure aims to help small and medium enterprises recruit and retain high calibre employees by increasing the value of the share options that may be held by an employee under EMI.

Background to the measure

This change was announced at Budget 2012.

Detailed proposal

Operative date

The measure will have effect in respect of EMI options granted on or after the date set out in the Statutory Instrument. The Government's intention is to implement the measure as soon as possible, subject to State aid approval.

Current law

The rules which share options must meet to qualify under EMI are set out in Schedule 5 to Income Tax (Earnings and Pensions) Act 2003 (ITEPA).

Paragraph 5 of Schedule 5 to ITEPA provides that an employee may not hold unexercised qualifying options in respect of shares with a total value of more than £120,000. Paragraph 6 of Schedule 5 provides a three year restriction period for the issue of further qualifying options where an employee has been granted qualifying options in respect of shares with a total value of £120,000.

Proposed revisions

The £120,000 limit in paragraphs 5 and 6 will be increased to £250,000 by secondary legislation. Authority for these to be amended in an Order by HM Treasury is provided by paragraph 54 of Schedule 5 to ITEPA.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>negligible</td><td>-5</td><td>-10</td><td>-20</td><td>-25</td></tr>
<tr><td colspan="5">These changes are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Some small and medium sized companies may find it easier to recruit and retain employees as a result of the tax relief given under EMI.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure potentially impacts those individuals and households who are awarded EMI options. It will increase the value of tax-advantaged EMI options that can be held by an employee. In 2009-10 approximately 17,000 individual employees were awarded EMI options.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">No equalities impact is expected.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The measure is designed to help small and medium enterprises carrying on a qualifying trade recruit and retain high calibre employees.

No additional one-off or on-going costs to businesses are expected from this change. The change applies only to those businesses that choose to offer tax-advantaged EMI options to their employees. Where a qualifying business does grant EMI options, the change will increase the maximum value of the options that can be offered to an employee.</td></tr>
<tr><td>Operational impact (£m) (HMRC) or other)</td><td colspan="5">A negligible impact is expected.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: Given EMI's qualifying criteria, the changes will benefit small and medium enterprises with fewer than 250 employees and less than £30 million in assets that are carrying on a qualifying trade.

<u>Competition assessment</u>: EMI is a tax-advantaged share option scheme designed to help small and medium enterprises recruit and retain high calibre employees. It remedies a well-defined market failure and the characteristics of EMI do not entail unnecessary distortions of competition. We think that it is unlikely that any business will face any adverse competition consequences as a result of the changes to EMI.</td></tr>
</table>

Monitoring and evaluation

HM Revenue & Customs will monitor the number and value of options granted and exercised and the costs of the tax reliefs using the published National Statistics. General scrutiny of the working of EMI to ensure it is not subject to unacceptable abuse will focus in particular on the impact of the increased limit.

Further advice

If you have any questions about this change, please contact Andrew Ellis on 020 7147 2658 (email address: andrew.ellis1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Child Benefit: Income Tax Charge for Those on Higher Incomes

Who is likely to be affected?

The charge will be applied to taxpayers whose income exceeds £50,000 in a tax year and who are in receipt of Child Benefit and to taxpayers whose income exceeds £50,000 and whose partner is in receipt of Child Benefit. In the event that both partners have an income that exceeds £50,000, the charge will apply only to the partner with the highest income.

General description of the measure

A new income tax charge will apply to those taxpayers affected by this measure to reduce or remove the financial benefit of receiving Child Benefit. For taxpayers with income between £50,000 and £60,000, the amount of the charge will be a proportion of the Child Benefit received. For taxpayers with income above £60,000, the amount of the charge will equal the amount of Child Benefit received. The amount of Child Benefit payable will be unaffected by the new tax charge.

Policy objective

In order to address the fiscal deficit the Government believes that it is right to ask those on higher incomes to contribute more.

Background to the measure

The policy to withdraw Child Benefit from higher rate taxpayers was set out in the Spending Review 2010.

Detailed proposal

Operative date

The measure comes into effect from 7 January 2013. HM Revenue & Customs (HMRC) will contact people earning over £50,000 about the new charge from autumn 2012.

Proposed legislation

Legislation will be introduced in Finance Bill 2012 that applies a new income tax charge to taxpayers who receive Child Benefit themselves or whose partner receives Child Benefit. The charge will only apply to taxpayers whose income is more than £50,000 for the tax year. If both partners have income of more than £50,000 for the tax year, the charge will apply only to the partner with the highest income.

A partnership comprises:

- a married couple living together;
- civil partners living together;
- a man and a woman who are not married to each other but who are living together; or
- a man living with a man or a woman living with a woman who are living together as if they were civil partners.

For taxpayers whose income is between £50,000 and £60,000, the amount of the charge will be one per cent of the amount of Child Benefit for every £100 of income that exceeds £50,000. A taxpayer whose income exceeds £60,000 will be liable to the charge on the full amount of Child Benefit. For example, Child Benefit for two children is £1,752. For a taxpayer whose income is £54,000, the charge will be £700.80 – i.e. £17.52 for every £100 earned above £50,000. For a taxpayer whose income is £62,000, the charge will be £1,752.

An individual who has income above £50,000 but is not entitled to Child Benefit themselves will only be liable to the charge for any period of the tax year during which they are living with a Child Benefit claimant whose own income is below £50,000.

Child Benefit itself is not being made liable to tax and the amount that can be claimed is unaffected by the new charge. It can continue to be paid in full to the claimant even if they or their partner have a liability to the new charge. Child Benefit claimants will be able to elect not to receive the Child Benefit to which they are entitled if they or their partner do not wish to pay the new charge. The claimant may subsequently decide to withdraw that election if they or their partner are no longer liable to pay the charge.

The measure of income that will be used will be the individual's adjusted net income. This is an existing method of determining an individual's income and is currently used to work out entitlement to personal allowances for someone aged 65 or over or who has income over £100,000.

Adjusted net income is calculated in a series of steps. The starting point is "net income" which is the total of the individual's income subject to income tax less specified deductions, the most important of which are trading losses and payments made gross to pension schemes. This net income is then reduced by the grossed-up amount of the individual's gift contributions and the grossed-up amount of the individual's pension contributions which have received tax relief at source. The final step is to add back any relief for payments to trade unions or police organisations deducted in arriving at the individual's net income. The result is the individual's adjusted net income.

The amount of the charge will be collected through self assessment (SA) and PAYE. Individuals who think they may be affected by these proposals do not need to do anything now. HMRC will be writing to taxpayers with income above £50,000 in the autumn.

Summary of impacts

The assessment here measures the impact of the introduction of the new charge.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-185	-690	-630	-	-
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. They measure the Exchequer impact of the changes from the originally announced policy. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	The new charge will reduce disposable incomes for those households affected. Individuals within these households might respond by changing their labour supply, consumption, and savings. The overall macroeconomic effects of this are expected to be small.				
Impact on individuals and households	The new tax charge in relation to Child Benefit will affect approximately 1.2 million families. Approximately 70 per cent of these households will lose all of their Child Benefit, and 30 per cent will only lose a portion. The average loss for those that lose will be roughly £1,300 per year. 90 per cent of families in the Child Benefit population will continue to benefit from some				

	or all of their Child Benefit. The taper will be implemented through SA and PAYE, with a potential overall increase in the SA population of up to 0.5 million. Marginal tax rates on the taper will be higher for larger families.
Equalities impacts	Analysis suggests that this policy would affect the 51 to 65 age group more than other age groups, but this is because they are generally more likely to be higher earners with children. No other significant affects on protected groups have been identified.
Impact on business including civil society organisations	The charge will apply to individuals so there will be no direct impact on business or civil society organisations. To the extent that there are changes in labour supply, businesses may be affected. The introduction of a taper raises the marginal tax rate for households in the taper range. Affected households will have an increased incentive to reduce their gross income, for example through increasing non-taxable contributions or working less.

Operational impact (£m) (HMRC or other)	2012-13	2013-14	2014-15	2015-16	2016-17
	22-25	20-23	22-25	22-25	22-25
	The additional costs for HMRC over the first 5 years are estimated to be £8-13 million for computer system requirements (development and running costs), approx. £100 million for staff resources, and £5 million for customer information. The taper will be implemented through SA and PAYE, with a potential overall increase in the SA population of up to 0.5 million.				
Other impacts	No additional impacts have been identified.				

Monitoring and evaluation

The measure will be monitored through information collected from tax returns.

Further advice

Summary information on the implementation of this measure can be found on the HMRC website (hmrc.gov.uk), with more detailed information being published in due course. HMRC will directly contact all individuals to whom the tax charge will apply.

Company Car Tax Rates

Who is likely to be affected?

Businesses and employers that provide company cars and employees provided with company cars that are made available for private use.

General description of the measure

For 2014-15, the measure increases the appropriate percentage of the list price subject to tax by one percentage point for cars emitting more than 75g of carbon dioxide per kilometre, to a maximum of 35 per cent.

Policy objective

The measure ensures that company car tax continues to reflect changes in fuel efficiency and supports the sustainability of the public finances.

In addition, new European standards which come into force in September 2015 will require diesel cars to have the same air quality emissions as petrol cars. The diesel supplement will therefore be removed in April 2016.

Background to the measure

Company Car Tax rates have traditionally been announced around two years in advance, to give certainty to industry. Finance Bill 2012 will legislate 2014-15 company car tax rates.

Detailed proposal

Operative date

This measure will take effect from 6 April 2014.

Current law

Sections 121 to 148 of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) provide for calculating the cash equivalent of the benefit of a company car which is made available for private use. In broad terms, this depends on the list price of the car multiplied by the level of carbon dioxide emissions the car produces, which is expressed as the appropriate percentage.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to increase by one percentage point, the level of the appropriate percentage for company cars, to a maximum of 35 percent. This excludes zero emission vehicles and vehicles emitting 75 grams or less carbon dioxide per kilometre, which are subject to special rates in 2014-15.

Legislation will be introduced in a later Finance Bill to make the following changes:
In both 2015-16 and 2016-17, the appropriate percentages of the list price subject to tax will increase by two percentage points, to a maximum of 37 per cent.

From April 2016, the Government will remove the 3 percentage point diesel supplement so that diesel cars will be subject to the same level of tax as petrol cars.

From April 2015, the five year exemption for zero carbon and the lower rate for ultra low carbon emission cars will come to an end as legislated in Finance Bill 2010. The appropriate percentage for zero emission and all low carbon cars emitting less than 95g of carbon dioxide per kilometre will be 13 per cent in 2015-16, and will increase by two percentage points in 2016-17.

A full table of rates can be found in the 'Overview of Tax Legislation and Rates' document that is published alongside the Budget.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-	+120	+375	+350
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	Increasing Company Car Tax will increase average income tax rates for those who receive this benefit-in-kind. Since those affected are predominantly higher income households the impact on consumption and labour supply is expected to be relatively small.				
Impact on individuals and households	On average this measure will give year on year increases in the tax paid by an employee driving a petrol company car of £70 in 2014-15, £165 in 2015-16 and £165 in 2016-17. An employee driving a diesel company car will see average increases of £85 in 2014-15 and £190 in 2015-16, followed by a reduction of £85 in 2016-17. A basic rate taxpayer driving a typical diesel fuelled car, such as a Ford Focus, with a list price of £18,000 and CO_2 emissions of 146g/km will pay around £35 more in 2014-15, £70 more in 2015-16 and £35 less in 2016-17. A higher rate tax payer driving the same company car will pay £70 more in 2014-15, £145 more in 2015-16 and £70 less in 2016-17. A basic rate taxpayer driving a typical petrol fuelled Ford Focus with a list price of £16,300 and CO_2 emissions of 159g/km will pay around £30 more in 2014-15, £65 more in 2015-16 and £65 more in 2016-17. A higher rate tax payer driving the same company car will pay £65 more in 2014-15, £130 more in 2015-16 and £165 more in 2016-17.				
Equalities impacts	The changes apply equally to all company car drivers. There are no particular impacts on people with protected characteristics. Over 90 per cent of individuals receiving company cars have incomes above the UK median income for taxpayers, and around 60 per cent are higher or additional rate taxpayers.				
Impact on business including civil society organisations	The measure is expected to have no impact on businesses (of all sizes including small firms) or civil society organisations as employer reporting and administration requirements will not change.				
Operational impact (£m) (HMRC)	Routine IT and guidance changes required for HM Revenue & Customs.				

Other impacts	No other impacts have been identified.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

Company Car Fuel Benefit Charge

Who is likely to be affected?

Employees with company cars who receive free fuel from their employers, and who do not reimburse their employers for the private use element of that fuel.

General description of the measure

The measure will increase the multiplier used to calculate the cash equivalent of the benefit of free fuel provided to employees from £18,800 to £20,200 for the tax year 2012-13. There is a further commitment to increase the multiplier by two per cent above the rate of inflation (RPI) for the tax year 2013-14 which will be legislated by Order in the autumn, following confirmation of the September 2012 inflation figure. As a result of this change the fuel benefit charge will increase for fuel provided for all cars apart from zero emissions cars.

Policy objective

This measure supports the Government's environmental agenda and the sustainability of the public finances, following an increase in pump prices.

In addition to announcing the Fuel Benefit Charge (FBC) multiplier for 2012-13, the Government is also announcing the 2013-14 rate, whilst committing to announce all future rates a year in advance. This will provide greater certainty to employers and employees.

Background to the measure

Budget 2008 made a commitment to increase the fuel benefit charge at least in line with inflation each year.

Detailed proposal

Operative date

The new rates will apply on and after 6 April 2012.

Current law

Sections 149 to 153 of the Income Tax (Earnings and Pensions) Act 2003 provide for the treatment of fuel provided free by an employer for a company car as a benefit in kind. The cash equivalent of the taxable benefit is calculated by multiplying the set figure (multiplier) by the appropriate percentage which is based on the carbon dioxide emissions of the car concerned.

There is no benefit in kind if the employee reimburses the employer for the private use of the free fuel.

Proposed revisions

Legislation will be introduced by Treasury Order to increase the value of the multiplier from £18,800 to £20,200. This represents a two per cent increase above inflation.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+5	+10	+10	+5	+5
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	This measure would impact an estimated 250,000 individuals and households, 60 per cent of whom are higher or additional rate taxpayers. A basic rate taxpayer driving a typical car, such as a Ford Focus, will be paying approximately £100 more and a higher rate taxpayer around £200 more in 2012-13 compared with what they pay in 2011-12.				
Equalities impacts	The change applies equally to all company car drivers who receive free fuel from their employers.				
Impact on business including civil society organisations	It is expected that the measure will have a negligible impact on the administrative burden and compliance costs for businesses and civil society organisations. The timing of the announcement of the 2012-13 rates may create a small additional one-off cost for employers, as they will have to operate revised tax codes at short notice. Announcing 2013-14 rates at the same time, and committing to announce future rate changes one year in advance, ensures that this will not be an issue for future years.				
Operational impact (£m) (HMRC or other)	Changes in the FBC rate require administrative and software alterations for HM Revenue & Customs. These are estimated to cost £0.4 million. Such costs will not be incurred in 2013-14 as the rate is being pre-announced.				
Other impacts	Small firms impact test: Implementation of this change is considered routine and the impacts on small firms are negligible in terms of administrative and compliance costs.				

Monitoring and evaluation

The measure will be monitored through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

HM Revenue & Customs

Resettlement Payments Made to Members of Parliament

Who is likely to be affected?

Members of Parliament (MPs) who receive a resettlement payment from the Independent Parliamentary Standards Authority (IPSA).

General description of the measure

From 1 April 2012 the MPs' Expenses Scheme administered by IPSA will include provision for a resettlement payment to any MP who involuntarily leaves office on or after that date. This measure introduces an income tax exemption for such payments (subject to a £30,000 limit).

Policy objective

The measure will ensure that resettlement payments made by IPSA are treated in the same way as resettlement grants previously paid under the House of Commons Members' Allowances Scheme, similar grants payable to members of the devolved administrations, and termination payments received by other employees and office holders.

Background to the measure

There is a long-standing exemption for resettlement grants made to MPs and members of the devolved administrations at section 291 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). The existing exemption for MPs only applies to grants and payments made under a resolution of the House of Commons on a dissolution of Parliament. As worded, it does not apply to resettlement payments made by IPSA.

This measure has not previously been announced.

Detailed proposal

Operative date

The measure will have effect in relation to any resettlement payment made by IPSA on or after 1 April 2012.

Current law

Section 291 of ITEPA exempts from income tax resettlement grants and payments made to MPs under a resolution of the House of Commons when they cease to be a Member following a dissolution of Parliament.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend section 291 of ITEPA so that the exemption applies where a resettlement payment is made to an MP by IPSA.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This measure is not expected to have any economic impacts.				
Impact on individuals and households	None. The measure only affects MPs. It simply ensures that an existing exemption for resettlement grants payable to MPs continues to apply where a resettlement payment is made by IPSA. It creates no impacts on any other individuals or households.				
Equalities impacts	None. The measure applies to specific payments to MPs. It is capable of applying to such a payment to any MP.				
Impact on business including civil society organisations	This measure is not expected to have any impact on businesses or civil society organisations, as it only affects MPs				
Operational impact (£m) (HMRC or other)	There is no operational impact on HM Revenue & Customs.				
Other impacts	None as the measure only affects MPs.				

Monitoring and evaluation

The measure will be monitored in conjunction with any future reviews of the MPs' Expenses Scheme by IPSA.

Further advice

If you have any questions about this change, please contact Basil Rajamanie on 020 7147 2384 (email: basil.rajamanie@hmrc.gsi.gov.uk).

HM Revenue & Customs

Community Amateur Sports Clubs: Registration and Gift Aid

Who is likely to be affected?

This measure applies to all Community Amateur Sports Clubs (CASCs) registered with HM Revenue & Customs (HMRC).

General description of the measure

This measure amends the CASC and Gift Aid legislation to ensure it operates as originally intended.

HMRC has continued to register CASCs, and allow Gift Aid repayments, on a concessionary basis. The CASC legislation will be amended to put both points onto a statutory basis.

Policy objective

This measure ensures that CASCs will not need to amend their constitutions in order to remain registered as a CASC. This measure also ensures that CASCs have a statutory right to make a claim to a repayment of tax under Gift Aid.

Background to the measure

This measure has not been previously announced.

Detailed proposal

Operative date

This measure will apply with retrospective effect from 1 April 2010 in relation to Gift Aid and 6 April 2010 in relation to Gift Aid claims.

Current law

Under section 658(1) Corporation Tax Act (CTA) 2010 a club is entitled to be registered if it is, and is required by its constitution to be, a club which is open to the whole community, is organised on an amateur basis, has as its main purpose the provision of facilities for and the promotion of participation in one or more eligible sports, meets the location condition and meets the management condition.

There is a general exemption from tax on some gifts and payments made to charitable companies in part 11 (sections 466 to 493) of CTA 2010. Section 664 CTA 2010 provides a specific exemption for CASCs from corporation tax on interest income and Gift Aid income. However, CASCs are not treated as “charitable companies” for the purposes of sections 471, 472 and 477A CTA 2010, which govern Gift Aid, so there is no statutory basis for them to claim repayments of Income Tax under Gift Aid.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to ensure CASCs do not need to amend their constitutions to retain their status, to reflect new management and location conditions, and to allow CASCs to make claims for repayment of tax under Gift Aid.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This measure will have no economic impact.				
Impact on individuals and households	This measure concerns CASCs rather than individuals and it has no direct impact on individuals or households.				
Equalities impacts	No different impact on any equality group has been identified.				
Impact on business including civil society organisations	This measure is simply to put the payment of Gift Aid to CASCs on statutory basis and correct the constitution requirement in Finance Act 2010. Most CASCs will not need to be aware of the change. There will be no increase in admin burdens. This measure is not expected to have an impact on businesses or civil society organisations.				
Operational impact (£m) (HMRC or other)	This measure will not have any impact on HMRC's operating costs.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

This measure will be kept under review through communication with relevant taxpayer groups.

Further advice

If you have any questions about the changes, please contact the Charities Helpline on 0845 302 0203 (email: charitypolicy.taxteam@hmrc.gsi.gov.uk).

Gift Aid for Charitable Companies and Community Amateur Sports Clubs

Who is likely to be affected?

This measure applies to charitable companies and Community Amateur Sports Clubs (CASCs) that make claims for repayment of Gift Aid outside a tax return.

General description of the measure

This measure puts on a statutory footing the practice by certain charities and CASCs of making claims for repayment of Gift Aid outside a tax return.

Policy objective

This measure puts on a statutory footing an extra statutory concession operated by HM Revenue & Customs (HMRC), to support the Government's agenda of making the tax system fairer.

Background to the measure

HM Revenue & Customs (HMRC) makes certain repayments of Gift Aid to charitable companies and CASCs that make a claim to repayment of Gift Aid outside a tax return ("in-year claims") which should, in strict law, be claimed in a tax return. Changes made in Finance Act 2010 put onto a statutory basis the practice of making in-year repayments of Gift Aid to charitable companies and CASCs, but the current legislation does not work as intended, so this measure amends it. As the measure is legislating an existing extra-statutory concession, charities and CASCs will not need to take any action.

The measure was announced at Budget 2010 and it was intended to be enacted in Finance Act 2010.

Detailed proposal

Operative date

This measure will apply for claims made on or after 6 April 2012.

Current law

Paragraph 9 of Schedule 18 to the Finance Act 1998 provides that repayments of income tax should be claimed by a charitable company or CASC only in its annual return, whether or not a notice has been issued requiring a return to be made.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make provision for charitable companies and CASCs to make in-year claims to repayments of Gift Aid.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	This measure concerns charities and CASCs rather than individual donors to charities and it has no direct impact on individuals or households.				
Equalities impacts	No different impact on any equality group has been identified.				
Impact on business including civil society organisations	This measure is not expected to have an impact on businesses or civil society organisations. This measure is simply to put the in-year Gift Aid claims by charitable companies and CASCs on statutory basis. Most charities and CASCs will not need to be aware of the change.				
Operational impact (£m) (HMRC or other)	This measure will not have any impact on HMRC's operating costs.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Charities Helpline on 0845 302 0203 (email: charities@hmrc.gov.uk).

HM Revenue & Customs

Corporation Tax: Main Rate

Who is likely to be affected?

Incorporated businesses with profits above £1.5 million which pay corporation tax (CT) at the main rate, and incorporated businesses with profits between £300,000 and £1.5 million which pay tax at the main rate reduced by marginal relief.

General description of the measure

The measure adds an additional one per cent to the previously announced reduction of the CT main rate setting the CT main rate at 24 per cent for the Financial Year beginning 1 April 2012 and at 23 per cent for the Financial Year beginning 1 April 2013.

Policy objective

This measure supports the Government's objective of a more competitive corporate tax system to provide the right conditions for business investment and growth.

Background to the measure

Budget 2011 announced that the main rate for the Financial Year beginning 1 April 2011 would drop by two per cent to 26 per cent, to be followed by three further one per cent cuts to reach 23 per cent by the Financial Year beginning April 2014.

Budget 2012 announced that the main rate for the Financial Year beginning 1 April 2012 would drop by an extra one per cent to 24 per cent and confirmed that this is to be followed by two further annual one per cent cuts to 22 per cent by the Financial Year beginning 1 April 2014.

This Tax Information and Impact Note updates and, in part, replaces the note published on 23 March 2011 to reflect the changes announced to the CT main rate.

Detailed proposal

Operative date

The reduction in the CT main rate for Financial Year 2012 will have effect on and after 1 April 2012 and that for Financial Year 2013 will have effect on and after 1 April 2013.

Current law

A rate of 25 per cent for the Financial Year beginning April 2012 was set by section 5 of the Finance Act 2011 for all non-ring fence profits.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to reduce the main rate of CT for all non ring fence profits to 24 per cent from April 2012 and to 23 per cent from April 2013. Legislation in Finance Bill 2013 will reduce the CT main rate for the Financial Year beginning 1 April 2014 to 22 per cent.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-405	-730	-820	-880	-920
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget 2012.				
Economic impact	A lower corporation tax rate makes the UK more attractive as a destination to locate business activity. A reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment.				
Impact on individuals and households	This measure concerns incorporated businesses and has no direct impact on individuals or households.				
Equalities impacts	This measure concerns the taxation of the body corporate which is a non-gender/race specific entity in law. As such it is very unlikely that there will be any impact on equality.				
Impact on business including civil society organisations	This measure will lower the tax bills of 40,000 businesses which have profits over £1.5 million and pay at the main rate of CT; and a further 34,000 which have profits between £300,000 and £1.5 million and pay at the main rate of CT but receive marginal relief. The administrative and compliance costs for business are expected to be negligible. The change makes little difference to the complexity of the tax calculation.				
Operational impact (£m) (HMRC or other)	Implementation is likely to have only minor operational impact but will necessitate some changes to HM Revenue & Customs IT systems and online filing products.				
Other impacts	Competition assessment: A lower CT main rate makes the UK more attractive as a destination to locate. Small firms impact test: Although only a minority of small businesses pay CT at the main rate, for those affected, the impact is positive - a reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment.				

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of corporation tax changes.

Further advice

If you have any questions about this change, please contact Ellen Milner on 020 7147 3691 (email: ellen.milner@hmrc.gsi.gov.uk).

HM Revenue & Customs

Controlled Foreign Companies Full Reform

Who is likely to be affected?

Primarily large UK based multinationals, but any UK company with overseas subsidiaries or exempt foreign branches may be affected.

General description of the measure

The measure reforms the Controlled Foreign Companies (CFC) rules to introduce a modernised regime that fits with a move towards a more territorial corporate tax system and better reflects the way that businesses operate in a globalised economy.

Policy objective

This measure introduces a modernised CFC regime that better reflects the way that businesses operate in a global economy whilst maintaining adequate protection against artificial diversion of UK profits.

Background to the measure

In November 2010, the Government proposed reforms to the CFC rules as part of the Corporate Tax Road Map. The Government made a first step towards reforming the rules by introducing interim improvements in Finance Bill 2011.

In June 2011 the Government published a consultation document setting out detailed proposals for new CFC rules to be introduced in Finance Bill 2012.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The rules will have effect for the accounting period of the CFC which begins on or after 1 January 2013.

Current law

The current law is in Chapter IV of Part XVII of the Income and Corporation Taxes Act 1988 and Schedules 24, 25 and 26 of that Act. It charges United Kingdom resident companies tax on profits of certain foreign subsidiaries in which they have an interest.

A controlled foreign company is an overseas company controlled by United Kingdom 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. The controlled foreign companies' provisions are directed at companies which artificially divert UK profits to low tax territories or other favourable overseas tax regimes to reduce their UK tax liabilities.

No tax will be due in respect of a CFC if the company satisfies any one of the statutory exemptions or exclusions.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the current legislation and replace it with a new CFC regime, the key elements of which are:

The business profits of a foreign subsidiary will be outside the scope of the new CFC regime if they meet the specified conditions set out in a “gateway”. The conditions define what is to be treated for the purposes of the regime as profits artificially diverted from the UK.

"Safe harbours" for the gateway conditions will be provided covering general commercial business, incidental finance income and some sector specific rules. A foreign subsidiary can rely on these safe harbours to show that some or all of its profits are outside the regime's scope.

As an alternative to the gateway, the regime will also provide exemptions for CFCs. The exemptions will apply to the CFC as a whole and include an excluded territory exemption and a low profits exemption. The lower level of tax test which currently forms part of the definition of a CFC will function as an exemption in the new regime.

The regime includes rules for finance companies which will generally result in an effective tax rate on intra group finance income of one-quarter of the main CT rate, and full exemption in certain circumstances.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>nil</td><td>-175</td><td>-450</td><td>-690</td><td>-805</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 and Table 2.2 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Modernisation of the CFC regime, together with the programme of corporate tax reforms set out in the Corporate Tax Road Map, will assist in improving the UK’s international tax competitiveness; it will allow businesses based in the UK to be more competitive on the world stage, as well as supporting investment in the UK.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This is a corporate tax measure and therefore has no direct impact on individuals and households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This is a corporate tax measure and has no impacts on any protected equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The CFC rules impact primarily on large UK multinationals but will affect all UK companies with overseas subsidiaries or exempt foreign branches. Reform is designed to make the current CFC rules easier to operate and to contribute to a more competitive international CT system. They will not harm domestic competition.

A number of aspects of the proposed changes reflect a degree of simplification of the CFC regime, which for many companies will result in a reduced administrative burden. For some companies there will be new tests to apply.

All companies affected by the CFC rules will incur one-off costs associated with familiarisation with changes to the regime.</td></tr>
</table>

<table>
<tr><td rowspan="16"></td><td colspan="4">It is expected that civil society organisations will not be impacted by the proposed changes.

The changes to the administrative burden include an annual benefit of £4.5m as a result of simplifications to the regime as part of Interim CFC Reform, which was introduced in Finance Bill 2011.</td></tr>
<tr><td colspan="2"></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="4">Compliance Costs</td></tr>
<tr><td colspan="2">One-off Costs</td><td>£2.5m-£3.5m</td><td>1</td></tr>
<tr><td colspan="2">Average Annual Costs</td><td>£1.5m-£2.5m</td><td>N/A</td></tr>
<tr><td colspan="2">Total Costs (PV)</td><td>£4m-£6m</td><td>N/A</td></tr>
<tr><td colspan="4">Compliance Benefits</td></tr>
<tr><td colspan="2">One-off Benefit</td><td>0</td><td>N/A</td></tr>
<tr><td colspan="2">Average Annual Benefit</td><td>£14.5m-£19.5m</td><td>N/A</td></tr>
<tr><td colspan="2">Total Benefit (PV)</td><td>£14.5m-£19.5m</td><td>N/A</td></tr>
<tr><td colspan="2">Net Benefit (NPV)</td><td>£10.5m-£13.5m</td><td>N/A</td></tr>
<tr><td colspan="4">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td colspan="2">Decrease</td><td>Net Impact</td></tr>
<tr><td>£1.5m-£2.5m</td><td colspan="2">£14.5m-£19.5m</td><td>£13m-£17m</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4"></td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="4">Introducing and implementing the new regime is not expected to involve any additional costs.</td></tr>
<tr><td>Other impacts</td><td colspan="4"><u>Small firms impact test</u>: Small and medium sized companies are less likely to have CFCs and where they do they are more likely to meet the conditions of the simpler exemptions as under the current rules, unless they are artificially diverting UK profit. Therefore, the impact on small and medium sized companies is not expected to be significant.</td></tr>
</table>

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of corporate tax reforms.

Further advice

If you have any questions about this change, please contact Carol Johnson on 020 7270 6032 (email: carol.johnson@hmtreasury.gsi.gov.uk) or Andrew Page on 020 7147 2673 (email: andrew.page@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation Tax Reform: Patent Box

Who is likely to be affected?

Companies within the charge to corporation tax that actively hold qualifying patents and some other forms of intellectual property ('IP'). Patents are used by a wide variety of businesses, but particular sectors likely to benefit are pharmaceuticals, life sciences, manufacturing, electronics, and defence.

General description of the measure

The Patent Box will allow companies to elect to apply a 10 per cent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying patents, whether paid separately as royalties or embedded in the sales price of products. The regime will also apply to other qualifying intellectual property rights such as regulatory data protection (also called "data exclusivity"), supplementary protection certificates (SPCs) and plant variety rights. Other non-qualifying profits in these companies will continue to be taxed at the main rate. The Patent Box will potentially benefit a wide range of companies which receive patent royalties, sell patented products, or use patented processes as part of their business.

Policy objective

The Patent Box is part of the Government's growth agenda (as detailed in the *Plan for Growth* document published in March 2011). The aim of the Patent Box is to provide an additional incentive for companies to retain and commercialise existing patents and to develop new innovative patented products. This will encourage companies to locate the high-value jobs associated with the development, manufacture and exploitation of patents in the UK and maintain the UK's position as a world leader in patented technologies.

Background to the measure

A number of documents have been published:

- November 2010: *The Taxation of Innovation and Intellectual Property*. This sets out the high level principles for the Patent Box design;
- June 2011: *Consultation on the Patent Box*. This is the stage 2 consultation document which gives more detail on the design proposals; and
- December 2011: Draft legislation and explanatory notes, *Patent Box, response to consultation,* and *The Patent Box: Technical Note and Guide to the Draft Legislation.*

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The measure will have effect in relation to profits made or after 1 April 2013.

Proposed Changes

Legislation will be introduced in Finance Bill 2012 to introduce a new regime: the Patent Box.

The Patent Box will allow companies to elect to apply a 10 per cent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying intellectual property (IP).

Qualifying IP includes patents granted by the UK Intellectual Property Office ('IPO') and the European Patent Office ('EPO'), as well as supplementary protection certificates, regulatory data protection and plant variety rights.

In addition to patents granted by the IPO and EPO the Government intends to extend the Patent Box to other EU Member States which have similar examination and patentability criteria as the UK. A list of qualifying patent jurisdictions will be published as secondary legislation in 2012.

The Patent Box will apply to existing as well as new IP, and to acquired IP provided that the group has further developed the IP or the product which incorporates it.

The legislation sets out a structured approach to calculate the profits from qualifying IP.

For companies selling patented products or licensing their patents, the calculation starts from the total profit from the sale of products incorporating the patented invention or the profit from licensing the invention. The full rate of corporation tax will still be charged on a 10 per cent routine return on certain costs and on any part of those profits which is attributable to marketing intangibles. Companies making smaller claims can choose a simpler calculation avoiding the need to value their brand. All remaining profit will be eligible for the Patent Box rate.

Companies which use the IP to perform processes or provide services will benefit from the Patent Box up to the level of an arm's length royalty for the use of the qualifying IP.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>-</td><td>-350</td><td>-720</td><td>-820</td><td>-910</td></tr>
<tr><td colspan="5">These figures are presented in Table 2.2 of the Budget. The Office for Budget Responsibility has included these numbers in its forecast.</td></tr>
<tr><td>Economic impact</td><td colspan="5">UK sectors such as pharmaceuticals, life sciences, manufacturing, electronics and defence use patents and are likely to benefit from the Patent Box.

Where revenue-generating patents are held by unincorporated businesses, the introduction of the Patent Box will likely increase the incentive to incorporate. This is likely to be tempered as businesses will normally have already incorporated to qualify for the Research and Development Tax Relief.

The introduction of the Patent Box is likely to encourage investment and economic growth as well as prevent the movement of intellectual property offshore by innovative businesses who otherwise might invest elsewhere.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure is aimed at the corporate sector so there is no impact on individuals.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The Government has carefully considered whether this measure impacts on people with protected characteristics and have not identified any impacts.</td></tr>
</table>

<table>
<tr>
<td>Impact on business including civil society organisations</td>
<td>
The Patent Box will be available to patents granted by the Intellectual Property Office (IPO) and European Patent Office. Some businesses who don't currently patent through these routes will therefore need to apply for patents and will incur additional costs. The IPO fees to acquire a UK patent, including application and annual renewal fees, are £950 for ten years and £4770 for the maximum 20 years. The Patent Box requires only one patent over a product in order for the associated profits to qualify, reducing the impact of this requirement.
The Government has developed a largely formulaic approach to calculating the net profit from patents to improve certainty and reduce administrative burdens. Although the regime is elective there is some unavoidable complexity which will impose an additional administrative burden on those who choose to elect in.
The Government recognises that some small companies may not have experience of identifying the relative contribution of patents and brand IP. This is addressed by the option of an election for the attribution of profits to patent and brand IP in claims of up to £1 million a year which can be used by small companies.
The policy does not have a fixed term and administrative burdens are presented on an average annual basis.
<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£2-2.5m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£24-28m</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£26-30.5m</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>0</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>0</td><td>N/A</td></tr>
<tr><td>Total Benefit (PV)</td><td>0</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>0</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>+£26-30.5m</td><td>0</td><td>+£26-30.5m</td></tr>
</table>
</td>
</tr>
<tr>
<td>Operational impact (£m) (HMRC or other government departments)</td>
<td>
Indicative estimated annual costs of HMRC administering the regime are in the range of £2 million to £5 million. Training and familiarisation on the new legislation will be required.
There may be some operational impact on the IPO, as the regime may encourage increased patenting in the UK. Several aspects of the proposals have been designed to minimise this impact, including the proposed model design, which requires only one patent over a product in order for the associated profits to qualify. Additional patent examiners may be required to deal with the projected additional demand.
It is not anticipated that there will be any significant operational impacts on other government departments.
</td>
</tr>
<tr>
<td>Other impacts</td>
<td><u>Competition assessment:</u> The Patent Box is not sector specific and is generous in its scope by also including SPCs and data exclusivity. Any company with eligible patents and qualifying income may be able to take advantage of the Patent Box.</td>
</tr>
</table>

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of corporate tax reforms.

Further advice

If you have any questions about this change, please contact Anna Floyer-Lea or Richard Rogers via e-mail: corporatetaxreform@hmtreasury.gsi.gov.uk

HM Revenue & Customs

Bank Levy: 2013 Rate Change

Who is likely to be affected?

UK banks, banking groups and building societies; foreign banking groups operating in the UK through permanent establishments or subsidiaries, and UK banks and banking sub-groups in non-banking groups.

General description of the measure

As set out in Budget 2011, the Government intends that the Bank Levy should raise at least £2½ billion each year. To ensure the Bank Levy raises at least £2½ billion each year, and takes account of the benefit to the banking sector from the additional reductions in corporation tax, the rate of the Bank Levy will increase to 0.105 per cent from 1 January 2013. A proportionate increase to 0.0525 per cent will be made to the half rate, also with effect from 1 January 2013.

Policy objective

These changes will help to ensure that the banking sector makes a fair contribution through the Bank Levy reflecting the risks it poses to the financial system and the wider economy. These changes ensure that the value of the contribution from the Bank Levy remains in line with previous expectations while ensuring the UK remains a competitive location for international financial services.

Background to the measure

The Government announced the introduction of the Bank Levy at Budget 2010 to commence for chargeable periods ending on or after 1 January 2011. The Government has made clear that the Bank Levy is expected to raise at least £2½ billion each year.

An increase in the rate of the Bank Levy from 1 January 2012 was announced at Budget 2011 to offset for the reduction in corporation tax that would benefit most banks subject to the Bank Levy.

At Autumn Statement 2011, the Chancellor of the Exchequer announced an increase in the full rate of the Bank Levy to 0.088 per cent from 1 January 2012, to offset downward revisions to forecast revenues made at that time.

The March 2012 forecasts published by the Office for Budget Responsibility (OBR) imply that, without amendment, receipts for future years will fall short of the expected £2½ billion.

Detailed proposal

Operative date

The measure increases the rates of the Bank Levy from 1 January 2013 to 0.105 per cent for the full rate and 0.0525 per cent for the half rate.

Current law

The Bank Levy rates are set out in paragraphs 6 and 7 of Schedule 19 Finance Act 2011.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the rates of Bank Levy.
For periods falling wholly or partly after 1 January 2013 the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.044 per cent to 0.0525 per cent and the rate for short term chargeable liabilities will be increased from 0.088 per cent to 0.105 per cent.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	+410	+445	+445	+445
	These figures are set out in the policy costings document published alongside Budget 2012. They have been certified by the Office for Budget Responsibility.				
Economic impact	The Bank Levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The measure will encourage banks to adjust their activities in favour of less risky funding models.				
Impact on individuals and households	There is no direct impact on individuals and households. The Bank Levy is a tax on the balance sheets of banks, banking groups, and building societies.				
Equalities impacts	The measure is not expected to have a direct or disproportionate impact on any of the protected equality groups.				
Impact on business including civil society organisations	The Bank Levy currently affects in the region of 30 banking groups and building societies. The impact on these businesses as a result of this change is expected to be negligible in terms of additional administrative and compliance costs. The Bank Levy has no direct impact on businesses and organisations beyond those taxpayers.				
Operational impact (£m) (HMRC or other)	The changes proposed here add no additional costs.				
Other impacts	Competition assessment: The scope of the Bank Levy has been specifically designed to ensure a level playing field for all those affected by it in the UK. Small firms impact test: The banks, building societies and banking groups affected by the Bank Levy are not considered to be small firms.				

Monitoring and evaluation

The Bank Levy will be reviewed in 2013 to make sure it is operating efficiently. Receipts from the Bank Levy are being monitored on an ongoing basis.

Further advice

If you have any questions about this change, please contact Malcolm White on 020 7147 0565 (email: malcolm.white@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation Tax: Grouping Rules

Who is likely to be affected?

Companies with a group relationship that issue convertible loan notes.

General description of the measure

The measure makes changes to the grouping provisions relaxing the normal commercial loan rules for loan notes carrying a right of conversion into unconnected companies listed on a recognised stock exchange.

Policy objective

This measure provides administrative clarity and certainty to the issuer and facilitates normal commercial business.

Background to the measure

Under current legislation, holders of loans which carry a right of conversion into unconnected companies are viewed as holding equity capital in the issuing company. This risks affecting the issuer's eligibility for group relief, which relies on a parent company holding at least 75 per cent of share capital in the subsidiary.

HM Revenue & Customs (HMRC) has received a number of clearance applications in respect of loan notes that are issued by companies that provide the lender with either on redemption, the loan back in full or alternatively the option of converting the loan notes into the underlying shares.

These are invariably issued by the financial sector and convert into wholly unconnected listed companies.

With interest rates at their current level this product is attractive to the investor who holds a loan on normal terms but can improve their return if the underlying shares have over-performed.

On the face of the legislation as these loans carry a right of conversion into shares they should be considered as equity instruments.

Detailed proposal

Operative date

The legislation will have effect for transactions where the relevant day falls on or after 21 March 2012.

Current law

Legislation in Corporation Tax Act 2010, Section 162 defines a normal commercial loan. The loan must meet certain criteria if it is to be a normal commercial loan. The conditions A & B of the second criterion are in point here:

Condition A is that the loan carries no right to conversion into ordinary shares. (s162 (2)) This is expressed in two parts:

- the loan must carry no right to conversion into shares or securities which would qualify the holder as an equity holder for the purpose of the Schedule; and
- the loan must carry no right to the acquisition of any additional shares or securities of any description. S162(3).

Condition B is that the loan does not carry any right to the acquisition of shares or securities.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make the following changes:

Loans that carry rights of conversion into an unconnected company (i.e. not within the definition at S1122 CTA10) listed on a recognised stock exchange are to be treated as normal commercial loans.

The loans should also, on conversion in to shares in the unconnected company, be treated as new consideration in that new company. S1115 as it stands will not preclude this.
The measure should not be as wide as ignore all loans issued in the company's normal trade, as this could be open to extensive debate and the key to this change is clarity and certainty.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is expected to facilitate normal commercial activity and hence have a negligible economic impact.				
Impact on individuals and households	The measure is not expected to impact on individuals and households. It will affect companies in the financial sector which issue particular types of loans and the investors who purchase these.				
Equalities impacts	This measure does not have equality impacts on any protected group.				
Impact on business including civil society organisations	The measure ensures that convertible loan notes issued by a company do not need to be tracked to prevent accidental degrouping, or allows a group the flexibility to decide where to issue such loan notes from. This will provide a small on-going positive impact to businesses and will not adversely impact on small firms. Overall the impact on businesses and civil society organisations is expected to be negligible.				
Operational impact (£m) (HMRC or other)	There are no additional costs to HMRC.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

The success of the measure will be judged by monitoring clearances and activity in the financial industry.

Further advice

If you have any questions about this change, please contact Paula Jarnecki on 020 7147 2607 (email: paula.jarnecki@hmrc.gsi.gov.uk).

HM Revenue & Customs

General Insurance: Claims Equalisation Reserves

Who is likely to be affected?

General insurance companies who maintain claims equalisation reserves (CERs); and corporate and partnership members of Lloyd's who maintain equivalent reserves.

General description of the measure

This measure will repeal the current legislation for the tax treatment of CERs. Regulations will be made by HM Treasury to cover equivalent reserves maintained by corporate and partnership members of Lloyd's.

The measure will introduce a rule to tax built-up CERs in equal amounts over a six year period commencing from the date the Solvency II Directive solvency requirements come into force. Alternatively, in any year during the transitional period, an election may be made to tax the remaining balance of the built-up reserve that has not yet been subject to tax.

Policy objective

This measure deals with the taxation impacts arising from the removal of the regulatory requirement for general insurers to maintain CERs as a result of the implementation of the Solvency II Directive. The measure repeals the current tax rules and the parallel rules for Lloyd's and provides for a transitional period over which the built-up reserves will be charged to tax.

Background to the measure

This measure was originally announced at Budget 2011. There is currently a regulatory requirement for general insurance companies (but not Lloyd's members) to maintain CERs in respect of certain lines of business. From 1996 general insurers were allowed to treat amounts transferred into CERs as tax deductible (and amounts transferred out were treated as taxable receipts). In 2009, rules were introduced to allow equivalent deductions for Lloyd's corporate and partnership members.

The relief currently available is dependent on the regulatory requirement for general insurance companies to maintain CERs. However, under Solvency II that requirement will be withdrawn.

An informal consultation took place between April and August 2011 with an industry working group. Both the Association of British Insurers (ABI) and Lloyd's, representing general insurance companies and corporate and partnership members at Lloyd's, have been included in the consultation process. Following this consultation, the Government has decided to introduce legislation to repeal the CER tax provisions and to tax built-up reserves over a transitional six year period.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The measure will have effect from the date Solvency II comes into force, which is currently expected to be 1 January 2014.

Current law

For general insurance companies the tax treatment of equalisation reserves is governed by sections 444BA to 444BD of the Income and Corporation Taxes Act 1988.

Section 47 of the Finance Act 2009 and The Lloyd's Underwriters (Equalisation Reserves) (Tax) Regulations 2009 (SI 2009/2039) provide for the same tax treatment for Lloyd's corporate and partnership members that maintain an equivalent reserve to that maintained by general insurance companies.

The current law allows for a tax deduction for transfers into reserves and taxes transfers out of reserves.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make these changes for general insurance companies and by secondary legislation in the case of Lloyd's.

With effect from the date Solvency II capital requirements come into force built-up reserves will be taxed over a six year period. The release will have effect in relation to accounting periods ending on or after an appointed day specified in an order made by HM Treasury. The appointed day will be the date Solvency II comes into force, once it is confirmed. Alternatively, in any year during the transitional period, including year one, an election may be made to tax the full amount (as reduced by any previous one sixth releases) of any built-up reserve.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	negligible	+85	+90	+80
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	As the measure is not designed to affect underlying economic behaviour, it is not anticipated to have a significant economic impact.				
Impact on individuals and households	The measure will not impact on individuals and households as it applies to general insurance companies and Lloyd's corporate and partnership members only.				
Equalities impacts	The measure applies to general insurance companies and Lloyd's corporate and partnership members only. No impacts on people with protected characteristics are anticipated.				
Impact on business including civil society organisations	The measure applies to general insurance companies and Lloyd's corporate and partnership members only. No impact on other businesses is anticipated. The measure does not require companies to collect and process additional data.				

	This measure is expected to have a negligible impact on businesses and civil society organisations.
Operational impact (£m) (HMRC or other)	The costs to HM Revenue & Customs (HMRC) will be negligible.
Other impacts	There are no other impacts anticipated.

Monitoring and evaluation

Tax returns will provide the information required to make a reliable assessment of the tax impact of the new rules.

HMRC has an established programme of liaison with industry which will capture issues around implementation and ongoing compliance and administrative costs.

Further advice

If you have any questions about this change, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk).

HM Revenue & Customs

Field Allowances

Who is likely to be affected?

Oil and gas companies operating in the UK and UK Continental Shelf (UKCS).

General description of the measure

A package of changes to field allowances comprising:

- Changes to the amount and qualifying criteria of the current small field allowance;
- A new category of 'qualifying oil field', being a field meeting specific criteria which are targeted at the West of Shetland; and
- An amendment to the field allowance legislation giving the Commissioners for HM Revenue and Customs (HMRC) the power to extend the allowance to oil and gas fields that have already received development approval and are to undergo additional development.

Policy objective

In line with its objective of achieving a more competitive tax system, the Government is committed to ensuring that the fiscal regime for oil and gas continues to encourage investment and innovation.

These changes are specifically designed to increase investment and production in fields that are economic but - for tax reasons - considered to be commercially marginal. This supports the Government's overall aim of maximising the economic production of hydrocarbon reserves.

Background to the measure

Following the announcement at Budget 2011 that it would consider the case for a new category of field qualifying for the field allowance, the Government has been engaging closely with industry to look at the evidence for potential changes to the oil and gas fiscal regime that would facilitate additional investment in marginal fields and projects.

Detailed proposal

Operative date

The extension of the field allowance legislation to include additionally-developed fields will have effect following the enactment of secondary legislation at a future date to be decided by Government.

The changes to the small field allowance and West of Shetland allowance will have effect after the enactment of secondary legislation later this year, and will apply to fields with development authorisation on or after 21 March 2012.

Current law

A company operating in the UK or on the UKCS is liable to corporation tax on its profits. However the UK tax code puts a ring fence around profits from UK and UKCS oil and gas production to ensure they are not reduced by losses from other activities. This ensures that

the Government achieves its desired taxation from the exploitation of a national natural resource.

Section 279 Corporation Tax Act (CTA) 2010 details the ring fence treatment and provides that certain oil-related activities conducted as part of a trade are to be treated for the purposes of corporation tax as ‘a separate trade, distinct from all other activities carried on by the company as part of the trade’. These (‘upstream’) activities are:

- any oil extraction activities (section 272 CTA 2010); and
- the acquisition, enjoyment or exploitation of oil rights (sections 273 and 274 CTA 2010).

In addition to ring fence corporation tax, profits derived from upstream activities are subject to an additional tax, the supplementary charge (section 330 CTA 2010). The rate of supplementary charge is currently 32 per cent.

The field allowance reduces the amount of adjusted ring fence profits for the accounting period on which the Supplementary Charge is imposed. The legislation was introduced by Schedule 44 FA09. The legislation is now at CTA10\S333 onwards and has been supplemented by two Statutory Instruments introduced in 2010:

- The Field Allowance for New Oil Fields Order 2010 (2010 No. 610) for deep water gas fields; and
- The Qualifying Oil Fields Order 2010 (2010 No. 1899) for ultra high pressure/high temperature oil fields.

The legislation was amended by FA2011\S63.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the field allowance legislation in Chapter 7 of Part 8 CTA 2010 to provide the power for the Commissioners for Her Majesty's Revenue and Customs, by way of secondary legislation, to extend the allowance to fields that have already been developed.

The following changes to the existing field allowance legislation will be introduced by way of secondary legislation:

- Increase the amount of small field allowance to £150 million and increase the size of the field qualifying for the maximum allowance to 6.25 million tonnes (roughly equivalent to 45 million barrels of oil equivalent (boe)), tapering to no allowance at 7 million tonnes (roughly equivalent to 50 million boe).
- Introduce a new £3 billion field allowance for new fields that meet the following qualification criteria:
    - Water depth greater than 1,000 metres; and
    - Minimum reserves of 25 million tonnes; and
    - Maximum reserves of 40 million tonnes, with a straight line taper to no allowance at 55 million tonnes.

The new allowance is expected to apply to the West of Shetland.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>-55</td><td>-100</td><td>+55</td><td>+20</td><td>+20</td></tr>
<tr><td colspan="5">These figures are set out in the policy costings document published alongside Budget 2012. They have been certified by the Office for Budget Responsibility.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure will lead to additional investment in some fields that are currently commercially marginal, which will support jobs in the economy. As there will be a reduction in the Supplementary Charge (SC) payable by companies with qualifying fields, their post-tax profits will increase.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">As oil and gas are internationally-traded commodities, changes to the taxation of upstream production are unlikely to feed through to pump/domestic gas prices. However, any significant increase in production could contribute to the UK's security of energy supply.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure applies only to companies involved in the oil and gas industry in the UK or UKCS, and is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">These changes will reduce the SC liability of oil and gas companies with fields in the UK or UKCS that qualify for the allowance.

The administrative and compliance burdens on businesses and civil society organisations are expected to be negligible because only a small number of oil and gas companies will be affected.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">These changes will have minimal operational impact on HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Carbon assessment</u>: Oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU Emissions Trading System.

<u>Sustainable development, wider environment and health</u>: The oil and gas industry is heavily regulated to minimise pollution or disturbance to habitat or wildlife, and to protect the health and wellbeing of its workers.

<u>Small firms impact test</u>: These changes apply to all oil and gas production companies operating in the UK or UKCS. Any small firms with qualifying fields will therefore be affected.</td></tr>
</table>

Monitoring and evaluation

The measure will be kept under review through regular communication with the affected business sector.

Further advice

If you have any questions about these changes, please contact Hugh Hedges on 0207 438 6576 (email: hugh.hedges@hmrc.gsi.gov.uk) or Paul Philip on 0207 438 6993 (email: paul.philip@hmrc.gsi.gov.uk).

HM Revenue & Customs

Update of the Enhanced Capital Allowances Schemes for Energy-Saving and Environmentally Beneficial (Water Efficient) Technologies

Who is likely to be affected?

Businesses purchasing designated plant and machinery which uses energy efficiently, reduces water use or improves water quality.

General description of the measure

This measure updates the lists of technologies and products covered by the energy-saving and water efficient Enhanced Capital Allowances (ECA) schemes.

These two schemes are targeted at plant and machinery which is widely used by businesses, but where more efficient alternatives are available. The schemes allow 100 per cent of the cost of qualifying plant and machinery to be written-off against taxable profits of the period in which the investment is made, benefiting a business's cash flow.

Policy objective

The schemes aim to reduce the consumption of energy and water by business, by providing an incentive to invest in efficient plant and machinery. This can help reduce carbon emissions, aiding the UK's Carbon Reduction Commitment obligation, and encourages the sustainable use of water resources.

Background to the measure

Since their introduction, in 2001 and 2003 respectively, the schemes have been updated annually to ensure that only the most efficient products are supported.

Recommendations about the technologies and products that should qualify for the schemes are made by the Department for Energy and Climate Change (DECC) in respect of the energy-saving scheme and the Department for Environment, Food and Rural Affairs (Defra) in respect of water, following consultation.

Detailed proposal

Operative date

The changes to the schemes will have effect on and after a date to be appointed by Treasury Order to be made prior to the summer 2012 Parliamentary recess.

Current law

Capital expenditure by business on plant and machinery normally qualifies for tax relief by way of capital allowances. From April 2012 the main rate of plant and machinery allowance will be 18 per cent a year on a reducing-balance basis.

These schemes provide 100 per cent first-year allowances for expenditure on certain energy-saving and water efficient technologies. The qualifying technologies are published in the Energy Technology Criteria List and Water Technology Criteria List. Every year DECC

and Defra review these lists to ensure that the qualifying technologies, and the criteria that technologies must meet if they are to qualify for the relief, are still relevant.

Proposed revisions

Secondary legislation will amend the list of technologies that qualify for the energy-saving scheme to include one new sub-technology: Heat Pump Driven Air curtains. In addition three technologies - Combustion Trim Controls, Energy Saving Controls for Desiccant Air Dryers and Sequence Controls - will be removed from the scheme. The criteria for eleven technologies will be revised.

The criteria for toilets, showers, taps and industrial washing machines in the Water Efficient scheme will also be tightened. Minor changes will be made to the existing criteria of both schemes.

Information giving details as to when the new Lists take effect will be given at etl.decc.gov.uk.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+5	+20	+15	+10	+5
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	This measure will not have a significant impact on the overall UK economy.				
Impact on individuals and households	This measure will not impact on households. Although it is possible for individual employees to claim capital allowances, it is unlikely that any would claim ECAs.				
Equalities impacts	The ECA schemes are aimed at businesses. Following discussions with DECC and Defra on this year's amendments, HM Revenue & Customs (HMRC) has not identified any specific impact on any equality group.				
Impact on business including civil society organisations	There will be some negligible one-off administrative burdens for businesses considering buying these products, associated with understanding what differences the changes could make to the capital allowances that they can claim. The on-going effects on businesses' administrative burdens are also expected to be negligible. These changes only apply to business expenditure that qualifies for the ECA schemes. For the majority of business (95 per cent +) the changes will have no impact because the majority of the expenditure they incur on plant and machinery will be eligible for full relief under the separate Annual Investment Allowance (AIA).				
Operational impact (£m) (HMRC or other)	None. This change will not increase HMRC's processing or compliance resource needs.				

Other impacts	Small firms impact test: This measure applies to all sizes of business, but in practice it will only affect those with qualifying plant and machinery expenditure above the AIA limit of £25,000 per annum. As a result there is expected to very limited impact on small firms.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

The lists of technologies and products that qualify for the schemes is also reviewed every year by DECC in respect of the energy-saving scheme and by Defra in respect of water to ensure that they are still relevant, and the wording of the qualifying criteria discussed with suppliers to ensure that they are effective.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

Tobacco Products Duty Rates

Who is likely to be affected?

Manufacturers, importers and consumers of tobacco products. Tobacco products include cigarettes, cigars, hand-rolling tobacco, other smoking tobacco and chewing tobacco.

General description of the measure

The measure increases the rates of duty on all tobacco products imported into, or manufactured in, the UK by 5 per cent above retail price inflation.

Policy objective

The Government is committed to maintaining high tobacco duty rates to support health objectives and ensure that tobacco duties continue to contribute to government revenues and fiscal consolidation.

Background to the measure

The March 2010 Budget announced that tobacco duty rates would increase by 2 per cent above retail price inflation in each year to 2014-15.

Detailed proposal

Operative date

The rate changes will have effect from 6pm on 21 March 2012.

Current law

The table of rates of duty in Schedule 1 to the Tobacco Products Duty Act 1979 is substituted with a table providing for the revised duty rates for all categories of tobacco products.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to revise the rates of duty on tobacco products.

The revised rates of duty are:

- cigarettes: an amount equal to 16.5 per cent of the retail price plus £167.41 per one thousand cigarettes;
- cigars: £208.83 per kilogram;
- hand-rolling tobacco: £164.11 per kilogram; and
- other smoking tobacco and chewing tobacco: £91.81 per kilogram.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>+70</td><td>+50</td><td>+50</td><td>+45</td><td>+45</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of the Budget Report and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Increasing tobacco duty will increase the price of tobacco products. In response to higher prices consumers are likely to reduce their consumption, down-trade from more expensive to cheaper tobacco products, and may shift their consumption to the illicit tobacco market. Any potential shift in consumption to the illicit market will be closely monitored by HM Revenue & Customs (HMRC).</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will impact upon individual and household smokers, who will face an increase in the price of tobacco products, as higher duty rates are passed on to them by tobacco manufacturers. Heavy smokers will face the highest burden from this measure.

This measure will add:
• 37 pence to a packet of 20 cigarettes;
• 37 pence to a packet (25g) of hand-rolling tobacco;
• 12 pence to a packet of 5 small cigars; and
• 20 pence to a packet (25g) of pipe tobacco.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Due to differences in smoking prevalence across gender, age and marital status, any change to tobacco duties will have an equalities impact. The proposed duty increases will raise revenue and discourage smoking, and the Government believes that the benefits will outweigh the unintended effects on equality.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">Tobacco manufacturers will face an increase in tax from this measure, which they are likely to pass on to consumers.

A change in tobacco duty rates will impose a negligible one-off compliance cost to businesses.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HMRC will incur a negligible one-off compliance cost.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact assessment</u>: The increase in duty rates will affect all sizes of business and apply equally to all.

<u>Health impact assessment:</u> Any reduction in smoking prevalence will have a positive impact on health, and reduce the cost to the NHS of smoking-related illness. There may be reductions in other costs that arise from tobacco use; these costs include losses in productivity from smoking breaks and ill-health absences, the cost of cleaning up cigarette butts, the cost of smoking-related house fires and the loss in economic output from people who die from diseases related to smoking or exposure to second-hand smoke.</td></tr>
</table>

Monitoring and evaluation

The impact of the measure on tax receipts and tobacco consumption will be assessed alongside the impacts of previous tobacco duty rates changes.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Machine Games Duty

Who is likely to be affected?

Operators, manufacturers and suppliers of machine games in the UK.

General description of the measure

The taxation of gaming machines will be reformed through the introduction of Machine Games Duty (MGD). MGD will be charged on the net takings from playing dutiable machine games. These are games played on a machine where customers hope to win a cash prize worth more than they stake.

Where MGD is payable, it will replace both Amusement Machine Licence Duty (AMLD) and VAT. There will be two rates of MGD. The lower five per cent rate will apply to machines with maximum stakes of 10 pence and maximum cash prizes of £8, and the standard 20 per cent rate will apply to all other dutiable machine games.

Policy objective

This measure aims to put tax revenues from gaming machines on a more sustainable footing. The VAT treatment of gaming machines has been challenged in the Courts. Introducing MGD and exempting dutiable machine games from VAT will protect tax revenues going forward, and will ensure that operators of gaming machines continue to make a fair contribution to tax receipts.

MGD also supports the Government's objective of a fair tax system by ensuring the taxation of dutiable machine games will be more closely linked to machine takings.

Background to the measure

A consultation document, *Taxation of gaming machines: consultation on a gross profits tax*, was published in July 2009 on the HM Treasury website and the introduction of MGD was announced in December 2010.

A further consultation document, *Implementing a Machine Games Duty: consultation on policy design*, was published in May 2011 on the HM Treasury website.

The Government has considered all responses received to the consultation, as detailed in the summary of responses published on 6 December 2011.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The operative date for MGD will be 1 February 2013. Transitional arrangements for AMLD will have effect from when Finance Bill 2012 receives Royal Assent.

Current law

AMLD is provided for in the Betting and Gaming Duties Act 1981.

Section 23 of the Value Added Tax Act 1994 (VATA) provides that payment for play on a gaming machine is, for the purposes of VAT, treated as a consideration for the supply of services.

Group 4 of Schedule 9 to VATA excludes gaming machines from the general exemption for betting and gaming.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to establish MGD and to bring AMLD to an end.

Appropriate secondary legislation will also be made.

VAT law will be amended to provide for an exemption from VAT for supplies relating to the playing of dutiable machine games.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	The change has no significant impact on the economy.				
Impact on individuals and households	The impact on individuals and households is expected to be negligible as this measure is not expected to have a significant impact on the availability, price and payouts of machine games. Furthermore, only a small proportion of the population play machine games.				
Equalities impacts	This measure is not expected to have different impacts on any protected equality groups.				
Impact on business including civil society organisations	Approximately 42,000 businesses with dutiable machine games will be impacted by MGD. The effects of this measure will not be distributed equally across the sector, creating winners as well as losers. These effects will be within as well as between gambling sectors. On average, the tax liability for Adult Gaming Centres, Family Entertainment Centres, Clubs and majority of Pubs will decrease, whilst that of Casinos and Licensed Betting Offices will increase. The average tax liability of Bingo Halls is expected to increase marginally. A two tier rate will further ensure a lower effective tax rate for low stakes and prize machines. There will also be an impact on business compliance costs. Abolition of AMLD will result in an estimated compliance cost saving of around £10m over 10 years. The introduction of MGD will require quarterly returns and lead to an estimated compliance cost of £100 million over 10 years. Exempting the takings from machine games from VAT will change the VAT status of some businesses. Compliance costs will decrease for a small number of businesses that will no longer be required to register for VAT because they will fall below the VAT threshold. However, other businesses will become partially exempt, increasing their compliance costs. As a result, VAT-related compliance costs are anticipated to				

increase by around £5 million over 10 years. Overall, the estimated compliance cost impact of all the changes is an increase of around £90 million over 10 years.

Figures may not sum due to rounding.

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	£3m	1
Average Annual Costs	£10m	10
Total Costs (PV)	£100m	10
Compliance Benefits		
One-off Benefit	0	1
Average Annual Benefit	£1m	10
Total Benefit (PV)	£10m	10
Net Benefit (NPV)	-£90m	10
Impact on Administrative Burden		
Increase	Decrease	Net Impact
£10m	£1m	£9m

Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will develop a new information technology system to support MGD, allowing HMRC to manually process registrations and returns as well as enabling customers to register and file returns online. HMRC will incur additional costs of approximately £10 million over a seven year period (including ongoing support costs) to develop a new IT system in support of MGD. The processing of final AMLD licences and payments will require small changes to existing systems in the region of £200,000 and will create some additional work for HMRC.
Other impacts	Competition assessment: The abolition of AMLD is expected to increase competition as it removes a fixed cost which can act as a barrier to entry. Small firms impact test: The taxation change will impact on small businesses. The impact will vary depending on the specific circumstances of individual businesses, including their current VAT status. Following consultation with small businesses on this measure, adjustments have been made to the planned administration of the duty to minimise burdens. Exempting small firms from MGD would disproportionately decrease exchequer revenues.

Monitoring and evaluation

The impact of the measure on tax receipts will be monitored. The impact on compliance costs will be considered for evaluation.

Further advice

If you have any questions about this change, please contact Katherine Mansfield on 0161 827 0308 (email: katherine.mansfield@hmrc.gsi.gov.uk).

Carbon Price Floor: Further Legislative Provisions and Future Rates

Who is likely to be affected?

UK generators, including combined heat and power (CHP) and auto-generators, of fossil-fuel based electricity; and those supplying such generators.

General description of the measure

Following the announcement at Budget 2011 that a carbon price floor would be introduced on 1 April 2013, the first tranche of the primary legislative provisions was included in Finance Act 2011. This measure introduces changes to the price floor, including confirming details of some previously announced changes. It also announces the carbon price support (CPS) rates for 2014-15 to meet the floor as set out at Budget 2011 and indicative CPS rates for 2015-16 and 2016-17.

Additional provisions from 1 April 2013

The following additional provisions will be introduced from 1 April 2013:

- Supplies of fossil fuels to CHP stations registered under the CHP Quality Assurance (CHPQA) programme that are intended to be used to generate non-electricity outputs that are good quality, will be exempt from the CPS rates of climate change levy (CCL) or fuel duty, subject to State aid approval.
- Supplies of fossil fuels intended for generating non-electricity outputs in a CHP that are not good quality will be liable to the ordinary rates of CCL and to fuel duty.
- Supplies of fossil fuels to generation stations fitted with carbon capture and storage (CCS) technology will be entitled to a proportionate abated CPS rate of CCL to reflect the percentage of carbon dioxide captured.
- All generators liable to pay the CPS rates of CCL must register with HM Revenue & Customs (HMRC) if they are not already registered for CCL; and must account for, declare to, and pay the CPS rates of CCL due to HMRC. HMRC will give further consideration to whether clarification is needed in the legislation where the owner of the input fuel and the generator are not the same person.
- Generators, and any connected persons, with a combined generation capacity of 2 mega watts (MW) or lower will not be liable to the CPS rates of CCL.
- Changes will be made to the taxation of supplies liable to what was previously referred to as the CPS rate of CCL for solid fuels:
    - rather than taxing all solid fuels used in electricity generation, only coal with a gross calorific value of more than 15 gigajoules (GJ) per tonne will be subject to the CPS rate;
    - coal will be taxed on the fuel's heat/calorific value rather than weight; and
    - the basis of how the coal rate is calculated will reflect the average calorific value of coal used to generate electricity within the UK.

  As a result of these changes, the previously announced CPS rate of CCL on solid fuels for 2013-14 will be amended – see *CPS rates for 2013-14 and 2014-15* below.
- Anyone who overpays CPS rates of CCL will be able to reclaim the overpayment.

CPS rates for 2013-14 and 2014-15

The CPS rates from 1 April 2013-14 were announced at Budget 2011, with the CPS rates of CCL legislated for in Finance Act 2011. The rates will be equivalent to £4.94 per tonne of carbon dioxide (tCO2). From 1 April 2014, the CPS rates of CCL and fuel duty will be equivalent to £9.55 per tCO_2. The rates for 2013-14 and 2014-15 will be:

Supplies of commodity	**CPS rate**		**Unit**
	of CCL 2013-14	**of CCL 2014-15**	
Gas	£0.00091	£0.00175	per kilowatt hour (kWh)
Liquefied petroleum gas	£0.01460	£0.02822	per kilogram (kg)
Coal	£0.44264	£0.85489	per GJ
	of fuel duty 2013-14	**of fuel duty 2014-15**	
Fuel oil; other heavy oil; rebated light oil	£0.01568	£0.03011	per litre
Gas oil; rebated bioblend	£0.01365	£0.02642	per litre

Indicative CPS rates for 2015-16 and 2016-17

Indicative CPS rates for 2015-16 and 2016-17 will be equivalent to £12.06 per tCO_2 and £14.86 per tCO_2 respectively. Based upon these carbon prices, the Government has announced that indicative CPS rates for these years will be:

Supplies of commodity	**Indicative CPS rate**		**Unit**
	of CCL 2015-16	**of CCL 2016-17**	
Gas	£0.00221	£0.00272	per kWh
Liquefied petroleum gas	£0.03564	£0.04393	per kg
Coal	£1.07962	£1.33063	per GJ
	of fuel duty 2015-16	**of fuel duty 2016-17**	
Fuel oil; other heavy oil; rebated light oil	£0.03803	£0.04687	per litre
Gas oil; rebated bioblend	£0.03336	£0.04112	per litre

Anti-forestalling provisions

Finally, to supplement provisions included in Finance Act 2011, there will also be some anti-forestalling provisions relating to the CPS rates of CCL, effective from Budget day.

Policy objective

The carbon price floor is designed to encourage additional investment in low-carbon power generation by providing greater support and certainty to the carbon price. The introduction of reliefs for supplies of fossil fuels to CHP stations and to generating stations with CCS technology recognises the contribution of these technologies in reducing carbon dioxide emissions. For CHP plants, relief ensures that CHP generation is on a level playing field with non-CHP heat generation, which is not subject to the carbon price floor. The changes to how solid fuels are to be taxed and those relating to registration thresholds and accounting are being made in response to representations from business, and in the interests of fairness and minimising business burdens.

Background to the measure

- Budget 2011 announced that, following consultation, the Government would introduce a carbon price floor from 1 April 2013 to support investment in low-carbon generation. Supplies of fossil fuels used in most forms of electricity generation will become liable either to newly created CPS rates of CCL or, for oils, fuel duty from 1 April 2013 (including where the electricity is exported). The CPS rates will be determined by the average carbon content of each fossil fuel and will reflect the differential between the future market price of carbon and the floor price as set out at Budget 2011.
- Legislation to implement the first tranche of the carbon price floor provisions is contained in Finance Act 2011, including the CPS rates of CCL that will apply from 1 April 2013.
- Since Budget 2011, HM Treasury and HMRC have continued to discuss implementation issues with interested parties and on 6 December 2011 published draft legislation for Finance Bill 2012, accompanying secondary legislation and a Tax Information and Impact Note (TIIN). This updates and replaces the TIIN published on 6 December 2011.

Detailed proposal

Operative date

Apart from the changes relating to the exemption for fossil fuels used in a CHP to produce non-electricity outputs which will be introduced by regulations once State aid approval has been secured (but not before 1 April 2013), the additional provisions relating to the CPS rates of CCL (including changes to the rates for 2013-14) will have effect for supplies of taxable commodities made to generators on or after 1 April 2013. The new anti-avoidance provisions will come into effect on 21 March 2012. The CPS rates of CCL for 2014-15 will have effect for supplies of taxable commodities made to electricity generators on or after 1 April 2014.

The CPS rates of fuel duty for 2013-14 will apply in relation to any claim for relief on oil used to generate electricity on or after 1 April 2013, irrespective of when that oil was supplied to the generator. The rates for 2014-15 will apply in relation to any claim for relief on oil used to generate electricity on or after 1 April 2014.

Current law

Schedule 6 to Finance Act 2000 ("Schedule 6") contains CCL's primary legislation and exempts from the levy supplies of electricity, solid fuels, LPG and gas used for the generation of electricity. Section 78 of and Schedule 20 to Finance Act 2011 amended Schedule 6 so that the exemption does not apply to fossil fuels, and introduced new CPS rates of CCL for such fuels used in electricity generation (apart from in a CHP station), from 1 April 2013. Finance Act 2011 also introduced anti-avoidance provisions relating to supplies subject to the CPS rates of CCL, effective from Budget day 2011.

The Climate Change Levy (General) Regulations 2001 (SI 2001/838) ("the general regulations") govern the administration of CCL.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) ("the 2005 regulations") provide relief from fuel duty for oils used to generate electricity in a generating station or CHP station.

Proposed revisions

The changes requiring legislation summarised under *General description of the measure* above will be introduced by both primary and secondary legislation.

Primary legislation

Legislation will be introduced in Finance Bill 2012 to make a number of amendments to Schedule 6 affecting the CPS rates of CCL, including:

- making supplies of fossil fuels used to generate electricity in a CHP liable to the CPS rates, but providing for regulations to exempt supplies to CHP stations registered under the CHPQA programme that are intended to be used to generate non-electricity outputs that are good quality;
- making supplies of fossil fuels intended for generating non-electricity outputs that are not good quality liable to the ordinary rates of CCL;
- providing for abated CPS rates for supplies of fossil fuels to power stations with CCS technology, with abatement reflecting the station's performance;
- providing for regulations covering, among other things, the operation of the CHP and CCS reliefs, including how a reconciliation procedure will work;
- making all generators liable to pay CPS rates registrable with HMRC if they are not already registered for CCL and making them liable to account for, declare to, and pay the CPS rates due to HMRC;
- providing that supplies to generators and connected persons with a combined generating capacity up to and including 2MW will not be liable to CPS rates (or to the main rates of CCL);
- making coal one of the three CPS taxable commodities; exempting coal with a gross calorific value of 15GJ per tonne or less; expressing the CPS rate on coal by gigajoule rather than by kilogram; and amending the CPS coal rate that will apply from 1 April 2013;
- enabling overpaid CPS tax to be reclaimed from HMRC; and
- setting the CPS rates from 1 April 2014.

Finance Bill 2012 will also introduce anti-forestalling provisions for supplies of fossils fuels subject to the CPS rates of CCL to supplement the provisions in Finance Act 2011.

Secondary legislation

Three statutory instruments will be introduced following Royal Assent to Finance Act 2012:

- *The Climate Change Levy (General) (Amendment) (No 2) Regulations 2012* will amend the general regulations to enable HMRC to administer the CPS rates of CCL, including the reliefs.
- *The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendment) Regulations 2013* will amend the 2005 Regulations to make oils used to generate electricity in a generating or CHP station subject to the CPS rates of fuel duty from 1 April 2013.
- Treasury Regulations will set out the details of the exemption from the CPS rates of CCL for supplies used in a CHP to generate non-electricity outputs that are good quality, and bring the exemption into effect following State aid approval for the exemption.

Summary of impacts

This summary of impacts covers the changes arising as a result of the additional legislative changes announced today.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	-45	-90	-115	-145
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office of Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	The measure is expected to have no significant economic impacts.				
Impact on individuals and households	The changes announced today are not envisaged to have any effect on individuals or households.				
Equalities impacts	There will be no significant impacts as a result of these changes.				
Impact on business including civil society organisations	The self-accounting regime is being introduced in response to representations from business that this will fit well with their existing business practices. Similarly the introduction of a threshold of 2MW generating capacity will exclude approximately 80 per cent of CHP generators from the scope of the CPS rates meaning that they will not be required to register or pay the tax. The remaining CHP plants will benefit, in some cases significantly, from the exemption for input fuels used for heat. The measure is expected to have a negligible impact on other businesses and civil society organisations.				
Operational impact on HMRC	Additional operational costs for HMRC will be negligible.				
Other impacts	Wider environment impact: By exempting coal with a gross calorific value of 15GJ per tonne or less from the CPS rates of CCL, the reclamation of old disused mines will continue to be encouraged rather than having this coal dumped at landfill sites. Small firms impact test: Setting a threshold of 2MW generating capacity will exclude many small scale CHP generators and auto-generators, which will reduce the impact upon small firms.				

Monitoring and evaluation

The Government will consider how best and when to evaluate the overall policy against its objective to encourage investment in low-carbon power generation. The impact of the changes set out in this note will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about these changes, please contact the Excise and Customs Helpline on 0845 010 9000.

Climate Change Levy: Electricity Produced In Combined Heat and Power Stations

Who is likely to be affected?

Operators of fully-exempt or partly-exempt combined heat and power (CHP) stations, electricity utilities that make supplies of electricity generated in such stations, and business and public sector consumers of such electricity.

General description of the measure

Budget 2011 announced the ending of the exemption from climate change levy (CCL) for electricity produced in a CHP station that is supplied by an electricity utility indirectly to an energy consumer ("the CCL CHP indirect supplies exemption").

Regulators will no longer issue levy exemption certificates (LECs) for electricity generated in CHP stations from 1 April 2013. Electricity utilities will be able to allocate CHP LECs that they acquired relating to CHP generation made before 1 April 2013, until 31 March 2018. This will give them time to use up their stocks.

This measure also provides for a transition back to the arrangements that existed before the introduction of CHP LECs in 2003.

Policy objective

This change removes an exemption that was administratively complex and costly to the taxpayer.

Background to the measure

When CCL was introduced in 2001, CHP-generated electricity supplied directly to a final consumer (including self-supplies) was exempted. In April 2003 this exemption was extended to "indirect supplies", i.e. those made via an electricity utility to an energy consumer.

Once electricity enters the national grid, the technology used to generate that electricity is no longer distinguishable. Therefore, the CHP LEC regime was introduced to provide evidence that CHP electricity had been generated.

CHP LECs are issued by the regulators of the regime: the Office of Gas and Electricity Markets Authority (Ofgem) and the Northern Ireland Authority for Utility Regulation (NIAUR). Utility companies buy LECs from CHP generators.

When the utility company supplies electricity to the final consumer they notify the regulator of the LECs associated with that supply and redeem them to apply the CCL exemption.

The Government reviewed its support for CHP under the tax system in the light of the introduction of the carbon price floor and the expiry on 31 March 2013 of State aid approval for the CCL CHP indirect supplies exemption. At Budget 2011, it announced that from 1 April 2013:

- the indirect supplies exemption would end, meaning that no new LECs would be issued for CHP electricity generated after that date; and

- fossil fuels used to generate electricity in a CHP plant registered under the DECC's CHP Quality Assurance programme as either fully- or partly-exempt would, subject to State aid approval, be liable to lower carbon price support rates of CCL and fuel duty.

Following further consideration and discussions with the CHP sector, the Government has announced today that an exemption for fossil fuels used to generate non-electricity outputs that are good quality is more appropriate than the introduction of reduced carbon price support rates for CHP plant. This is subject to State aid approval. Further information is in the Tax Information and Impact Note (TIIN) on *Carbon Price Floor: Further Legislative Provisions and Future Rates* published on 21 March 2012.

This updates and replaces the TIIN which was published on 6 December 2011 alongside the exposure of draft legislation for this measure.

Detailed proposal

Operative date

The regulators will not issue LECs to electricity generators for electricity generated in a CHP station from 1 April 2013. Electricity utilities will be able to continue to allocate CHP LECs that they acquired on CHP electricity generation made before 1 April 2013, until 31 March 2018. After that date a Treasury Order will bring into force any final repeals required.

Current law

The CCL CHP indirect supplies exemption is contained in paragraph 20A of Schedule 6 to the Finance Act 2000 ("Schedule 6").

To cater for variations in supply and demand, paragraph 20B of Schedule 6 enables electricity utilities to match the acquisition of CHP electricity with supplies that are exempt from CCL because they were made under the terms of a contract that contains a CHP declaration. The matching is carried out over quarterly periods with the facility to carry forward credit and debit balances to subsequent periods.

CHP electricity can be supplied to a consumer either directly by the generator or indirectly by an electricity utility. Paragraph 149A of Schedule 6 enables HMRC to allow Ofgem and NIAUR to certify that a quantity of electricity has been produced in either a fully-exempt or partly-exempt CHP station and then supplied from the station, without causing its qualifying limit to be exceeded.

Part IV(A) and Schedule 2 of the Climate Change Levy (General) Regulations 2001 (SI 2001/838) ("the general regulations") provide for electricity produced in either a fully-exempt or a partly-exempt CHP station to be certified as such by the regulators in circumstances where any of that electricity will be the subject of an indirect supply. The general regulations also make provision for other requirements, including record-keeping and LEC reconciliation.

The Climate Change Levy (Combined Heat and Power Stations) Regulations 2005 (SI 2005/1714) ("the CHP regulations") relate to the reliefs from CCL that may apply in respect of certified CHP stations.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend paragraph 20A of Schedule 6 and then to repeal that amended paragraph, along with paragraphs 20B and 149A, from a day to be appointed by the Treasury. Where an electricity utility has a credit balance at 31 March 2013 relative to the provisions of paragraph 20B of Schedule 6, it will be able to

continue to make CCL exempt supplies until 31 March 2018 in order use up that credit balance.

The general regulations will be amended to provide that electricity produced in either a fully-or partly-exempt CHP on or after 1 April 2013 will not be the subject of a CHP LEC. They will also be amended to introduce transitional LEC reconciliation requirements on the regulators as a result of the phasing out of CHP LECs.

The CHP regulations will be amended for the purposes of calculating the limit on the quantity of electricity that may be produced in and supplied direct from a partly-exempt CHP station exempt from CCL to reinstate the arrangements that existed before the introduction of CHP LECs in 2003.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	+110	+125	+145	+165
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	The measure is expected to have no significant economic impacts.				
Impact on individuals and households	CCL is not chargeable on supplies to individuals and households.				
Equalities impacts	The proposed changes will affect businesses and other organisations that obtain CHP-generated electricity from an electricity utility that has to pay CCL. There will be no direct impact on individuals. As such, the Government expects that there will be no differential impact on different equality groups.				
Impact on business including civil society organisations	CHP stations will no longer receive a premium tariff for their electricity sold to electricity utilities, which those utilities may pass on to business or public sector electricity consumers. There will be a negligible one-off and continuing administrative saving to CHPs as they no longer have to obtain and allocate LECs. Electricity utilities will have to start accounting for CCL on supplies to business and public sector consumers once they have used up any credit balance of LECs, or from 1 April 2018 whichever happens sooner and consumers of such electricity will incur CCL on those supplies.				
Operational impact (£m) (HMRC or other)	HMRC costs are estimated to be negligible and would fall as part of the existing operational cost of administering CCL. The costs of the regulators involved, Ofgem and NIAUR, are expected to be reduced by approximately £100,000 a year. In the long term there will be further benefits from removing this administrative complexity.				
Other impacts	Carbon assessment: Small benefits may come from reduced carbon emissions through energy efficiencies and environmental benefits of CCL. Removal of the exemption may reduce the incentive for large-scale CHP to export excess electricity, but consumers incurring CCL may marginally reduce their consumption. Small firms impact test: Some small businesses may be affected by the proposals insofar as the transitional compliance costs might represent a				

	slightly higher burden relative to larger businesses as a percentage of their fixed operating costs. However, arrangements for the smaller businesses should be less complex than those of larger businesses. This should mean that less time is spent on the transitional compliance burdens and therefore they would not be expected to incur any material disadvantage implementing this change relative to larger businesses.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups. HMRC will also work closely with Ofgem and NIAUR to monitor the redemption of electricity utility LEC holdings.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

HM Revenue & Customs

VAT: Hot Food and Premises

Who is likely to be affected?

Retailers and consumers of hot takeaway food that is currently sold at the zero rate of VAT.

General description of the measure

This measure clarifies the definition of "hot food" to confirm that the sale of all hot food, with the exception of freshly baked bread, is standard-rated (currently, some retailers argue that their sales of hot takeaway food are zero-rated). It also clarifies the meaning of "premises" by confirming that the sale of all food sold for consumption in areas adjacent to a retailer (such as a table and chairs outside a café) or in areas that are shared with other retailers (such as food courts in shopping centres) is standard-rated.

Policy objective

The measure ensures that the sale of all hot food is taxed consistently at the standard rate and to clarify the meaning of premises. This will help to reduce future disputes and litigation in this area of VAT law.

Background to the measure

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* was published together with draft legislation.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Current law

The current legislation is contained in Part (a) of Group 1 of Schedule 8 to the Value Added Tax Act 1994 which confirms that a supply of food "in the course of catering" is standard-rated.

Note 3 to that group then specifies that the term "in the course of catering" includes the sale of "hot takeaway food" which is defined as food that has been heated for the purposes of enabling it to be consumed at a temperature above ambient air temperature and which is above that temperature at the time it is provided to the customer. The term also includes a supply of food for consumption on the "premises" on which it is supplied.

Proposed revisions

Secondary legislation will amend Note 3 so that the current test for "hot takeaway food" which is based on the purposes for which food is heated becomes a simpler and more objective test based on whether the food is above ambient air temperature at the time it is provided to the customer. The note will also confirm that "premises" includes areas adjacent to a retailer as well as areas that are shared with other retailers.

The summary of impacts below focuses on the "hot takeaway food" aspect of this measure only, as the change to clarify the meaning of "premises" is expected to have minimal impact as it confirms existing rules.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+50	+105	+110	+115	+120
	These figures are part of the VAT package on *Closing Loopholes* and *Correcting Anomalies* set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.				
Economic impact	This measure might lead to a small increase in the price of hot food products which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.				
Impact on individuals and households	This measure will impact on individuals and households that purchase products that are affected by this change. There are no identified compliance costs for individuals or households.				
Equalities impacts	Potentially any consumer of hot food products, sold as hot but not marketed as takeaway, will be affected by this change. There is no specific impact identified for any equalities group.				
Impact on business including civil society organisations	This measure will impact on retailers of affected products that are currently zero-rated but will become standard-rated. One off compliance costs have been considered and are expected to be negligible in total. Around 2,000 to 3,000 businesses are expected to incur costs from familiarisation with the new guidance, system changes, re-pricing and additional book keeping. It is estimated that the cost per business will be around £50 on average. There are no expected ongoing administrative burdens.				
Operational impact (£m) (HMRC or other)	This measure will help to reduce the number of disputes and amount of litigation in the area of hot food, which will reduce HM Revenue & Customs costs.				
Other impacts	Small firms impact test: The measure may impact on small businesses that sell affected products, however there is no scope for different treatment of the sale of hot takeaway food by small businesses.				

Monitoring and evaluation

The measure will be monitored through communication with affected taxpayer groups and through information collected from VAT returns. Areas that could help assess the extent that the policy is achieving its objectives include the amount of VAT paid by businesses in certain markets and whether there are fewer disputes and litigation in this area.

Further advice

If you have any questions about this change please contact Patrick Wilson on 0207 147 0595 (email: patrick.wilson@hmrc.gsi.gov.uk) or David Roberts on 0207 147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

VAT: Sports Nutrition Drinks

Who is likely to be affected?

Manufacturers, retailers and consumers of sports nutrition drinks, which are currently zero-rated for VAT purposes.

General description of the measure

This measure will tax at the VAT standard rate the sale of sports nutrition drinks (mainly carbohydrate, protein and/or creatine based drinks) that are marketed as products that enhance physical performance, accelerate recovery after exercise, or build bulk.

Policy objective

The measure ensures that all sports drinks are taxed consistently at the standard rate (most sports drinks are already standard-rated as beverages).

Background to the measure

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* was published together with draft legislation.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Current law

The current legislation is contained in Excepted Item 4 of Group 1 of Schedule 8 to the Value Added Tax Act 1994 and standard-rates the sale of beverages. However, case law has confirmed that for a drink to be classified as a beverage, it must be designed to rehydrate, slake thirst and give pleasure. Therefore, some sports nutrition drinks fall outside this definition and so are zero-rated.

Proposed revisions

Secondary legislation will introduce a new Excepted Item 4A into Group 1 to confirm that sports drinks that are marketed as products designed to enhance physical performance, accelerate recovery after exercise or build bulk, and other similar drinks, including syrups, concentrates, essences, powders, crystals or other preparations of such drinks will be standard-rated.

Summary of Impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+5	+10	+10	+10	+15
	These figures are part of the VAT package on *Closing Loopholes* and *Correcting Anomalies* set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.				
Economic impact	This measure might lead to a small increase in the prices of sports nutrition drinks which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.				
Impact on individuals and households	This measure will impact on individuals and households that purchase sports drinks that are affected by this change. There are no identified compliance costs for individuals or households.				
Equalities impacts	Potentially any consumer of sports nutrition drinks will be affected by this change. There is no specific impact identified for any equalities group.				
Impact on business including civil society organisations	This measure will impact on retailers of affected products that are currently zero-rated but will become standard-rated. One off compliance costs have been considered and are expected to be negligible in total. Around 1,000 to 2,000 businesses are expected to incur costs from familiarisation with the new guidance, system changes, re-pricing and additional book-keeping. It is estimated that the cost per business will be around £40 on average. There are no expected ongoing administrative burdens.				
Operational impact (£m) (HMRC or other)	This measure will help to reduce the number of disputes and amount of litigation in the area of sports drinks, which will reduce HM Revenue & Customs costs.				
Other impacts	Small firms impact test: The measure may impact on small businesses that sell products, however there is no scope for different treatment of the sports nutrition drinks for small firms.				

Monitoring and evaluation

The measure will be monitored through communication with affected taxpayer groups and through information collected from VAT returns. Areas that could help assess the extent that the policy is achieving its objectives include the amount of VAT paid by businesses in certain markets and whether there are fewer disputes and litigation in this area.

Further advice

If you have any questions about this change please contact Patrick Wilson on 0207 147 0595 (email: patrick.wilson@hmrc.gsi.gov.uk) or David Roberts on 0207 147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

HM Revenue & Customs

VAT: Self Storage

Who is likely to be affected?

All providers of self storage, who have not already opted to tax their supplies.

General description of the measure

This measure requires all providers of self storage to charge VAT.

Policy objective

This measure levels the playing field between operators of self storage and other types of storage and addresses tax avoidance, making the VAT system simpler and fairer.

Background to the measure

Self storage providers allocate their customers with a discrete area of land and so their supply can qualify for VAT exemption.

Providers of other types of storage (such as traditional removal companies) which do not provide their customers with a discrete area and are able to move their customers' goods around within their premises, already have to charge VAT on their rental charges.

Around 30 per cent of self storage is currently taxed because of the option to tax. Some self storage providers have never opted to tax but those that do are able to reclaim VAT on the costs of constructing or purchasing their storage facilities. Some self storage providers have used avoidance arrangements to convert their taxable supplies back to exempt supplies, gaining an unfair advantage over their competitors.

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* was published together with draft legislation.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Anti-forestalling legislation will apply to supplies made on or after 21 March 2012.

Current law

The current law is contained in Item 1 of Group 1 of Schedule 9 to the Value Added Tax Act 1994. This exempts from VAT supplies of land subject to a list of specified exceptions.

Proposed revisions

Secondary legislation will amend Item 1 so that the supply of self storage is added to the list of exceptions meaning it can no longer be exempt from VAT.

Anti-forestalling legislation will be introduced in Finance Bill 2012 to prevent businesses entering into avoidance arrangements from 21 March 2012 in order to obtain exemption for self storage supplied from 1 October.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>+15</td><td>+30</td><td>+30</td><td>+35</td><td>+35</td></tr>
<tr><td colspan="5">These figures are part of the VAT package on Closing Loopholes and Correcting Anomalies set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure might lead to a small increase in the price of self storage which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will affect all consumers who use currently untaxed storage facilities and are unable to reclaim any VAT that may be charged.

Industry data estimates that overall around 235,000 business and private customers use self storage facilities. There are no data on the number of private customers who will now be charged VAT as a result of this change but supplies to private consumers account for around two thirds of all self storage supplies by value. There are no data on the types of individuals impacted.

There are no identified compliance costs for individuals or households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potentially any user of self storage facilities will be affected by this change. There is no specific impact identified for any equalities group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure will impact on:

a) An estimated 250 VAT registered self storage businesses that do not opt to tax their supplies.
b) Any unregistered suppliers of self storage that will have to register as a result of the change. The number of these businesses is not known, but is estimated to be around 50.
c) An unknown number of unregistered businesses, businesses making exempt supplies and charities that are unable to reclaim the VAT charged to them on self storage.

One-off compliance costs have been considered and are expected to be negligible in total. An estimated 300 businesses are expected to incur costs from familiarisation with the new guidance, system changes, re-pricing and additional book keeping and these are expected to be small.

Ongoing annual costs for the estimated 50 businesses that will have to register have been considered and are expected to be negligible in total.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HM Revenue & Customs is likely to benefit from lower administrative costs as a result of a reduction in levels of taxpayer query and non-compliance.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> The change will impact on all businesses which are currently treating self storage as exempt irrespective of size. Small operators of self storage facilities will have to register and account for VAT if their taxable turnover exceeds the registration threshold. There is no scope for different VAT treatment for supplies of self storage made by small firms.</td></tr>
</table>

Monitoring and evaluation

The measure will be monitored through routine checks on VAT return information and through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Stephen Roberts on 0207 147 0428 (email: stephen.roberts@hmrc.gsi.gov.uk) or David Roberts on 020 7147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

HM Revenue & Customs

VAT: Approved Alterations to Listed Buildings

Who is likely to be affected?

Businesses carrying out approved alterations work to protected buildings - listed buildings or scheduled monuments which are dwellings or are used for a relevant residential or a relevant charitable purpose.

Owners and developers of these buildings.

General description of the measure

The measure will result in i) all building materials and construction services supplied in the course of an approved alteration to a protected becoming subject to VAT at the standard rate and ii) a narrowing of the circumstances in which the first sale or long lease by a developer of a substantially reconstructed protected building can be zero-rated, so that only buildings reconstructed from a shell continue to benefit from the zero rate.

Policy objective

Removing the zero rate removes a perverse incentive to change listed buildings rather than repair them and ensures that all alteration works receive the same tax treatment. The change makes the VAT rules simpler for businesses to understand and for HM Revenue & Customs (HMRC) to administer and reduces the scope for error and non-compliance.

Background to the measure

The repair and maintenance of a protected building is standard-rated, but the approved alteration of a protected building is zero-rated. Some alterations restore or enhance the unique character of a building or prolong its active life, but most work covered by the relief is extension work which is unnecessary for heritage purposes. Alteration work on other types of building is standard-rated so owners of listed buildings receive a tax advantage over owners of other types of building.

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* was published together with draft legislation.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Transitional arrangements will be put in place to protect contracts entered into before 21 March 2012.

Anti-forestalling legislation will apply to supplies made on or after 21 March 2012.

Current law

The current law is Group 6 of Schedule 8 to the VAT Act 1994. Zero-rating applies to approved alterations to a listed building and to the first sale or long lease by a developer of a substantially reconstructed listed building. The zero-rating applies to buildings used as i) a dwelling, ii) a residential building such as a nursing home or student accommodation, iii) a

building used by a charity for non-business purposes such as a place of worship or as a village hall or similar.

Proposed revisions

Secondary legislation will amend Group 6 to i) remove Items 2 and 3 which zero rate construction services and building materials in the course of an approved alteration and ii) remove the test in Note 4a which zero-rates the first sale or long lease of a substantial reconstruction where 60 per cent by value of the work is an approved alteration.

Transitional arrangements will be put in place so that where a contract was entered into before 21 March 2012 or in the case of a substantial reconstruction at least 10 per cent (measured by reference to cost) of the reconstruction of the protected building was completed before 21 March 2012 then i) any supply of building materials made from 21 March 2012 as a result of that contract can continue to be zero-rated until 20 March 2013 and ii) the first grant of the completed building can be zero-rated until 20 March 2013.

Anti-forestalling legislation will be introduced in Finance Bill 2012 to prevent businesses entering into avoidance arrangements from 21 March 2012 in order to obtain zero-rating of the affected supplies from 1 October 2012.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>+35</td><td>+85</td><td>+95</td><td>+110</td><td>+125</td></tr>
<tr><td colspan="5">These figures are part of the VAT package on Closing Loopholes and Correcting Anomalies set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure might lead to a small increase in the price of alterations to listed buildings which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure potentially affects any individual and household owners of protected buildings who will now have to bear VAT on any alteration work to their property.

There are an estimated 350,000 listed dwellings in the UK. It is estimated that around 10,000 individuals and households may be affected each year by the measure, with the additional costs from the VAT change varying according to the extent of work undertaken.

There are no identified compliance costs for individuals or households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potentially any owner of a protected building will be affected by this change.

Places of Worship - Listed places of worship will also be affected by the change, although our evidence suggests that places of worship form only a small minority of the total number of listed properties in the UK. These will be predominantly used by Christian denominations. In order to mitigate the impacts on these groups the DCMS is expanding the existing Listed Places of Worship Grant Scheme which refunds the VAT on repairs and maintenance work, so that this includes approved alterations to listed buildings.

There is no specific impact identified for any other equalities group.</td></tr>
</table>

Impact on business including civil society organisations	Businesses and charities that own protected buildings will be affected by this measure if they cannot reclaim the additional VAT incurred. There are an estimated 35,000 to 50,000 listed buildings owned by businesses or charities used for a residential or charitable purpose. It is estimated that around 1,000 businesses and charities may be affected each year. All businesses that supply work in the course of approved alterations to protected buildings will be affected. This will include tradesmen specialising in listed building work. One-off compliance costs have been considered and are expected to be negligible in total. Around 5,000 to 6,000 businesses estimated to routinely work on listed buildings are expected to incur small costs from familiarisation with the new guidance and additional bookkeeping. A further 100,000 businesses who provide construction services may incur very minimal familiarisation costs. There are no expected ongoing costs as businesses are familiar with making standard-rated supplies of repair and maintenance. Simplifying the VAT rules is expected to reduce the ongoing compliance costs for business.
Operational impact (£m) (HMRC or other)	HMRC is likely to benefit from lower administrative costs as a result of a reduction in levels of taxpayer query, non-compliance and litigation.
Other impacts	Small firms impact test: This change may impact affected businesses of all sizes that perform work on listed buildings. There will be an impact on small firms including tradesmen specialising in protected buildings. There is no scope for different VAT treatment for supplies of construction work by small firms.

Monitoring and evaluation

The measure will be monitored through routine checks on VAT return information and through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Stephen Roberts on 0207 147 0428 (email: stephen.roberts@hmrc.gsi.gov.uk) or David Roberts on 020 7147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

VAT: Hairdressers' Chair Rental

Who is likely to be affected?

All hairdressing salons and similar businesses which rent a chair to a hairdresser and treat this as VAT exempt.

General description of the measure

This measure makes it explicit in legislation that the rental of a chair by a salon to a hairdresser is taxable at the standard rate of VAT.

Policy objective

This measure makes the current position clear in law, removing any opportunity for confusion, and making the tax system fairer and simpler.

Background to the measure

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* published together with draft legislation.

Many hairdressing salons charge stylists a chair rental fee for using salon space. HM Revenue & Customs' (HMRC) policy, backed up by many court decisions, is that this is subject to VAT at the standard rate. Most salon owners get this right, but a significant minority still argue this is an exempt supply.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Current law

Generally a licence to occupy land is VAT exempt under Item 1 of Group 1 of Schedule 9 to the VAT Act 1994. However, when a hairdressing salon or similar businesses rents chair spaces to individual self-employed stylists, the stylist receives more than just a licence to occupy their chair space, that supply includes a number of other services (e.g. use of washbasins, reception, waiting area for clients) which cannot be described as ancillary to a supply of land but are rather an integral part of an overall supply made up of a bundle of elements. This is a single taxable supply of facilities.

Proposed revisions

Secondary legislation will amend Item 1 to add chair rental to the exceptions to the exemption. This will make it clear that any rental of a chair in a salon together with services will be taxable.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+5	+5	+5	+5	+10
	These figures are part of the VAT package on *Closing Loopholes* and *Correcting Anomalies* set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.				
Economic impact	This measure might lead to a small increase in the price of affected hairdressing services which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.				
Impact on individuals and households	Most of the supplies affected by this measure are made to self-employed persons operating below the VAT registration threshold, who will incur irrecoverable VAT. Individuals and households may be impacted either if i) unregistered businesses pass on this irrecoverable VAT in higher prices, or ii) unregistered businesses register for VAT and therefore charge VAT on their services. There is no information on the numbers of individuals affected. There are no identified compliance costs for individuals or households.				
Equalities impacts	Industry data suggest that the vast majority of hairdressers (who may represent the unregistered businesses impacted by this measure) are female and aged between 16-44.				
Impact on business including civil society organisations	This measure makes it clear that certain supplies of land provided with other services are already standard-rated. It is estimated to affect under 1,000 hairdressing salons that have incorrectly treated land supplied together with other services as VAT exempt and under 5,000 self-employed businesses receiving these services and unable to recover the VAT. As the measure introduces no changes to the current treatment, any one-off and ongoing compliance costs will only be incurred by businesses currently treating their supplies incorrectly.				
Operational impact (£m) (HMRC or other)	HMRC is likely to benefit from lower administrative costs as a result of a reduction in levels of taxpayer query, non-compliance and litigation.				
Other impacts	Small firms impact test: The measure impacts only those businesses which treat chair rental incorrectly and imposes no new impacts over and above the existing effects of the current law. This will affect businesses of all sizes, however the majority of those directly impacted are assumed to be small firms, making supplies of chair rental to other small firms operating below the VAT registration threshold.				

Monitoring and evaluation

The measure will be monitored through routine checks on VAT return information.

Further advice

If you have any questions about this change, please contact Stephen Roberts on 0207 147 0428 (email: stephen.roberts@hmrc.gsi.gov.uk) or David Roberts on 020 7147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

HM Revenue & Customs

VAT: Taxing Holiday Caravans

Who is likely to be affected?

Manufacturers and retailers of holiday caravans that are currently zero-rated; and individuals who purchase them.

General description of the measure

This measure taxes at the standard rate the sale of holiday caravans, which will be defined as caravans that are not designed and constructed for continuous year round occupation.

Zero-rated holiday caravans are mainly static caravans but will also include a small number of larger touring caravans which can be towed by a motor vehicle.

Policy objective

The measure ensures that sales of holiday and leisure caravans are taxed consistently at the standard rate, while preserving the zero rate for the sale of residential caravans. Touring caravans that are less than seven metres long are already standard-rated.

Background to the measure

This measure was announced at Budget 2012 and a consultation document entitled *VAT: Addressing Borderline Anomalies* was published together with draft legislation.

Detailed proposal

Operative date

The measure will have effect on supplies made on or after 1 October 2012.

Current law

The current legislation is in Group 9 of Schedule 8 to the VAT Act 1994.

Proposed revisions

Secondary legislation will amend Group 9 so that only caravans that are designed and constructed for continuous year round occupation will be zero-rated. A caravan is "designed and constructed for continuous year round occupation" if it is manufactured to British Standard BS 3632 or equivalent which applies to residential caravans.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+15	+35	+40	+40	+45
	These figures are part of the VAT package *on Closing Loopholes* and *Correcting Anomalies* set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This element of the VAT package is shown above.				
Economic impact	This measure might lead to a small increase in the price of static caravans which would lead to a fall in demand. The overall macroeconomic impacts are expected to be negligible.				
Impact on individuals and households	This measure will impact around 50,000 individuals and households purchasing static holiday caravans each year. There is no impact on those who already own a caravan of a type affected by the change. There may be an impact on a small number of individuals renting static holiday caravans for residential purposes if the business renting out the caravan passes on the VAT on the purchase of the caravan in increased rent. There are no identified compliance costs for individuals or households.				
Equalities impacts	The main impact of the measure is on individuals buying a static caravan for holiday purposes. This measure could however adversely impact on any individuals and families who reside in static caravans not designed for residential purposes. However, the numbers affected are expected to be very small as these caravans are not designed for all year round occupation. However, those affected will include some of the Gypsy and Traveller community. Official statistics on the number of Gypsy and Traveller caravans suggest there are around 13,500 privately owned Gypsy and Traveller caravans in the UK and 8,000 rented caravans. There is no breakdown available of the types of caravan purchased or rented by the Gypsy and Traveller community. It is likely that the majority of these are tourer caravans which are already standard-rated. However assuming the same proportion as for the entire population, it is estimated that the Gypsy and Traveller community may purchase around 1,000 static caravans each year and rent around 3,000. There are no data on the types of individuals who rent out static caravans for all year round residential purposes. Carving out exclusions from the legislation to mitigate the impact on vulnerable groups would make the rules complex and create opportunities for avoidance and evasion.				

Impact on business including civil society organisations	Up to around 750 manufacturers, retailers and holiday parks selling static caravans will be affected by this measure. The vast majority of holiday static caravans are manufactured in the UK and a small number of manufacturers account for the vast majority of all UK sales. Although some manufacturers produce other types of caravans, static caravans are the main source of income for most of these manufacturers. The costing assumes a fall in demand of about 30 per cent, if the VAT change is fully passed on. One-off compliance costs have been considered and are expected to be negligible in total. Around 750 businesses will incur costs from familiarisation with the new guidance, system changes, re-pricing and additional book-keeping and these are expected to be small. There are no expected ongoing administrative burdens.
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs/savings for HM Revenue & Customs.
Other impacts	Small firms impact test: This change is likely to adversely impact on all businesses that manufacture, buy or sell static caravans, from the very smallest to the very largest. There is no scope for different VAT treatment for supplies of static caravans made by small firms.

Monitoring and evaluation

The measure will be monitored through routine checks on VAT return information and through communication with affected taxpayer groups.

Further advice

If you have any questions about this change please contact Patrick Wilson on 0207 147 0595 (email: patrick.wilson@hmrc.gsi.gov.uk) or David Roberts on 0207 147 0205 (email: david.roberts4@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp Duty Land Tax: Rate in Respect of Residential Property where Consideration over £2 million

Who is likely to be affected?

Purchasers acquiring residential property where the purchase price exceeds £2 million.

General description of the measure

Under this measure Stamp Duty Land Tax (SDLT) on the purchase of a residential property (freehold, lease premium or assignment) will be charged at 7 per cent of chargeable consideration where this is more than £2 million.

Policy objective

The measure forms part of a package both to ensure that individuals and companies pay a fair share of tax on residential property transactions and to tackle avoidance.

Background to the measure

This measure was announced in Budget 2012.

Detailed proposal

Operative date

The measure will have effect for transactions where the effective date (normally the date of completion) is on or after 22 March 2012. Transitional provisions will ensure that, broadly speaking, the old rates will continue to apply in respect of contracts entered into before 22 March 2012 but completed on or after that date.

Current law

The SDLT charge on a freehold purchase, a lease premium or the assignment of a lease is governed by section 55 Finance Act 2003. Tax is charged at a percentage of the chargeable consideration for the transaction. The percentage rate is determined by whether or not the subject-matter of the transaction consists wholly of residential property and by the amount of the consideration. In the case of linked transactions (defined by section 108 Finance Act 2003) the amounts of consideration are aggregated in order to determine the rate of tax payable.

The percentage rates are set out in two tables - Table A: *Residential* and Table B: *Non-residential or mixed* - and range from zero per cent to 5 per cent (Table A) and zero per cent to 4 per cent (Table B). Currently the 5 per cent rate applies to wholly-residential transactions where the relevant consideration is more than £1 million.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend Table A in section 55 Finance Act 2003 to apply the existing 5 per cent rate to transactions where the relevant consideration is more than £1 million but not more than £2 million and a new rate of 7 per cent where the relevant consideration is more than £2 million.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+150	+180	+225	+260	+300
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.				
Economic impact	This measure will have no significant economic impact.				
Impact on individuals and households	Due to the effects of SDLT being capitalised into property prices, those individuals who own a property over £2 million are likely to see some fall in the value of their property. There are currently around 3,000 residential property transactions per annum at over £2 million so impacts on the housing market and wider economy are unlikely to be significant.				
Equalities impacts	These changes are not expected to have an impact on any protected equality group.				
Impact on business including civil society organisations	Companies which own a property over £2 million will see their property fall in value as the higher rates of SDLT are capitalised into property prices. Charities will be able to claim relief from the SDLT charge. Housing associations which are not charities may be affected if they purchase individual properties costing more than £2 million. The administrative burden and ongoing cost of compliance (but not the tax charge) will be negligible as the higher rates will be charged within the current SDLT regime.				
Operational impact (£m) (HMRC or other)	This requires a change to SDLT rates and thresholds which will cost a negligible amount to HM Revenue & Customs and be met from existing baselines.				
Other impacts	No additional impacts to those discussed above have been identified.				

Monitoring and evaluation

The Government has introduced a package of measures to meet its policy objectives on residential property. The measure will be monitored and assessed alongside the other measures in the package.

Further advice

If you have any questions about this change, please contact the HMRC Stamp Taxes team at budget2012.stamptaxes@hmrc.gsi.gov.uk

Stamp Duty Land Tax Rate: Enveloping of High Value Residential Properties

Who is likely to be affected?

Certain types of non-natural persons acquiring residential property in the UK costing more than £2 million.

General description of the measure

A higher rate of Stamp Duty Land Tax (SDLT) will be charged on acquisitions of UK residential property where the consideration given exceeds £2 million and the person or persons acquiring the property are certain types of non-natural persons.

Unless the purchaser is a natural person, or natural persons acquiring a property jointly, the higher rate may be chargeable. For the purposes of the higher rate charge 'non-natural person' includes companies, collective investment schemes (including unit trusts), and partnerships in which a non-natural person is a partner. There are exclusions from the charge for property developers and corporate trustees in certain circumstances.

Policy objective

The measure forms part of a package both to ensure that individuals and companies pay a fair share of tax on residential property transactions and to tackle avoidance.

This measure aims to dis-incentivise the ownership of high value residential property in structures that would permit the indirect ownership or enjoyment of the property to be transferred in a way that would not be chargeable to SDLT. The intention is to stop or reduce the number of properties that will enter such complex ownership structures. Taken together with the introduction of an annual charge in 2013 on such property owned by the same sorts of non-natural persons, this will result in a reduction in the number of high value properties owned in such structures.

Background to the measure

This measure was announced at Budget 2012. There has been no formal consultation, because of the risk of forestalling.

Detailed proposal

Operative date

The measure will affect purchases of residential property costing more than £2 million where the effective date of the transaction is 21 March 2012 or later and the person or persons acquiring the property are among the non-natural persons to whom the measure applies. There will be transitional rules that will apply to transactions that would otherwise be within the higher rate charge but where the contract was completed and signed by all parties to the transaction on or before 21 March 2012.

Current law

Table A in Section 55 Finance Act (FA) 2003 provides that the current rate of SDLT for residential property costing more than £1million is 5 per cent and the nature of the person

acquiring the property is not material to the rate of tax charged. At Budget 2012 the rate for residential properties costing more than £2 million was increased to 7 per cent. Residential property is defined in Section 116 FA 2003 as, broadly, a property that is suitable for use as a dwelling. Certain types of property are included as dwellings, for example residential accommodation for school pupils and the armed forces, and these categories will be specifically excluded from the meaning of dwellings for this measure. Furthermore certain types of property are already excluded from the meaning of a dwelling, including: halls of residence for students, homes providing accommodation with personal care for a person in need of such care as a result of old age, and hospitals or hospices.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to provide for the defined non-natural persons to be charged a 15 per cent rate of SDLT when they, or together with other non-natural persons or natural persons, acquire residential property for consideration of more than £2 million.

The legislation in Finance Bill 2012 will also introduce a power to make secondary legislation to amend the types of non-natural person caught by the charge.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>negligible</td><td>+65</td><td>+65</td><td>+65</td><td>+75</td></tr>
<tr><td colspan="5">These figures capture the Exchequer impact of the Government’s wider reform to SDLT and are set out in Table 2.1 of Budget 2012. They have been certified by the Office for Budget Responsibility. More detail on the full reform package can be found in the policy costings document published alongside Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">No individuals are directly affected as the higher rate charge only applies to non-natural persons. A small number of beneficiaries of trusts investing via companies, investors in collective investment schemes, or owners of shares in companies that are purchasing expensive property will see the value of their interest affected.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The measure is not anticipated to impact on groups with protected characteristics any more than on those without such characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The number of businesses affected by the higher SDLT rate will be small because there are relatively few acquisitions of residential property costing more than £2 million each year.

Businesses purchasing residential properties costing more than £2 million are already within the scope of SDLT, and the higher rate will be administered through the current SDLT regime. The measure should thus give rise to negligible additional administrative burden or compliance costs.

The measure should not impact on charities who can claim relief from the charge providing the property is used for charitable purposes.</td></tr>
</table>

Operational impact (£m) (HMRC or other)	HMRC will incur costs of about £550,000 to make the changes to the SDLT IT system needed to take account of the higher rate charge.
Other impacts	Small firms impact test: Many of the companies used to hold residential property costing more than £2 million are special purpose vehicles which will own a single property. These will have no employees and the measure aims to discourage such companies from purchasing such properties. These companies will also face negligible additional administrative burdens or compliance costs from the measure.

Monitoring and evaluation

The Government has introduced a package of measures to meet its policy objectives on residential property. The measure will be monitored and assessed alongside the other measures in the package.

Further advice

If you have any questions about this change, please contact the HMRC Stamp Taxes team at budget2012.stamptaxes@hmrc.gsi.gov.uk

Black Beer: Repeal of Relief

Who is likely to be affected?

Producers and consumers of the fermented beverage known as Black Beer.

General description of the measure

The relief exempts from excise duty a particular type of black beer. The product, known as Black Beer in the UK, is a black beer with an original gravity of 1200 degrees or more and is a concentrated beverage made from malt. There is only one known producer of Black Beer, based in Yorkshire, producing around 35,000 bottles annually. In its concentrated form, it has an alcoholic strength of 8.5 per cent alcohol by volume. Black Beer is generally used as a mixer, with lemonade or milk, or in cooking. It is also taken for its perceived medical and nutritional benefits (e.g. it has a high level of vitamin C). An excise duty exemption in 1931 ensures its continued production, which would have been put at risk by substantial increases to beer duty at the time. The duty exemption is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The excise duty exemption will be withdrawn from 1 April 2013.

Current law

Section1(3) Alcoholic Liquor Duties Act 1979 (ALDA) defines beer which is subject to excise duty under that Act and excludes black beer of an original gravity of 1200 degrees or more. The exemption is permitted by Article 28 of Council Directive 92/83.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend section 1(3) of ALDA to take effect on and after 1 April 2013. This will bring this type of black beer within the definition of beer and it will then become subject to duty under section 1 of ALDA.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There will be a small negative impact on individuals and householders who consume Black Beer. If changes to the duty treatment of Black Beer were passed on in the price of the product, then a 68cl bottle may increase in price by about £1 - £2.

Black Beer is mainly consumed by small numbers of people in the over 65 age group in Yorkshire. Any increase in the retail price may have some impact on individuals and households where the product is bought.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Evidence from the consultation suggests that there may be an impact among the over 65s who consume Black Beer if the retail price of the product increases, perhaps reducing the number of people who remain loyal to the product.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The withdrawal of the duty exemption will have a negative impact on the sole producer of Black Beer, based in Yorkshire. It will make the product more expensive making it less affordable, particularly for consumers of pensionable age.

There may also be an impact on distributors, suppliers and retailers of Black Beer, but this is likely to be minimal, as only relatively small quantities of the product are made each year (less than 10,000 cases).</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible operational impact for HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: The consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms.

A licence will be required to cover the retail sale of Black Beer after the repeal of the excise duty exemption. The product is currently exempt from licensing requirements, but it will become licensable once it falls under the definition of beer in ALDA. However, this is not expected to have a significant impact, as most businesses selling Black Beer will already hold an alcohol licence.

<u>Competition assessment</u>: The measure is pro-competitive, as it removes a duty exemption that affects a single producer of an alcoholic beverage to distortive effect.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes a distortive duty exemption affecting one single trader. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Paul Manson on 0161 827 0357 (email: paul.manson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Capital Allowances: Anti-Avoidance Rules for Plant and Machinery

Who is likely to be affected?

Businesses incurring capital expenditure from April 2012 to buy or hire-purchase plant or machinery where there is a tax avoidance purpose.

General description of the measure

The measure will make the capital allowances anti-avoidance rules more effective. Broadly, the transactions that will be affected are those involving plant or machinery where there is an avoidance purpose to the transactions or where the transactions are part of an avoidance scheme or arrangement.

Where there is a 'transaction to obtain a tax advantage' - essentially one where the parties to the transaction have an avoidance purpose - the effect of the anti-avoidance rules will be:

- to deny first-year allowances or annual investment allowance for expenditure on plant or machinery; and
- to restrict the amount of allowances the 'buyer' of the plant and machinery can claim so that the tax advantage that was sought is cancelled out.

Policy objective

This measure will support fairness in the tax system by protecting the Exchequer from loss of tax as a result of transactions to acquire plant and machinery which involve avoidance or which are part of an avoidance scheme or arrangement. It will support the HM Revenue & Customs (HMRC) anti-avoidance strategy to prevent, detect and counter tax avoidance.

Background to the measure

Proposed changes to the capital allowances anti-avoidance rules that apply to transactions involving plant or machinery were announced at Budget 2011. A consultation document was published on 31 May 2011. A summary of responses was published on 6 December 2011.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

Generally, the legislative changes will have effect in relation to expenditure incurred on or after 1 April 2012 (for businesses within the charge to corporation tax) or 6 April 2012 (for businesses within the charge to income tax).

On 12 August 2011 the Government announced that the repeal of the exception from the anti-avoidance rules where the plant or machinery is acquired from a manufacturer or supplier of such plant and machinery (one of the changes proposed in the consultation document) would be effective - in part - from that date, in order to counter a marketed avoidance scheme.

Current law

Chapter 17 of the Capital Allowances Act 2001 (CAA) contains rules to counter abuse of the legislation where there is a relevant transaction in plant or machinery. Relevant transactions are defined in section 213 CAA and include sales, hire-purchase contracts and assignments of hire purchase contracts.

Where there is a relevant transaction, the legislation can currently

- deny first-year allowances or annual investment allowance for expenditure on plant or machinery (section 217 CAA); and
- restrict the amount on which the 'buyer' of the plant or machinery may claim capital allowances (section 218 CAA).

The scope of the legislation applies to restrict allowances only where relevant transactions are one of the following:

- a transaction between connected persons (section 214 CAA); or
- a 'transaction to obtain allowances' (section 215 CAA); or
- a sale and leaseback (section 216 CAA).

A transaction to obtain allowances is one where the sole or main benefit expected from the transaction is the capital allowances on the plant or machinery.

Where unused plant or machinery has been 'bought' from a manufacturer or supplier in the normal course of the manufacturer's or supplier's business, then section 230 CAA may provide an exception from the anti-avoidance rules.

Proposed revisions

Legislation will be introduced in Finance Bill 2012, to do the following:

The meaning of the word 'assigns' is being clarified in legislation in new section 268E CAA. The definition will apply for the purposes of all plant and machinery allowances in Part 2 CAA including in determining whether a transaction is a relevant transaction within section 213 CAA. This definition confirms the transactions that are within Chapter 17 CAA currently, putting it beyond doubt.

The changes in the operation of Chapter 17 CAA will only affect 'transactions to obtain allowances'. The legislation will continue to operate as it does now for transactions between connected persons and sale and leaseback transactions, as long as there is no avoidance purpose.

As currently drafted, it is not clear that the definition of 'transactions to obtain allowances' catches all transactions designed to obtain capital allowances that are contrary to the underlying policy objective. Section 215 CAA is therefore being amended to apply to transactions to obtain tax advantages; it will apply where relevant transactions have an avoidance purpose or are part of, or occur as a result of, a scheme or arrangement with an avoidance purpose. A transaction will have an avoidance purpose if the main purpose, or one of the main purposes, of a party in entering into the transaction is to enable a person to obtain a superior plant and machinery allowance than that intended.

Section 217 CAA will continue to deny first-year allowances and annual investment allowance where a transaction falls within section 215 CAA. In addition, where a transaction is within section 215 CAA the legislation will operate to cancel out the advantage the avoidance sought to obtain. Where the advantage sought by the avoidance is excessive allowances then the advantage will be cancelled out by restricting the amount of expenditure on which the buyer can claim capital allowances. Conversely, where the advantage sought is a timing advantage then that timing advantage will be reversed.

The exception from the anti-avoidance rules, where the plant or machinery is acquired from a manufacturer or supplier, is being repealed - other than in certain circumstances. The exception from section 217 CAA and section 218 CAA provided by section 230 CAA will still apply from April 2012 for connected party transactions and sale and leasebacks, as long as no avoidance purpose is involved.

On 12 August 2011 the Government announced that legislation would be included in the 2012 Finance Bill to repeal section 230 CAA, to the extent that it provides an exemption from section 217 CAA, for all relevant transactions within sections 214, 215 and 216 with effect from 12 August. This change was to apply in relation to expenditure incurred on or after 12 August 2011 but before the relevant April 2012 date. However, the legislation that is included in Finance Bill 2012 will not make this change in full; the effect is that section 230 CAA will still provide an exception from the anti-avoidance rules for expenditure incurred on or after 12 August 2011, as long as it is not incurred as a result of a relevant transaction that has an avoidance purpose or is part of, or occurs as a result of, a scheme or arrangement that has an avoidance purpose.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	negligible	+5	+5	+10	+10
	These figures are set out in the policy costings document published alongside Budget 2012. They have been certified by the Office for Budget Responsibility.				
Economic impact	This measure is not expected to have a significant impact on the UK economy in overall terms and the anti-avoidance rules will not disrupt or distort normal commercial activities.				
Impact on individuals and households	This measure will have no direct impact on individuals or households.				
Equalities impacts	The changes are not likely to impact differently on groups with protected characteristics. The legislative changes will only impact on businesses in situations where an avoidance purpose is involved.				
Impact on businesses and civil society organisations	The proposed changes will not affect capital allowances for real business costs; the impact will be focused on preventing businesses obtaining over-generous allowances through engaging in tax avoidance. While there will be some relatively minor one-off costs associated with familiarisation with the new rules the changes are estimated to have a negligible impact on businesses' ongoing administrative burdens.				
Operational impact (£m) (HMRC or other)	The additional costs or savings for HMRC in implementing this change are anticipated to be negligible.				
Other impacts	Small firms impact test: There may be some impact on small firms but only in that these changes are designed to impact on all businesses in situations where an avoidance purpose is involved. The consultation responses did not indicate that there would be any impact on small firms. Therefore the impact on small firms is considered to be negligible.				

	Competition assessment: As an anti-avoidance measure this should have a positive effect on competition by levelling the playing field for all businesses.

Monitoring and evaluation

HMRC will monitor businesses' tax affairs to ensure that the types of avoidance these changes are intended to prevent do not occur.

Further advice

If you have any questions about these changes please contact Joy Guthrie on 020 7147 2610 (email: joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith also on 020 7147 2610 (email:malcolm.smith3@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp Duty Land Tax Avoidance

Who is likely to be affected?

The measure will affect users and promoters of tax avoidance schemes that seek to avoid paying Stamp Duty Land Tax (SDLT) on the purchase of an interest in land.

General description of the measure

The measure will amend the SDLT sub-sales rules to put beyond doubt that an SDLT avoidance scheme, involving the sub-sales rules and an option to purchase land, is ineffective. The sub-sales rules will be amended so that it is clear that the grant or assignment of an option cannot satisfy the requirements of the sub-sales rules.

Policy objective

This measure supports the Government's anti-avoidance strategy and fairness agenda by helping to ensure that everyone pays their fair share of SDLT.

Background to the measure

This measure was announced at Budget 2012. It is a response to a disclosed SDLT avoidance scheme.

Due to the risk of forestalling, no formal consultation was conducted. Informal consultation was conducted in confidence.

Detailed proposal

Operative date

The measure will have effect for transactions on or after 21 March 2012.

Current law

Section 45 of the Finance Act (FA) 2003 has various effects where there is a "transfer of rights". Broadly speaking, the section results in a single charge to SDLT where a person contracts to purchase an interest in land but, before completion, transfers their rights under the contract to a third party. Section 45(1)(b) effectively defines a "transfer of rights", referring to "…an assignment, subsale or other transaction…".

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to insert a new subsection into section 45 FA 2003. The new section 45(1A) will make it explicit that the grant or assignment of an option cannot be a transfer of rights.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will only affect individuals and households entering into certain SDLT avoidance schemes.				
Equalities impacts	The proposal is not expected to have any different impact on people with protected characteristics.				
Impact on business including civil society organisations	We anticipate that this change will only affect businesses or other organisations entering into (or marketing or promoting) a certain SDLT avoidance scheme. There will be a negligible impact on businesses' administrative costs.				
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue & Customs in implementing this change are anticipated to be negligible.				
Other impacts	Small firms impact test: Some of the scheme promoters and users are likely to be small firms and they may be affected by these proposals.				

Monitoring and evaluation

This measure will be monitored through avoidance scheme disclosures.

Further advice

If you have any questions about this change, please contact the HMRC Stamp Taxes team at budget2012.stamptaxes@hmrc.gsi.gov.uk

HM Revenue & Customs

Inheritance Tax: Avoidance Using Offshore Trusts

Who is likely to be affected?

Users and promoters of tax avoidance schemes involving the acquisition of interests in settled property in offshore trusts by UK domiciled individuals.

General description of the measure

The measure will amend the inheritance tax (IHT) excluded property and settled property provisions. The changes will largely replicate the tax treatment that a UK-domiciled individual using such a scheme would incur if the assets within the offshore trust had instead been transferred to a UK trust.

Policy objective

The aim of the measure is to close avoidance schemes involving the acquisition of interests in settled property in offshore trusts by ensuring that any reduction in the value of a person's estate as a result of the arrangements is charged to IHT. The measure supports the Government's anti-avoidance strategy and fairness agenda.

Background to the measure

The measure is a response to avoidance schemes which exploit the 'excluded property' rules. Under the schemes a UK-domiciled individual acquires an interest in settled property in an offshore trust, reducing the value of their estate that is subject to IHT. Assets which would otherwise be chargeable to IHT are converted, by a series of transactions, to excluded property which is not subject to IHT.

This measure was announced at Budget 2012. There has been no consultation to date on this measure.

Detailed proposal

Operative date

The measure will have effect on and after 21 March 2012.

Current law

IHT is normally charged on the value of a person's estate at death after deducting reliefs and the nil-rate band (NRB). There is a separate relevant property trust regime that charges IHT on assets held in many trusts. The IHT charges on relevant property trust assets are broadly: an 'entry' charge at the time the assets are transferred into a trust; 'periodic' charges every 10 years on the value of trust assets above the NRB; and an 'exit' charge when funds are taken out.

If a UK-domiciled individual settles assets into an offshore trust, the transfer into trust will be subject to IHT and the trust assets will be subject to the relevant property trust regime. But if the settlor is not UK-domiciled the settled property is excluded from an IHT charge.

Anti-avoidance provisions ensure that where an 'interest in possession' in such excluded property is purchased for value the trust assets are subject to IHT as part of the purchaser's estate.

However, if a UK-domiciled individual acquires an interest in excluded property which is not an 'interest in possession', there may be no charge to IHT when the interest is acquired and the settled property may escape any subsequent charge to IHT - either as part of the individual's estate or under the relevant property regime. In addition, the individual's estate that is liable to IHT on death may be reduced, for example, by a debt where the scheme is financed by a loan.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the current rules on excluded property in section 48 of the Inheritance Tax Act 1984 and to introduce a new section 74A and section 74B in the settled property provisions.

If a person enters into arrangements through which they acquire an interest in excluded property such that the value of their estate is reduced, the reduction will be charged to IHT as if that person had transferred assets of that value directly to a relevant property trust. The assets settled in the offshore trust will cease to be treated as excluded property and will instead become subject to the relevant property regime.

The provisions will apply to new schemes entered into on or after 21 March 2012. They will also apply to existing schemes or arrangements entered into before that date but only in relation to periodic charges and exit charges that arise on or after 21 March 2012.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>negligible</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer.

This measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is expected to have no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will only affect individuals or trustees entering into an avoidance scheme involving excluded property offshore trusts, or the executors or administrators of the estates of individuals using such a scheme.

The base of estates that fall within the charge to IHT is fairly small (forecasts indicate that there will be approximately 18,000 estates left on death paying IHT in 2011-12, representing less than four per cent of the total estates). However, not all taxpaying estates would take advantage of the schemes.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The measure targets avoidance behaviours rather than particular types of individual or business. The Government has no evidence to suggest that the measure will have any adverse equalities impacts.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is not expected to have an impact on most businesses and civil society organisations because it affects individuals and trustees.

The changes will only affect businesses and other organisations marketing these particular avoidance schemes. Promoters marketing new schemes of this type will have to disclose the arrangements to HM Revenue & Customs (HMRC) in accordance with the Disclosure of Tax Avoidance Schemes rules.</td></tr>
</table>

Operational impact (£m) (HMRC or other)	The operational impact on HMRC will be negligible.
Other impacts	No other impacts have been identified.

Monitoring and evaluation

The measure will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Danka Wigley on 020 7147 3674 (email: danka.wigley@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tax Avoidance: Corporate Settlor-interested Trusts

Who is likely to be affected?

Users (including companies, employers, directors and employees) and promoters of tax avoidance schemes involving one kind of settlor-interested trust and corporate settlors.

General description of the measure

The measure will amend the settlements legislation to confirm that income which arises under a settlement and originates from any settlor who is not an individual is not treated as that of the settlor.

Policy objective

To close avoidance schemes involving corporate settlors and settlor-interested trusts by ensuring that the relevant provisions in the settlements legislation do not apply to settlors who are not individuals. The measure supports the Government's anti-avoidance strategy and fairness agenda.

Background to the measure

The measure is a response to disclosures, made under the Disclosure of Tax Avoidance Scheme (DOTAS) Regulations, of avoidance schemes that seek, in very similar ways, to exploit the settlements legislation. The schemes use the corporate settlor of an 'interest in possession' trust and dividends paid by a subsidiary of that company to try to avoid income tax at higher or additional rates which would otherwise be due. In essence, the schemes attempt to divert the liability to income tax away from the beneficial owners of the income, who are its ultimate recipients and would, in the absence of the schemes, have to pay higher or additional rates on it.

This measure was announced at Budget 2012. There has been no consultation to date on this measure.

Detailed proposal

Operative date

The measure will have effect on and after 21 March 2012.

Current law

This measure is concerned with the settlements legislation in Part 5, Chapter 5 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) which applies in situations including those where a settlor, within the meaning of the legislation, has retained an interest in the property or income.

Section 624(1) of ITTOIA provides that income which arises under a settlement is treated for income tax purposes as income of the settlor and of the settlor alone if it arises during the life of the settlor from property in which the settlor has an interest. Sections 619 and 619A provide that the income is taxed as if it had arisen directly to the settlor, and is treated as the highest part of the settlor's total income. Section 622 states that the settlor is liable for the charge. Section 627 gives exceptions for certain types of income where the rule in section 624(1) does not apply. Where there is more than one settlor, section 644 applies the

provisions of the settlements legislation to each settlor as if that settlor were the only settlor. Under sections 644 and 645 property and income is treated as that of a settlor if it originates from that settlor.

The aim of the settlements legislation is, broadly, to prevent an individual gaining a tax advantage by diverting their income to another person who is liable at a lower rate of tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend section 627 and section 645 of ITTOIA 2005.

Section 627 will be amended so that it is clear that the rule in section 624(1) will not apply to income arising under a settlement and originating from any settlor who was not an individual. In addition, section 645(2) will be amended so that it includes a reference to section 627.

The effect of the changes will be that the settlements legislation will not apply if the settlor is not an individual. Where the settlements legislation no longer applies, the income arising under the settlement will be taxed on the beneficiaries of the interest in possession trust as it would be in a non-settlor-interested case.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	+15	+10	+10	+10
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	This measure will only affect individuals and households entering into an avoidance scheme involving settlor-interested trusts. The Government believes that only a small number of employers have currently implemented these arrangements but is acting on a precautionary basis.				
Equalities impacts	The measure targets tax avoidance behaviours rather than particular types of individual or business. The Government has no evidence to suggest that the measure will have any adverse equalities impacts.				
Impact on business including civil society organisations	This measure addresses avoidance whereby corporate settlor-interested trusts are used to avoid tax on dividend income. That would constitute an unfair advantage and in removing it there will be no impact on the normal commercial transactions of businesses and civil society organisations. There will be no additional administrative burden on businesses undertaking normal commercial transactions.				
Operational impact (£m) (HMRC or other)	The operational impact on HM Revenue & Customs will be negligible.				
Other impacts	Small firms impact test: some small businesses will be affected by the proposal if they are using these avoidance arrangements.				

Monitoring and evaluation

This impact of this measure will be monitored through avoidance scheme disclosure processes and other forms of intelligence.

Further advice

If you have any questions about this change, please contact Danka Wigley on 020 7147 3674 (email: danka.wigley@hmrc.gsi.gov.uk).

HM Revenue & Customs

Sale of Lessor Companies: Protecting Revenues

Who is likely to be affected?

Companies carrying on a business of leasing plant or machinery alone or in partnership.

General description of the measure

The measure changes the sale of lessor company provisions to maintain the effectiveness of the legislation in protecting revenues.

Policy objective

This measure helps to protect Exchequer revenues. It ensures that tax is paid on the full amount of the profits of a leasing business and that groups that enjoy a legitimate tax timing benefit are not able to turn that temporary benefit into a permanent deferral of tax.

Background to the measure

The sale of lessor company provisions were introduced in Finance Act 2006. Disclosures made under the Disclosure of Tax Avoidance Scheme Regulations, and other information received, have shown that groups are seeking to take advantage of perceived weaknesses in the sale of lessor company provisions. The changes to the legislation address these perceived weaknesses.

No formal consultation has been undertaken because this is a revenue protection measure and to consult would create a risk of forestalling. The legislation was published in draft on 21 March 2012.

Detailed proposal

Operative date

The legislation will have effect for transactions on or after 21 March 2012.

Current law

Legislation in Corporation Tax Act 2010, Part 9 chapters 3, 4 and 5 prevents a loss of tax when a lessor company is sold. The legislation brings into charge an amount equivalent to any deferred tax profits of the lessor company when the company changes hands to protect the Exchequer from a risk that those profits may escape taxation as a consequence of the change of ownership.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to create a new "trigger" event in the sale of lessor company legislation, which will bring the deferred tax profits of a lessor company into charge immediately before a lessor company comes within the charge to tonnage tax.

Further changes will prevent the losses of an accounting period following a change of ownership from being carried back against profits specifically brought into charge as a consequence of the sale of lessor company legislation.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer.

This measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">These changes are not anticipated to have a significant effect on the UK economy.

The changes will ensure the sale of lessor companies provisions continue to protect revenues as originally intended.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will not impact on individuals and households as it only affects companies carrying on a business of leasing plant or machinery.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">There are no equality impacts.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The impact on businesses' administrative burdens is expected to be negligible. The measure ensures that previously enacted legislation remains effective in preventing lessor companies from avoiding tax on their profits. There should be no further impact.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There are no additional costs to HM Revenue & Customs.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: Leasing is a business mostly carried on by large groups of companies with ready access to funds – typically financial concerns. The changes to the legislation are therefore unlikely to affect small firms.</td></tr>
</table>

Monitoring and evaluation

This measure will be monitored through the disclosure regime and ongoing monitoring of the leasing industry.

Further advice

If you have any questions about this change, please contact Jo Brindley on 020 7147 2571 (email: jo.brindley@hmrc.gsi.gov.uk).

HM Revenue & Customs

Plant and Machinery Leasing: Anti-Avoidance

Who is likely to be affected?

Businesses which are, or become lessees of plant or machinery under long funding leases and enter into arrangements in an attempt to artificially reduce their capital allowance disposal value at the end of the lease.

General description of the measure

A lessee of plant or machinery under a long funding lease is entitled to claim capital allowances and is required to bring in a disposal value at the end of the lease according to a specified formula. Arrangements have been seen in which payments connected to the lease for the benefit of the lessee have not been brought into account in that formula.

The measure confirms that businesses engaging in transactions of this type are required to bring all relevant expenditure and receipts into account in arriving at disposal value.

Policy objective

This measure will put beyond doubt that existing tax rules, which allow capital allowances to be given up to the amount of net capital expenditure, operate as intended for lessees under long funding leases. It will both protect the Exchequer by countering tax avoidance arrangements and make clear, by bringing in the appropriate disposal value, that capital allowances available to lessees cannot exceed their actual net expenditure.

Background to the measure

This measure was announced on 21 March 2012. It is in response to disclosures made under the Disclosure of Tax Avoidance Schemes (DOTAS) Regulations. No formal consultation has been undertaken.

Detailed proposal

Operative date

This measure will have effect in relation to disposal events for long funding leases occurring on or after 21 March 2012.

Current law

A lessor of plant or machinery who has been entitled to capital allowances on qualifying expenditure on the leased asset brings in a disposal value when there is a disposal event in relation to that asset (Section 61 Capital Allowances Act (CAA) 2001).

If the lease is a long funding lease then the lessee, rather than the lessor, is entitled to capital allowances and Chapters 6 and 6A of CAA 2001 set out the rules to apply in these cases. Section 70E CAA 2001 provides there is a disposal event in specified circumstances, the most common of which is termination of the lease. The disposal value is calculated by reference to a formula. The purpose of that formula is to ensure that the lessee's total relief by way of capital allowances is equivalent to the lessee's net expenditure under the lease. Net expenditure is payments made, excluding finance charges where relief is given separately as a trading expense, less any relevant rebates received.

The arrangements seen involve amounts received which it is claimed should not be taken into account in arriving at the disposal value or otherwise be chargeable to tax in connection with the lease.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the definition of 'R' ("Relevant Rebates") in the formula in section 70E(2A) CAA 2001 will be amended. For disposal events occurring on or after 21 March 2012 'R' will include all payments in connection with the lease, or any arrangement connected to the lease, that have not otherwise been brought into account for tax purposes and which are payable for the benefit, directly or indirectly, of the lessee or a connected person. The payments will be brought into account in computing disposal value on a long funding lease disposal event regardless of when payable. Where a transaction does not take place at arm's length, the appropriate arm's length amount will be substituted.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+25	+40	+40	+35	+35
	These figures are set out in the policy costings document published alongside Budget 2012. They have been certified by the Office for Budget Responsibility. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure will not have a significant impact on the overall UK economy.				
Impact on individuals and households	This measure affects businesses only and as such is not expected to have any impact on individuals or households.				
Equalities impacts	This measure is specific to those businesses engaged in leasing transactions. The measure will ensure that the amount of capital allowances that can be claimed will not exceed the amount of expenditure. As a result there have been no ways identified in which this measure could impact unfairly on any equality group.				
Impact on business including civil society organisations	This measure addresses avoidance whereby the claimed effect of the arrangements was to obtain capital allowances in excess of net capital expenditure. That would constitute an unfair advantage and in removing that there will be no impact on the normal commercial transactions of businesses and civil society organisations. There will be no additional administrative burden on businesses undertaking normal commercial transactions.				
Operational impact (£m) (HMRC or other)	No impact expected on HM Revenue & Customs.				
Other impacts	Competition assessment: Removing the opportunities to avoid tax will have a positive impact on competition by preventing the avoider obtaining an unfair advantage.				

	Small firms impact test: the measure is not expected to have a disproportionate effect on small firms and excluding businesses with fewer than 20 employees would not achieve the policy objective.

Monitoring and evaluation

The effectiveness of the legislation will be monitored and measured by collecting information from tax returns.

Further advice

If you have any questions about this change, please contact Paul Hindley on 0207 147 0429 (email: paul.hindley@hmrc.gsi.gov.uk) or Charlotte Hopwood on 0207 147 0374 (email: charlotte.hopwood@hmrc.gsi.gov.uk).

HM Revenue & Customs

Life Insurance Policies: Income Tax Avoidance

Who is likely to be affected?

Individuals who own life insurance policies, capital redemption policies and life annuity contracts. The changes apply where there have been gains earlier in the life of the policy or contract but the gains were not chargeable to tax under the income tax rules for these products (because, for example, the earlier gains were attributable to a person who was not UK resident).

Individuals who have entered into certain 'cluster policy' arrangements that defer any income tax until the final policy in the cluster comes to an end.

Insurers and financial advisers with clients who own such policies or contracts may also be affected by the changes.

General description of the measure

The measure amends the rules for calculating the amount of gains from the relevant policies and contracts. It puts beyond doubt that the gains liable to income tax are not reduced by the fact that there are untaxed gains earlier in the life of the policy or contract, or by the use of certain cluster policy arrangements. This addresses aspects of the current rules that have been exploited in disclosed avoidance schemes.

The Government has also announced a consultation on reform to time apportionment reductions reflecting a policyholder's period of residence outside the UK. Issues for consultation will include an extension of these rules to policies issued by insurers inside the UK, and to reflect the residence position of previous owners of a policy. It is intended that this consultation will result in legislation for inclusion in Finance Bill 2013.

Policy objective

This measure supports the Government’s objective to make the tax system fairer by addressing tax avoidance schemes under which individuals seek to reduce or defer the amount of investment profits on which they are liable to income tax.

Background to the measure

This anti-avoidance measure was announced on 21 March 2012.

Detailed proposal

Operative date

The measure will have effect for relevant policies and contracts made on or after 21 March 2012. It will also apply to existing policies and contracts which are assigned in part or whole, or are used as security for a debt, or into which policyholders choose to pay further premiums, on or after 21 March 2012.

Current law

Chapter 9 of Part 4 Income Tax (Trading and Other Income) Act 2005 (ITTOIA) (known as the chargeable event gain regime) provides special rules for applying income tax to investment gains from life insurance policies.

Within these rules, section 491 in particular applies to each individual policy or contract and provides that the amount of a gain that may be liable to income tax is the difference between the value of benefits paid from a policy and the total of premiums paid into the policy and certain gains arising earlier in the life of a policy.

There is currently no requirement under these rules that the earlier gains must be included in the total income of a person liable to any tax under the chargeable event gain regime.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to insert new provisions into Chapter 9 of Part 4 ITTOIA 2005 and section 552 Income Tax Corporation and Taxes Act 1988.

These changes will ensure that when calculating the amount of a chargeable event gain under a policy or contract, a deduction for earlier gains will only be allowed to the extent that those earlier gains are attributable to a person chargeable to tax on gains under the chargeable event gain regime. Consequential adjustments will ensure that existing reporting obligations for insurers will continue without change.

Further provisions will be included to ensure that interdependent policies (under which the value of benefits paid from one policy is dependent on premiums paid into another policy) will be treated as a single policy with the current rules applying to that single policy as usual. These changes will not affect ordinary cluster policy arrangements under which the individual policies are completely independent of each other.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	There are no significant economic impacts expected from this measure.				
Impact on individuals and households	The Government believes that the measure will have an impact on a small number of individuals who use such avoidance arrangements at present. The measure may also impact on a small number of individuals who may inadvertently face a greater than expected tax liability in unusual circumstances. The Government cannot estimate the tax effect for those inadvertently affected as this would entirely depend on specific circumstances over the life of each life insurance policy. However the proposed extension of time apportioned reductions is intended in part to mitigate these potential impacts. The Government believes that additional compliance costs are unlikely to arise because the avoidance arrangements would not be used after the date of change. As HM Revenue & Customs (HMRC) guidance will be				

	available, the compliance cost for anyone inadvertently affected would be limited to calculating the taxable investment gains for inclusion on self assessment (SA) returns.
Equalities impacts	The Government does not believe that the measure will impact on the equality of protected groups because the measure will affect the rules for taxing investment gains from life assurance policies, regardless of who the investors are.
Impact on business including civil society organisations	The measure is expected to impact on a handful of businesses that market such avoidance and tax planning arrangements, by closing such opportunities. About 230 insurers will need to understand the effect of the changes to advise the small number of their clients that may be affected, but the Government believes that the change will not otherwise impact on their business operation. A wider number of financial advisers may also need to understand the impact of the changes in order to advise their clients. The Government believes that financial advisers will in general seek specialist advice about the detailed operation of the special rules for life insurance policies, so the Government does not believe that the change would impact on this sector for the small number of clients that may be affected. Overall, the impact to business and civil society organisations is expected to be negligible.
Operational impact (£m) (HMRC or other)	This change will require revised guidance for the specialist manual and specialist SA helpsheets only. There would be no change to SA returns or IT/SA systems more generally.
Other impacts	<u>Small firms impact test</u>: The Government believes that the insurers affected by the changes are unlikely to be 'small firms'. It is possible that some small Financial Adviser firms may be indirectly affected (see impact on businesses above) and guidance will be available for these firms. <u>Competition assessment</u>: This measure impacts on the tax treatment of investors and will not directly affect insurers, whether they are small/large UK insurers or insurers outside the UK. The proposed expansion of the time apportioned reduction will align the treatment of policies issued by offshore and onshore insurers more closely.

Monitoring and evaluation

The measure will be monitored by scrutinising disclosures of new avoidance schemes that might otherwise aim to circumvent the measure, and through regular communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Jon Prothero on 0207 147 2785 (email: insurancequeries.ct&vat@hmrc.gsi.gov.uk).

Site Restoration Payments

Who is likely to be affected?

Persons who are party to tax avoidance arrangements intended to exploit the rules providing relief for site restoration payments. Businesses making site restoration payments to connected persons.

General description of the measure

This measure counters avoidance involving site restoration payments.

Policy objective

This measure will support fairness in the tax system by protecting the Exchequer from loss of tax as a result of avoidance intended to exploit the relief for site restoration payments. It will support HM Revenue & Customs' (HMRC) anti-avoidance strategy to prevent, deter and counter tax avoidance.

Background to the measure

This measure has not been previously announced.

Detailed proposal

Operative date

The measure will have effect in relation to payments made on or after 21 March 2012.

Current law

Section 145 Corporation Tax Act (CTA) 2009 gives a revenue deduction for capital expenditure on site restoration payments. Without this specific statutory provision, no deduction would be due in computing trading profits.

Section 145 states the payment must be made in connection with the restoration of a site, in order to comply with a condition of a relevant licence, planning permission or planning obligation and gives the deduction in the period of account in which the payment is made.

Section 168 Income Tax (Trading and Other Income) Act (ITTOIA) 2005 provides the same form of relief for unincorporated businesses.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend both section 145 CTA 2009 and section 168 ITTOIA 2005. The changes will introduce a new rule where a person makes a payment, directly or indirectly, to a connected person that will ensure that a deduction is given for the period of account in which the work to which the payment relates is completed.

A new rule will also be introduced to deny any deduction for a payment where it arises from arrangements to which a person is party and the main purpose, or one of the main purposes, of the arrangements is obtaining a deduction for a site restoration payment.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>nil</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">This measure is not expected to have an Exchequer impact.

This measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts because it is not expected to have any material impact on commercial transactions.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure is not expected to have any significant impact on individuals and households.</td></tr>
<tr><td>Equalities impact</td><td colspan="5">This measure is not expected to impact on any equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure addresses avoidance which would constitute an unfair advantage and is not expected to have a significant impact on commercial transactions of businesses and civil society organisations. Any impact will be limited to transactions between connected persons but would only be in timing which is within the control of the group.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HMRC will not incur any additional operational costs implementing this measure.</td></tr>
<tr><td>Other impacts</td><td colspan="5">No other impacts have been identified.</td></tr>
</table>

Monitoring and Evaluation

HMRC will monitor Self Assessment returns to ensure that the avoidance that these changes are intended to counter does not occur.

Further advice

If you have any questions about this change, please contact Joyce Boutabba on 02890 505397 (email: joyce.boutabba@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tax Agreement between the United Kingdom and Switzerland

Who is likely to be affected?

Individuals with financial assets held directly or indirectly in Switzerland.

General description of the measure

The measure will give effect in the United Kingdom to the Agreement dated 6 October 2011 and the Protocol dated 20 March 2012 between the governments of the UK and Switzerland and contain further provisions. The Agreement itself has four main effects.

First, it provides for a one-off levy to be applied to accounts in Switzerland held directly or indirectly by individuals who are resident in the UK unless the individual authorises disclosure of those accounts. Compliant individuals should authorise disclosure and so avoid the levy.

Secondly, it applies a withholding tax to income and gains arising on those Swiss accounts from 1 January 2013. Individuals may authorise disclosure and avoid the withholding tax. Where instead a retention is made under the 2004 agreement between the EU and Switzerland about the taxation of savings income a separate tax finality payment is made which together with the retention achieves an outcome equivalent to the withholding under the October Agreement.

Thirdly, there is provision for a levy on the assets of an individual who dies on or after 1 January 2013, which similarly may be avoided by disclosure.

Fourthly, it provides for enhanced exchange of information between the tax authorities of the two countries.

The measure also provides that the fact that arrangements with a territory contain significant protection for UK tax revenue may be taken into account in classifying a territory for the purposes of the offshore penalty legislation.

Policy objective

The objective is to provide for bilateral co-operation between the UK and Switzerland to ensure effective taxation in the UK of individuals with financial assets in Switzerland. The effect will be equivalent to that achieved through an agreement to exchange information about such individuals on an automatic basis.

Background to the measure

The intention to explore whether an agreement could be reached was announced in October 2010. The Agreement was initialled in August 2011 and signed and published on the HM Revenue & Customs (HMRC) website on 6 October 2011. The measure gives effect to the Agreement and its Protocol signed on 20 March 2012.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

Subject to ratification both in the UK and Switzerland, the Agreement will apply on and after 1 January 2013.

Current law

The body of law about the UK taxation of income and gains arising in the UK (and deposited abroad) or arising abroad continues to apply, subject to the new provisions affecting assets in Switzerland.

The existing double taxation agreement between the United Kingdom and Switzerland provides for exchange of information on request, consistent with the OECD standard for such requests.

Proposed revisions

Legislation will be introduced in Finance Bill 2012.

The proposals are in four parts:

Regularisation of the past. The agreement provides for a one-off levy to be applied on financial assets held in Switzerland which are identified as being beneficially owned by a UK resident individual unless authority is given to disclose those assets to HMRC. Subject to certain exclusions and limitations, the individual will cease to be liable to UK income tax, capital gains tax, inheritance tax and value added tax in respect of the assets to which the levy is applied.

New withholding tax for periods from 1 January 2013. A levy will be applied to income and gains arising on the financial assets in Switzerland unless disclosure is made. The levy will satisfy liability to UK income tax and capital gains tax on those income and gains.

The levy applied to the financial assets in Switzerland for an account holder who dies on or after 1 January 2013 (unless disclosure is made) will satisfy liability to UK inheritance tax on those assets.

Enhanced exchange of information. For a certain number of cases each year HMRC may require information about accounts held in Switzerland by individuals who are identified to the Swiss tax authorities.

The legislation will also add to the list of factors that may be taken into account in classifying a territory for the purposes of the offshore penalty legislation, so that the fact arrangements with a territory contain significant protection for UK tax revenue may be taken into account.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer Impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">This measure is expected to yield between £4 - £7 billion. The final costing will be subject to scrutiny by the Office for Budget Responsibility (OBR). The OBR has noted the uncertainties around this measure in their Economic and Fiscal Outlook published alongside the Autumn Statement 2011.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts.</td></tr>
</table>

Impact on individuals and households	This agreement applies to individuals resident in the UK who are beneficial owners of funds held in Switzerland. Compliant individuals are expected to disclose and will not be liable to the one-off levy. It is expected that the majority of the impact will fall on those that are non-compliant. Tax compliant individuals may incur negligible administration costs, involving familiarisation with the terms of the agreement and the cost of proving that they are already compliant.
Equalities impacts	Equality has been carefully considered and it has been concluded that there are no adverse impacts from this change on groups with different protected characteristics.
Impact on business including civil society organisations	This Agreement applies to UK individuals only and not businesses, but it may have an impact on individuals who are taxed on their self-employment income. Those who opt to authorise disclosure will not be liable for the one-off levy and it is expected that the majority of impact will fall on those that are non-compliant. It is expected that there may be negligible administration costs for compliant businesses in the self-employed sector, involving the cost of familiarisation or proving existing compliance. There are around 320 banks in Switzerland that are likely to be affected by this measure. These banks will incur the one-off cost of implementing the appropriate information technology changes to apply this agreement.
Operational impact (£m) (HMRC or other)	Negligible. Any non-compliance issues will be dealt with through the offshore co-ordination unit.
Other impacts	Privacy impact: HMRC will be allowed to request account details where they suspect tax evasion, whether the individual authorises their bank to provide the information or not. To do so, HMRC will have to present the Swiss authorities with grounds based on strict procedures that are in place to demonstrate that the interference with privacy is proportional and justified, and thus lawful. Competition assessment: The measure specifies that the certification of status of non-domiciled persons can only be authorised by agents who are members of professional bodies.

Monitoring and evaluation

The impact of this measure will be assessed through monitoring receipts, information collected on tax returns, and data collected through the joint commission set up under the terms of the Agreement and enhanced exchange of information received under the Agreement.

Further advice

If you have any questions about this measure, please contact Richard Davey on 020 7147 2391 or send via email to powers.review-of-hmrc@hmrc.gsi.gov.uk.

B Rates and Allowances

This annex includes Budget 2012 announcements of main rates and allowances. It also covers all announcements made at Budget 2011 and subsequently.

PERSONAL TAX AND BENEFITS

At Budget 2011 the Government announced that:

- the personal allowance for under 65's will increase by £630 bringing it to £8,105 for 2012-13; and
- the basic rate limit will fall by £630, taking it from £35,000 in 2011-12 to £34,370 in 2012-13.

At Budget 2012 the Government announced changes to personal allowances from 2013-14:

- people born after 5 April 1938 but before 6 April 1948 will be entitled to a personal allowance of £10,500; and
- people born before 6 April 1938 will be entitled to a personal allowance of £10,660.

For 2013-14, people born after 5 April 1948 will be entitled to a personal allowance of £9,205. The Government also announced that the basic rate limit will be reduced to £32,245.

The Government also announced the main rates of income tax for 2013-14.

Income tax bands of taxable income (£ per year)			
	Tax year 2011-12	**Tax year 2012-13**	**Tax year 2013-14**
Basic rate[1]	£0 – 35,000	£0 – 34,370	£0 – 32,245
Higher rate	£35,001 – 150,000	£34,371 – 150,000	£32,246 – 150,000
Additional rate	Over £150,000	Over £150,000	Over £150,000

[1] There is a starting rate for savings income only. If an individual's taxable non-savings income (i.e. after deduction of their personal allowance) exceeds the starting rate limit, then the 10 per cent starting rate for savings will not be available for savings income. The starting rate limit for 2011-12 it is £2,560 and for 2012-13 it is £2,710.

Income tax rates			
	Tax year 2011-12	**Tax year 2012-13**	**Tax year 2013-14**
Basic rate	20%	20%	20%
Higher rate	40%	40%	40%
Additional rate	50%	50%	45%
Dividend ordinary rate (for dividends otherwise taxable at the basic rate (effective rate with tax credit))	10% (0%)	10% (0%)	10% (0%)
Dividend upper rate (for dividends otherwise taxable at the higher rate (effective rate with tax credit))	32.5% (25%)	32.5% (25%)	32.5% (25%)
Dividend additional rate (for dividends otherwise taxable at the additional rate (effective rate with tax credit))	42.5% (36.1%)	42.5% (36.1%)	37.5% (30.6%)

Special rates for trustees' income			
	Tax year 2011-12	**Tax year 2012-13**	**Tax year 2013-14**
Standard rate on first £1,000 of income which would otherwise be taxable at the special rates for trustees.	Up to 20%, depends on the type of income	Up to 20%, depends on the type of income	Up to 20%, depends on the type of income
Trust rate	50%	50%	45%
Dividend trust rate	42.5%	42.5%	37.5%

Income tax allowances (£ per year)			
Personal allowance[2]	**Tax year 2011-12**	**Tax year 2012-13**	**Tax year 2013-14**
Age under 65[3]	£7,475	£8,105	N/A
Born after 5 April 1948[3]	N/A	N/A	£9,205
Age-related allowance (65-74)[3, 4]	£9,940	£10,500	N/A
Born after 5 April 1938 but before 6 April 1948[3, 4]	N/A	N/A	£10,500
Age-related allowance (75+)[3, 4]	£10,090	£10,660	N/A
Born before 6 April 1938[3, 4]	N/A	N/A	£10,660
Income limit for under 65 personal allowance	£100,000	£100,000	N/A
Income limit for personal allowance (born after 5 April 1948)	N/A	N/A	£100,000
Income limit for age-related allowances	£24,000	£25,400	N/A
Income limit for personal allowances (born before 6 April 1948)	N/A	N/A	TBA
Married couples allowance[5]			
Age over 75[6, 7]	£7,295	£7,705	TBA
Minimum amount of married couple's allowance	£2,800	£2,960	TBA
Blind person's allowance			
Blind person's allowance	£1,980	£2,100	TBA

[2] Up to and including 2012-13, the amount of an individual's personal allowance depends upon their age and their income in the tax year. From 2013-14, the amount of an individual's personal allowance depends ontheir date of birth and their income in the tax year. This change has no effect on an individual's entitlement to the married couple's allowance or the blind person's allowance.
[3] This allowance reduces where the individual's income is above £100,000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age or date of birth.
[4] This allowance reduces where the individual's income is above the income limit (£24,000 for 2011-12, £25,400 for 2012-13) by £1 for every £2 of income above the limit until they reach the level of the personal allowance for those aged under 65, or from 2013-14, the level of the personal allowance for those born after 5 April 1948.
[5] Available to people born before 6 April 1935.
[6] Tax relief for this allowance is given at 10 per cent.
[7] This allowance reduces where the individual's income is above the income limit (£24,000 for 2011-12, £25,400 for 2012-13), by £1 for every £2 of income above the limit until it reaches the minimum amount. Any reduction applies after any reduction to the individual's personal allowance.

Company car tax							
Tax year 2014-15[8]			**Tax year2015-16**			**Tax year 2016-17**	
CO_2 emissions, g/km	**Appropriate % of car list price taxed**		**CO_2 emissions, g/km**	**Appropriate % of car list price taxed**		**CO_2 emissions, g/km**	**Appropriate % of car list price taxed**
	Petrol fuelled cars	Diesel fuelled cars[9]		Petrol fuelled cars	Diesel fuelled cars[10]		Petrol and diesel fuelled cars
0	0	0	0 to 94	13	16	0 to 94	15
1-75	5	8	95-99	14	17	95-99	16
76 to 94	11	14	100-104	15	18	100-104	17
95-99	12	15	105-109	16	19	105-109	18
100-104	13	16	110-114	17	20	110-114	19
105-109	14	17	115-119	18	21	115-119	20
110-114	15	18	120-124	19	22	120-124	21
115-119	16	19	125-129	20	23	125-129	22
120-124	17	20	130-134	21	24	130-134	23
125-129	18	21	135-139	22	25	135-139	24
130-134	19	22	140-144	23	26	140-144	25
135-139	20	23	145-149	24	27	145-149	26
140-144	21	24	150-154	25	28	150-154	27
145-149	22	25	155-159	26	29	155-159	28
150-154	23	26	160-164	27	30	160-164	29
155-159	24	27	165-169	28	31	165-169	30
160-164	25	28	170-174	29	32	170-174	31
165-169	26	29	175-179	30	33	175-179	32
170-174	27	30	180-184	31	34	180-184	33
175-179	28	31	185-189	32	35	185-189	34
180-184	29	32	190-194	33	36	190-194	35
185-189	30	33	195-199	34	37	195-199	36
190-194	31	34	200-204	35	37	200 and above	37
195-199	32	35	205-209	36	37		
200-204	33	35	210 and above	37	37		
205-209	34	35					
210 and above	35	35					

[8] 2014-15 rates legislated at Finance Bill 2012.

[9] A three percentage point diesel supplement applies to wholly propelled diesel cars with percentages up to 32 per cent, to a maximum of 35 per cent.

[10] A three percentage point diesel supplement applies to wholly propelled diesel cars with percentages up to 34 per cent, to a maximum of 37 per cent.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

Employee and employer rates and thresholds (£ per week)		
Class 1 NICs	**Tax year 2011-12**	**Tax year 2012-13**
Lower earnings limit (LEL) for class 1 NICs	£102.00	£107.00
Upper earnings limit (UEL) for employee's (primary) class 1 NICs	£817.00	£817.00
Upper accrual point (UAP)	£770.00	£770.00
Primary threshold	£139.00	£146.00
Secondary threshold	£136.00	£144.00
Employee's (primary) class 1 contribution rates		
2011-12 weekly earnings from £139.01 to £817.00	12%	N/A
2011-12 weekly earnings above £817.00	2%	N/A
2012-13 weekly earnings from £146.01 to £817.00	N/A	12%
2012-13 weekly earnings above £817.00	N/A	2%
Employee's contracted-out rebate		
Employee's contracted-out rebate - salary related schemes (COSR) between LEL & UAP	1.6%	1.4%
Employee's contracted-out rebate - money purchase schemes (COMP) between LEL and UAP	1.6%	Abolished from 6 April 2012
Married woman's reduced rate for (primary) class 1 contribution rates[11]		
2011-12 weekly earnings from £139.01 to £817.00	5.85%	N/A
2011-12 weekly earnings above £817.00	2%	N/A
2012-13 weekly earnings from £146.01 to £817.00	N/A	5.85%
2012-13 weekly earnings above £817.00	N/A	2%
Employer's (secondary) class 1 contribution rates		
2011-12 weekly earnings above £136.00	13.8%	N/A
2012-13 weekly earnings above £144.00	N/A	13.8%
Employer's contracted-out rebate		
Employer's COSR schemes between LEL and UAP	3.7%	3.4%
Employer's COMP schemes between LEL and UAP	1.4%	Abolished from 6 April 2012

[11] The reduced rate applies to women married before 6 April 1977 who have elected to pay a reduced rate of class 1 contributions.

Self-employed and others rates and thresholds (£ per week)		
Class 2 NICs [12]	**Tax year 2011-12**	**Tax year 2012-13**
Self-employed class 2 NICs	£2.50	£2.65
Small earnings annual exception level class 2 NICs	£5,315	£5,595
Volunteer development workers class 2 NICs	£5.10	£5.35
Share fishermen class 2 NICs	£3.15	£3.30

Self-employed and others rates and thresholds (£ per week)		
Class 3 NICs	**Tax year 2011-12**	**Tax year 2012-13**
Voluntary contributions	£12.60	£13.25

Self-employed and others rates and thresholds		
Class 4 NICs	**Tax year 2011-12**	**Tax year 2012-13**
2011-12 annual profits below LPL £7,225	Nil	N/A
2011-12 annual profits above LPL £7,225 but below UPL £42,475	9%	N/A
2011-12 annual profits above UPL £42,475	2%	N/A
2012-13 annual profits below LPL £7,605	N/A	Nil
2012-13 annual profits above LPL £7,605 but below UPL £42,475	N/A	9%
2012-13 annual profits above LPL £42,475	N/A	2%

[12] Class 2 NICs are paid at a weekly flat rate by all self-employed persons. Those with profits less than, or expected to be less than, the level of the small earnings exception may apply for exemption from paying class 2 contributions.

WORKING AND CHILD TAX CREDITS, CHILD BENEFIT AND GUARDIANS ALLOWANCE

Working and child tax credits		
£ per year (unless stated)	**From April 2011**	**From April 2012**
Working tax credit		
Basic element	£1,920	£1,920
Couple and lone parent element	£1,950	£1,950
30 hour element	£790	£790
Disabled worker element	£2,650	£2,790
Severe disability element	£1,130	£1,190
50+ Return to work payment (16-29 hours)	£1,365	Removed
50+ Return to work payment (30+ hours)	£2,030	Removed
Childcare element of the working tax credit		
Maximum eligible cost for one child	£175 per week	£175 per week
Maximum eligible cost for two or more children	£300 per week	£300 per week
Percentage of eligible costs covered	70%	70%
Child tax credit		
Family element	£545	£545
Child element	£2,555	£2,690
Disabled child element	£2,800	£2,950
Severely disabled child element	£1,130	£1,190
Income thresholds and withdrawal rates		
First income threshold	£6,420	£6,420
First withdrawal rate	41%	41%
Second income threshold	£40,000	Withdrawn
Second withdrawal rate	41%	41%
First threshold for those entitled to child tax credit only	£15,860	£15,860
Income disregard	£10,000	£10,000
Income fall disregard	N/A	£2,500

Child benefit (£ per week)		
	From April 2011	**From April 2012**
Eldest/only child	£20.30	£20.30
Other children	£13.40	£13.40
Guardians allowance (£ per week)		
Guardians allowance	£14.75	£15.55

CAPITAL, ASSETS AND PROPERTY

Pensions savings tax relief		
	Tax year 2011-12 allowance limit	**Tax year 2012-13 allowance limit**
Lifetime allowance	£1.8 million	£1.5 million
Annual allowance	£50,000	£50,000

Individual Savings Account (ISA)	**Tax year 2011-12**	**Tax year 2012-13**
Cash value of ISA limit	£10,680, up to £5,340 of which can be saved in cash	£11,280, up to £5,640 of which can be saved in cash

Capital gains tax	**Tax year 2011-12**	**Tax year 2012-13**
Rates for individuals	18% / 28%[13]	18% / 28% [1]
Rates for trustees and personal representatives	28%	28%
Annual exempt amount (AEA) for individuals and personal representatives[14]	£10,600	£10,600
AEA for most trustees	£5,300	£5,300
Rate on gains subject to entrepreneurs' relief	10%	10%
Entrepreneurs' relief lifetime limit of gains	£10,000,000	£10,000,000

Inheritance tax	**Tax year 2011-12**	**Tax year 2012-13**
Rate	40%	40%
Lower rate	N/A	36%[15]
Nil rate band	£325,000	£325,000

[13] Rates for individuals: 18 per cent on gains up to the unused amount of the basic rate income tax band (if any) and 28 per cent on gains above that amount.

[14] Personal representatives are entitled to the annual exempt amount for the tax year in which the individual dies and the next two years.

[15] Budget 2011 announced that for deaths on or after 6 April 2012, a lower rate of Inheritance tax of 36 per cent will be introduced where 10 per cent or more of the deceased person's net estate is left to charity.

Stamp duty land tax				
Rate	**Threshold for tax year 2011-12**		**Threshold for tax year 2012-13**	
	Residential	**Non-residential**	**Residential**	**Non-residential**
0%	£0 – 125,000	£0 – 150,000	£0 – 125,000	£0 – 150,000
1%	£125,001 – 250,000	£150,001 – 250,000	£125,001 – 250,000	£150,001 – 250,000
3%	£250,001 – 500,000	£250,001 – 500,000	£250,001 – 500,000	£250,001 – 500,000
4%	£500,001 – £1,000,000	Over £500,000	£500,001 – £1,000,000	Over £500,000
5%	Over £1,000,000	N/A	£1,000,001 – £2,000,000	N/A
7%	N/A	N/A	Over £2,000,000	N/A

Stamp Duty and stamp duty reserve tax		
Band	**Tax year 2011-12**	**Tax year 2012-13**
Standard rate	0.5%	0.5%
Higher rate	1.5%	1.5%

Budget 2012 also announced a 15 per cent rate charge of stamp duty land tax on certain non-natural persons enveloping a residential property where the consideration given exceeds £2million. Where the interest/property with a consideration in excess of £2 million is purchased in sole or joint names then a 15 per cent rate SDLT charge will apply to the following:

- all such purchases by bodies corporate (largely companies);
- all collective investment schemes; and
- all partnerships where there are one or more members are one of the above.

BUSINESS AND FINANCIAL SERVICES

The June Budget 2010 and Budget 2011 announced changes to corporation tax from April 2011, these are set out below. Budget 2012 announces further changes to corporation tax from April 2012.

The main rate of corporation tax will be reduced by a further one per cent, in addition to the reductions announced in the June Budget 2010 and Budget 2011. This will take the rate from 26 per cent to 24 per cent in April 2012. There will be two further annual one per cent cuts reducing the corporation tax main rate to 22 per cent by the Financial Year 2014-2015.

Corporation tax rates			
Level of profits	**Financial year 2011-12**	**Financial year 2012-13**	**Financial year 2013-14**
£0 - £300,000: small profits rate	20%	20%	TBA
£300,001 - £1,500,000	Marginal rate	Marginal rate	Marginal rate
Marginal rate fraction	3/200th	1/100	TBA
£1,500,001 or more: main rate	26%	24%	23%
North sea oil and gas ring fenced profits[16]	See footnote	See footnote	See footnote

[16] For North Sea Oil and gas ring fenced profits the main rate is 30 per cent and the small profits rate is 19 per cent. The marginal relief ring fenced fraction is 11/400ths.

Corporation tax allowances and reliefs			
	Financial year 2011-12	**Financial year 2012-13**	**Financial year 2013-14**
Plant and machinery: main rate expenditure	20%	18%	18%
Plant and machinery: special rate expenditure	10%	8%	8%
Annual investment allowance	£100,000	£25,000	£25,000
First year allowances (e.g. for certain energy-saving/ water efficient products)	100%	100%	100%
R&D tax credits SME scheme	200%	225%	225%
R&D tax credits Large companies scheme	130%	130%	To be decided
Film tax relief	100% limited budget, 80% large budget	100% limited budget, 80% large budget	100% limited budget, 80% large budget
Open ended investment companies and authorised unit trusts[17]	See footnote	See footnote	See footnote

Bank levy		
	Chargeable equity and long-term chargeable liabilities	Short-term chargeable liabilities
1 January – 28 February 2011	0.025%	0.05%
1 March – 30 April 2011	0.05%	0.1%
1 May – 31 December 2011	0.0375%	0.075%
1 January – 31 December 2012	0.044%	0.088%
1 January 2013 onward	0.0525%	0.105%

[17]For open ended investment companies and authorised unit trusts the applicable corporation tax rate is 20 per cent.

UK oil and gas taxes		
	Tax year 2011-12	**Tax year 2012-13**
Petroleum revenue tax	50%	50%
Ring fence corporation tax[18]	See footnote	See footnote
Supplementary charge	32% on or after 24 March 2011	32%

Business rates		
	Tax year 2011-12	**Tax year 2012-13**
England standard multiplier	43.3p	45.8p
England small business multiplier	42.6p	45.0p

[18] For North Sea oil and gas ring fenced profits the main rate is 30 per cent and the small profits rate is 19 per cent. The marginal relief ring fenced fraction is 11/400ths.

INDIRECT TAX

Budget 2012 confirmed that alcohol duty rates will increase by two per cent above retail price inflation.

Alcohol duty			
	Duty rate from 28 March 2011	**Duty rate from 1 October 2011**	**Duty rate from 26 March 2012**
	Rate per litre of pure alcohol		
Spirits	25.52	25.52	26.81
Spirits-based RTDs	25.52	25.52	26.81
Wine and made-wine: exceeding 22% alcohol by volume (abv)	25.52	25.52	26.81
	Rate per hectolitre % of alcohol in the beer		
Beer - lower strength: exceeding 1.2% - not exceeding 2.8% abv.	18.57	9.29	9.76
Beer - General Beer Duty: Exceeding 2.8% - not exceeding 7.5% abv.	18.57	18.57	19.51
Beer - High strength: Exceeding 7.5% - in addition to the General Beer Duty	18.57	4.64 (+18.57)	4.88 (+19.51)
	Rate per hectolitre of product		
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv .	35.87	35.87	37.68
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	53.84	53.84	56.55
Sparkling cider and perry: exceeding 1.2% - less than 5.5%abv.	35.87	35.87	37.68
Sparkling cider and perry: exceeding 5.5%abv- less than 8.5% abv.	233.55	233.55	245.32
Wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	74.32	74.32	78.07
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	102.21	102.21	107.36
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	241.23	241.23	253.39
Wine and made-wine: exceeding 15% - not exceeding 22% abv.	321.61	321.61	337.82
Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	233.55	233.55	245.32
Sparkling wine and made-wine: exceeding 8.5% - not exceeding 15% abv.	308.99	308.99	324.56

Budget 2012 announced that tobacco duty rates will increase by five per cent above retail price inflation.

Tobacco products				
	From 6pm 23 March 2011	**Ad valorem element**	**From 6pm 21 March 2012**	**Ad valorem element**
Cigarettes	£154.95 per 1000 cigarettes	16.5% of retail price	£167.41 per 1000 cigarettes	16.5% of retail price
Cigars	£193.29/kg	N/A	£208.83/kg	N/A
Hand rolling tobacco	£151.90/kg	N/A	£164.11/kg	N/A
Other smoking tobacco and chewing tobacco	£84.98/kg	N/A	£91.81/kg	N/A

Budget 2012 confirmed that gaming duty bands will increase in line with inflation for accounting periods starting on or after 1 April 2012, all rates of amusement machine licence duty will be increased in line with inflation from 4pm on 23 March 2012 and machine games duty will be introduced from 1 February 2013.

Gambling duties		
	Tax year 2011-12	**Tax year 2012-13**
Bingo duty		
Percentage of bingo promotion profits	20%	20%
General betting duty		
Percentage of 'net stake receipts' (essentially the gross profits from bookmaking) for fixed odds bets and totalisator bets on horse or dog races	15%	15%
Percentage of 'net stake receipts' for financial spread bets	3%	3%
Percentage of 'net stake receipts' for all other spread bets	10%	10%
Lottery duty		
Percentage of the price paid or payable on taking a ticket or chance in a lottery.	12%	12%
Remote gaming duty		
Percentage of remote gaming profits	15%	15%
Machine games duty[19]		
Percentage of the net takings from dutiable machine games with a maximum cost to play not more than 10p and a maximum cash prize not more than £8	N/A	5%
Percentage of net takings from all other dutiable machine games.	N/A	20%

[19] Machine games duty will be introduced from 1 February 2013 and will replace both amusement machine licence duty and VAT.

Amusement machine licence duty			
Band	**Description**	**12 month premises based licence old rate**	**12 month premises based licence new rate**[20]
A	A gaming machine that does not fall into any other category	£6,110	£6,295
B1	A gaming machine in respect of which the amount required to play the game once does not exceed £2, and the value of the prize that may be won in any one game does not exceed £4,000 in money or as a non-monetary prize.	£3,055	£3,150
B2	A gaming machine in respect of which the amount required to play the game once does not exceed £100, and the value of the prize that may be won in any one game does not exceed £500 in money or as a non-monetary prize.	£2,405	£2,480
B3	A gaming machine in respect of which the amount required to play the game once does not exceed £2, and the value of the prize that may be won in any one game does not exceed £500 in money or as a non-monetary prize.	£2,405	£2,480
B4	A gaming machine in respect of which the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £250 in money or as a non-monetary prize.	£2,185	£2,250
C	A gaming machine in respect of which the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £70 in money or as a non-monetary prize; and A gaming machine in respect of which the amount required to play the game once does not exceed 5p.	£905	£935

[20] 12 month premises based licence, new rates apply to licence applications received by HMRC after 4pm on 23 March 2012.

Gaming duty					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	£2,067,000	£1,425,000	£2,496,000	£5,268,000	Remainder
New figures for accounting periods beginning on or after 1 April 2012					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	£2,175,000	£1,499,500	£2,626,000	£5,542,500	Remainder

Insurance Premium Tax		
	Tax year 2011-12	**Tax year 2012-13**
Standard rate	6%	6%
Higher rate	20%	20%

Budgets 2011 and 2012 announced that climate change levy rates will increase in line with inflation in 2012-13 and 2013-14 respectively.

Climate change levy		
Commodity	**Rates from 1 April 2012**	**Rates from 1 April 2013**
Electricity	£0.00509 per kilowatt hour	£0.00524 per kilowatt hour
Natural gas (a different rate applies in Northern Ireland until 31 October 2013)	£0.00177 per kilowatt hour	£0.00182 per kilowatt hour
Natural gas (Northern Ireland)	£0.00062 per kilowatt hour	£0.00064 per kilowatt hour until 31 October 2013 then main natural gas rate applies
Liquefied petroleum gas	£0.01137 per kilogram	£0.01172 per kilogram
Any other taxable commodity	£0.01387 per kilogram	£0.01429 per kilogram

Budget 2011 announced that the aggregates levy will be frozen at £2.00 per tonne from 1 April 2011, with the planned increase to £2.10 deferred to 1 April 2012.

Budget 2012 announced that the planned increase on 1 April 2012 would again be deferred, until 1 April 2013.

Aggregates levy		
	Rate from 1 April 2012	**Rate from 1 April 2013**
Taxable aggregate	£2.00/tonne	£2.10/tonne

Budgets 2011 and 2012 confirmed previously announced £8 per tonne increases to the standard rate of landfill tax for 2012-13 and 2013-14; and froze the lower rate in both years.

Landfill tax		
	Rate from 1 April 2012	**Rate from 1 April 2013**
Standard rate	£64/tonne	£72/tonne
Lower rate	£2.50/tonne	£2.50/tonne

Air Passenger Duty (APD) rates for 2012-13 were set out at the 2011 Autumn Statement. The APD rates for 2013-14 are set out below.

Air passenger duty						
Bands **(approximate distance in miles from the UK)**	**Reduced rate** [21] **(lowest class of travel)**			**Standard rates** [3] **(other than the lowest class of travel)**		
	From 1 April 2011	From 1 April 2012	From 1 April 2013	From 1 April 2011	From 1 April 2012	From 1 April 2013
Band A (0 – 2000 miles)	£12	£13	£13	£24	£26	£26
Band B (2001 – 4000 miles)	£60	£65	£67	£120	£130	£134
Band C (4001 – 6000 miles)	£75	£81	£83	£150	£162	£166
Band D (over 6000 miles)	£85	£92	£94	£170	£184	£188

[21] Standard APD rates are twice reduced rates. From 1 November 2011, the direct long-haul rates of APD for departures from Northern Ireland (bands B, C and D) were reduced to the short-haul rate (band A). From 1 April 2013, APD will apply to all flights aboard aircraft 5.7 tonnes and above. The rate for flights aboard aircraft 20 tonnes and above with fewer than 19 seats will be double the standard rate.

The Government announced at Autumn Statement 2011 that the 3.02ppl fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012 and the inflation increase that was planned for 1 August 2012 will be cancelled. This will ensure that there will only be one RPI increase this year.

Fuel duty – pound per litre (unless stated)		
	On and after 6pm on 23 March 2011	**On and after 1 August 2012**
Light oils		
Unleaded petrol	0.5795	0.6097
Light oil (other than unleaded petrol or aviation gasoline)	0.6767	0.7069
Aviation gasoline (Avgas)	0.3770	0.3966
Light oil delivered to an approved person for use as furnace fuel	0.1070	0.1126
Heavy oils		
Heavy oil (Diesel)	0.5795	0.6097
Marked gas oil	0.1114	0.1172
Fuel oil	0.1070	0.1126
Heavy oil other than fuel oil, gas oil or kerosene used as fuel.	0.1070	0.1126
Kerosene to be used as motor fuel off road or in an excepted vehicle	0.1114	0.1172
Biofuels		
Bio-ethanol	0.5795	0.6097
Biodiesel	0.5795	0.6097
Biodiesel for non road use	0.1114	0.1172
Biodiesel blended with gas oil not for road fuel use	0.1114	0.1172
Road fuel gases		
Liquefied petroleum gas (LPG)	0.3161 p/kg	0.3734 p/kg
Road fuel Natural gas including biogas	0.2470 p/kg	0.2907 p/kg

Budget 2012 announced that vehicle excise duty (VED) rates will increase by RPI from April 2012, and rates for heavy goods vehicles will be frozen.[22]

VED bands and rates for cars registered on or after March 2001 (graduated VED)					
VED band	**CO_2 emissions (g/km)**	**Tax year 2011-12**		**Tax year 2012-13[23]**	
		Standard rate[24]	**First year rate[4]**	**Standard rate[4]**	**First year rate[4]**
A	Up to 100	£0	£0	£0	£0
B	101-110	£20	£0	£20	£0
C	111-120	£30	£0	£30	£0
D	121-130	£95	£0	£100	£0
E	131-140	£115	£115	£120	£120
F	141-150	£130	£130	£135	£135
G	151-165	£165	£165	£170	£170
H	166-175	£190	£265	£195	£275
I	176-185	£210	£315	£215	£325
J	186-200	£245	£445	£250	£460
K[25]	201-225	£260	£580	£270	£600
L	226-255	£445	£790	£460	£815
M	Over 255	£460	£1,000	£475	£1,030

VED bands and rates for private and light good vehicles registered before March 2001 (pre-graduated VED)		
Engine size	**Tax year 2011-12**	**Tax year 2012-13**
1549cc and below	£130	£135
Above 1549cc	£215	£220

[22] A full list of HGV rates is available on the HMRC website http://carfueldata.direct.gov.uk/new-vehicle-tax.aspx
[23] 2012-13 rates take effect from 1st April 2012.
[24] Alternative fuel discount 2010-11 onwards: £10 for all cars
[25] Includes cars emitting over 225g/km registered before 23 March 2006

VAT		
	January 2011-April 2011	**April 2011-12**
Standard rate	20%	20%
Reduced rate	5%	5%
Zero rate	0%	0%
Exempt	n/a	n/a

VAT registration and deregistration thresholds		
	From April 2011	**From April 2012**
VAT registration threshold	£73,000	£77,000
VAT deregistration threshold	£71,000	£75,000

VAT fuel scale charges[26]			
Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2012.			
CO_2 band	VAT fuel scale charge, 12 month period, £	VAT on 12 month charge, £	VAT exclusive 12 month charge, £
120 or less	£665.00	£110.83	£554.17
125	£1,000.00	£166.67	£833.33
130	£1,065.00	£177.50	£887.50
135	£1,135.00	£189.17	£945.83
140	£1,200.00	£200.00	£1,000.00
145	£1,270.00	£211.67	£1,058.33
150	£1,335.00	£222.50	£1,112.50
155	£1,400.00	£233.33	£1,166.67
160	£1,470.00	£245.00	£1,225.00
165	£1,535.00	£255.83	£1,279.17
170	£1,600.00	£266.67	£1,333.33
175	£1,670.00	£278.33	£1,391.67
180	£1,735.00	£289.17	£1,445.83
185	£1,800.00	£300.00	£1,500.00
190	£1,870.00	£311.67	£1,558.33
195	£1,935.00	£322.50	£1,612.50
200	£2,000.00	£333.33	£1,666.67
205	£2,070.00	£345.00	£1,725.00
210	£2,135.00	£355.83	£1,779.17
215	£2,200.00	£366.67	£1,833.33
220	£2,270.00	£378.33	£1,891.67
225 or more	£2,335.00	£389.17	£1,945.83

[26] Where the CO_2 emission figure is not a multiple of five, the figure is rounded down to the next multiple of five to determine the level of the charge. For a bi-fuel vehicle which has two CO_2 emissions figures, the lower of the two figures should be used. For cars which are too old to have a CO_2 emissions figure, you should identify the CO_2 band based on engine size, as follows:

- If its cylinder capacity is 1,400cc or less, use CO_2 band 140;
- If its cylinder capacity exceeds 1,400cc but does not exceed 2,000cc, use CO_2 band 175;
- If its cylinder capacity exceeds 2,000cc, use CO_2 band 225 or above.

Value Added Tax (VAT) – Fuel scale charges

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2012.

CO_2 band	VAT fuel scale charge, 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	166.00	27.67	138.33
125	250.00	41.67	208.33
130	266.00	44.33	221.67
135	283.00	47.17	235.83
140	300.00	50.00	250.00
145	316.00	52.67	263.33
150	333.00	55.50	277.50
155	350.00	58.33	291.67
160	366.00	61.00	305.00
165	383.00	63.83	319.17
170	400.00	66.67	333.33
175	416.00	69.33	346.67
180	433.00	72.17	360.83
185	450.00	75.00	375.00
190	467.00	77.83	389.17
195	483.00	80.50	402.50
200	500.00	83.33	416.67
205	517.00	86.17	430.83
210	533.00	88.83	444.17
215	550.00	91.67	458.33
220	567.00	94.50	472.50
225 or more	583.00	97.17	485.83

Value Added Tax (VAT) – Fuel scale charges

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2012.

CO_2 band	VAT fuel scale charge, 1 month period, £	VAT on 1 month charge, £	VAT exclusive 1 month charge, £
120 or less	55.00	9.17	45.83
125	83.00	13.83	69.17
130	88.00	14.67	73.33
135	94.00	15.67	78.33
140	100.00	16.67	83.33
145	105.00	17.50	87.50
150	111.00	18.50	92.50
155	116.00	19.33	96.67
160	122.00	20.33	101.67
165	127.00	21.17	105.83
170	133.00	22.17	110.83
175	138.00	23.00	115.00
180	144.00	24.00	120.00
185	150.00	25.00	125.00
190	155.00	25.83	129.17
195	161.00	26.83	134.17
200	166.00	27.67	138.33
205	172.00	28.67	143.33
210	177.00	29.50	147.50
215	183.00	30.50	152.50
220	189.00	31.50	157.50
225 or more	194.00	32.33	161.67

HM Treasury contacts

HM Treasury
1 Horse Guards Road,
Westminster
London
SW1A 2HQ

Tel: 020 7270 5000

HM Revenue & Customs contacts

HM Revenue and Customs
100 Parliament Street,
Westminster
London
SW1A 2BQ

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