

Budget 2010

Press Notice 2

Rates and allowances

New Budget announcements of main changes to rates and allowances in the tax year 2010-11 and the tax year 2011-12.

Announced changes to 2010-11 and 2011-12 rates and allowances for Value Added Tax (VAT), Insurance Premium Tax, income tax, National Insurance Contributions (NICs), indexation of benefits and tax credits, State Pension, Child and Working Tax Credits, Child Benefit, corporation tax on profits, a new bank levy, capital gains tax, cider duty and landline duty are set out below.

INDIRECT TAX

Value Added Tax

With effect from 4 January 2011 the standard rate of Value Added Tax will increase to 20 per cent.

VAT	April 2010-11	4 January 2011
Standard rate	17.5%	20%
Reduced rate	5%	5%

Budget also announces that sectoral rates for the VAT Flat Rate Scheme (FRS) will be updated. Details of new sectoral rates will be available on the HMRC website.

Insurance Premium Tax

With effect from 4 January 2011 the standard rate of Insurance Premium Tax will increase to 6 per cent and the higher rate will increase to 20 per cent.

IPT	April 2010-11	4 January 2011
Standard rate	5%	6%
Higher rate	17.5%	20%

PERSONAL TAX AND BENEFITS

Income tax

Budget announces that in 2011-12, the income tax personal allowance for under 65s will be increased by £1,000 in cash terms, taking it from £6,475 in 2010-11 to £7,475 in 2011-12. To ensure that the majority of higher rate taxpayers will pay the same total level of income tax and National Insurance Contributions (NICs) as previously planned, the Government will also reduce the basic rate limit for tax by £2,500, and the upper earnings and profits limits for NICs by £1,650, based on current estimates of the Retail Prices Index (RPI). Exact figures for the basic rate limit and higher rate threshold will be confirmed in the autumn.



Budget 2010

National Insurance Contributions

Budget announces that the level at which employers start to pay NICs will increase by £21 per week above indexation from April 2011. The value of indexation will be determined by data available in the autumn.

The Government will shortly announce a three-year scheme to exempt new businesses in targeted regions from up to £5,000 of class 1 employer NICs payments, for each of their first 10 employees hired in their first year of business. Subject to meeting the necessary legal requirements, the Government aims to have the scheme up and running by September, but any qualifying new business set up from today will also benefit.

The upper earnings limit and the upper profits limit will maintain alignment with the income tax higher rate threshold.

Employee and employer rates				
	Employee (Class 1 primary)		Employer (Class 1 secondary)	
Earnings per week	April 2010-11	April 2011-12	April 2010-11	April 2011-12
Below primary threshold / secondary threshold	Nil	Nil	Nil	Nil
Above primary threshold/ secondary threshold*	11%	12%	12.8%	13.8%
Above upper earnings limit	1%	2%	12.8%	13.8%

*Reduced rate for married women between primary threshold and upper earnings limit is 4.85 per cent for 2010-11 and 5.85 per cent for 2011-12. 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 rates				
	Class 2 (per week)*		Class 4	
Profits per year	April 2010-11	April 2011-12	April 2010-11	April 2011-12
Below small earnings exception	Nil	Nil	Nil	Nil
Small earnings exception to lower profits limit	£2.40	Not available **	Nil	Nil
Lower profits limit to upper profits limit	£2.40	Not available **	8%	9%
Above upper profits limit	£2.40	Not available **	1%	2%



Budget 2010

*Class 2 NICs are paid at a weekly flat rate of £2.40 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.

**The exact figure for Class 2 for 2011-12 will be determined by data available in the autumn.

Indexation of benefits and tax credits

The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.

State Pension

The Government will uprate the basic State Pension by a triple guarantee of the highest of earnings, prices or 2.5 per cent from April 2011. The CPI will be used as the measure of prices, consistent with the Government's decision to index all benefits and tax credits by the CPI, although the basic State Pension will increase by at least the equivalent of the Retail Prices Index (RPI) in April 2011 to ensure its value is at least as generous as under previous uprating rules. The standard minimum income guarantee in Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension.

Child and Working Tax Credit rates

Budget announces several changes to the Child and Working Tax Credit. Summarised below are the main changes coming into effect in April 2011. Full details of all changes are available in the Budget document.

The child element of the Child Tax Credit will increase by £150 above CPI in April 2011. The baby element of the Child Tax Credit will be removed from April 2011.

In addition, there will be changes to the thresholds and withdrawal rates as set out below.

Child and Working Tax Credits rates		
£ per year (unless stated)	April 2010-11	April 2011-12
Income thresholds and withdrawal rates		
First withdrawal rate	39%	41%
Second income threshold	50,000	40,000
Second withdrawal rate	6.67%	41%
Income disregard	25,000	10,000

Child Benefit

From 2011-12, both rates of Child Benefit will be frozen for three years.



Budget 2010

BUSINESS AND FINANCIAL SERVICES

Corporation tax

Budget announces annual reductions to the main rate of corporation tax. The main rate of corporation tax will be reduced to 27 per cent in 2011-12, with further reductions to 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent in 2014-15.

Budget also announces a reduction in the small profits rate of corporation tax to 20 per cent from April 2011.

Corporation tax on profits	April 2010-2011	April 2011-12
£0 - £300,000	21%	20%*
£300,001 - £1,500,000	Marginal rate	Marginal rate
£1,500,001 or more	28%	27%

* The small profits rate was due to rise to 22 per cent in 2011-12, as announced originally at Budget 2007 and deferred to 2011-12 at 2009 Pre-Budget Report.

Bank levy

Budget announces that a bank levy based on banks' balance sheets will be introduced, effective from 1 January 2011. It is proposed that the levy will be set at a rate of 0.07 per cent, with a lower initial rate of 0.04 per cent in 2011.

CAPITAL, ASSETS AND PROPERTY

Capital gains tax

Budget announces that from 23 June 2010 capital gains tax will rise from 18 to 28 per cent for higher and additional rate taxpayers. The 10 per cent entrepreneurs' relief rate will be extended from the first £2 million to the first £5 million of gains made over a lifetime.

Capital gains tax	April 2010-11	23 June 2010-11
Standard rate	18%	18%
Higher rate*	n/a	28%
Entrepreneurs' relief rate	10%	10%
Annual Exempt Amount	£10,100	£10,100
Entrepreneurs' relief lifetime limit of gains	£2,000,000	£5,000,000

*For higher and additional rate tax payers



Budget 2010

EXCISE DUTIES

Alcohol duty rates

From 30 June 2010, cider duty rates will be reduced as follows:

Alcohol duties	April 2010-11	30 June 2010-11
Rate £ per hectolitre of product		
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	36.01	33.46
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	54.04	50.22
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	36.01	33.46

Landline duty

Landline duty will not be implemented.

Landline duty	As of April 2010, from 1 October 2010	As of June 2010, from 1 October 2010
Rate per fixed line	50 pence	N/A

NOTES FOR EDITORS

Section 41 of the Tax Credits Act requires a report to be laid before Parliament each year reviewing the amounts of certain tax credit elements and thresholds. Section 145 of the Social Security Contributions and Benefits Act 1992 requires an annual review of Child Benefit rates. Section 150 of the Social Security Administration Act 1992 requires the weekly rate of Guardian's Allowance to be increased in line with price.

