

This first issue of tax news covers the key points arising from the draft finance bill clauses issued by the Government on 9<sup>th</sup> December 2010. The publication of these clauses so far in advance of the already announced budget day, 23<sup>rd</sup> March 2011, is part of the coalition's approach to tax policy.

Pension tax reform - The draft legislation covers three main areas:

1. Annual allowance

The annual allowance that an individual will be able to contribute to a pension scheme will reduce to £50,000 from 5 April 2011, although relief will be given at the marginal rate of tax. Unused relief may be carried forward 3 years.

2. Lifetime allowance

The lifetime allowance will reduce to £1.5m from the current £1.8m. This is effective 5 April 2012. Those individuals with pension funds approximating to £1.5m or more (including defined benefit schemes) should take specific advice.

3. Annuitisation

It will no longer be necessary for pension funds to purchase an annuity once the individual beneficiary of the scheme reaches 75. This will be effective from 5 April 2011.

The key points to note from the draft clauses generally relate to the measures announced in the emergency budget in the summer:

- **Income tax rates, allowances and NI rate thresholds** have been published. This introduces the 13.8% employers NI charge and the 2% additional NI charge for higher earners. Click [here](#) for a full summary of the rates and thresholds.
- The favourable **Furnished Holiday Lettings** reliefs were due to be abolished by the previous government. In the summer, subject to consultation, the coalition agreed to keep the reliefs. However, the regime will be changed to make it focused on commercial holiday lettings businesses and not occasional lets of private holiday homes. Click [here](#) for full details.
- **Pension tax reform** (see inset box)
- **Corporate tax rates** fall for larger businesses from 28 to 27% with effect from 1 April 2011 and it has been confirmed the rate will fall further to 26% with effect from 1 April 2012
- **Corporate tax rates** fall for small businesses from 21 to 20% with effect from 1 April 2011
- **Capital allowances** will fall to 18/8% from the current 20/10% for plant and special rate pools respectively with effect from 1 April 2012.

New proposals have been included and the key changes are:

- The coalition has reaffirmed their intention to target **tax avoidance** introducing a number of specific anti-avoidance measures. They are also setting up a 'study programme' to look at a General Anti-Avoidance Rule ("GAAR"). Click [here](#) to see the ministerial statement
- One of the main anti-avoidance measures relevant to business is action against 'disguised remuneration' typically through the use of employee benefit trusts (see inset box)
- A number of simplification measures have been introduced which should benefit business, the main one being corporate capital gains simplification. Click [here](#) for more details

## Disguised remuneration

A large number of businesses have entered into planning arrangements that allow for employees to benefit from cash held by a third party, generally an Employee Benefit Trust ("EBT").

The previous government signalled an intention to counteract these schemes. The coalition confirmed that approach. It has issued draft proposals for consultation with the intention that these will be effective from April 2011.

To prevent further use of these schemes until the rules are introduced, anti forestalling provisions have been drafted.

The new provisions are draft and anyone affected should seek specific advice.