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## *UK Budget Alert 2010*

BY ARUN BIRLA, JITEN TANK AND GEORGE WESTON

On 24 March 2010, the UK Chancellor, Alistair Darling, announced the 2010 UK budget (the "Budget"). This summary sets out the key highlights.

### **Business Taxes:**

- No changes were announced to corporation tax rates.
- The temporary extension of trading loss carry back from one year to three years for losses up to £50,000 continues until 23 November 2010.
- Legislation is planned to be introduced in the next Finance Bill to clarify that distributions that are capital in nature received by UK companies will not be prevented from falling within the distribution exemption regime introduced last year.
- The government intends to amend those aspects of the corporation tax consortium relief rules to allow EU and EEA-resident companies engaged in UK consortia to pass relief for the losses of those consortia to their UK-resident subsidiaries.
- The corporation tax rules on loan relationships will be amended to deny a close company a deduction for the release or writing off of a loan to a participator in that company. This measure is intended to have effect for debt (or part debt) releases or write-offs on or after 24 March 2010.

### **VAT:**

- No changes were announced to VAT rates.

### **Anti-avoidance:**

- Additional measures were promised to prevent tax avoidance and evasion. The Government will be looking to make more agreements with third countries on the lines of the recent agreement with Lichtenstein.
- As part of the push to reduce 'off-shore' tax evasion, non-compliance will carry an increased penalty where the jurisdiction in which it occurs only shares information with HMRC on request (one and a half times the usual penalty) or not at all (twice the usual penalty).

- The Government intends to introduce anti-avoidance legislation taking effect from 6 April 2011 to tackle attempts to avoid tax and National Insurance contributions through the use of Employee Benefits Trusts and other arrangements to disguise payments of remuneration. This is perhaps an indication that HMRC will be clamping down on routes to mitigate the impact of the impending increases to income tax and National Insurance rates (see below).
- Legislation will be included in the next Finance Bill to prevent the use of Company Share Option Plans for avoidance. This will ban the grant of options in a company which is under the control of a listed company.
- Legislation will also be included to prevent use of Share Incentive Plans to obtain a corporation tax deduction where no shares of real value are transferred to employees. HMRC will also have the power to withdraw approval where the share capital or attached rights are altered to reduce their value.

## **Personal Taxes:**

- Income tax and National Insurance changes announced in the December 2009 Pre Budget Report will come into force as planned. These are:
  - the 50% top rate of income tax for those earning in excess of £150,000 coming in next month;
  - those with incomes over £100,000 a year will gradually lose personal allowances;
  - tax relief on pensions will be restricted from next year for those with incomes above £130,000 a year; and
  - all rates of National Insurance to rise by a further 0.5% from April 2011.
- Surprisingly, the main rate of capital gains tax remains unchanged at 18%.
- The inheritance tax threshold has been frozen for 4 years.

## **Stamp Duty Land Tax (SDLT):**

- A SDLT holiday will be introduced with effect from midnight on 25 March 2010 for first time buyers purchasing properties worth less than £250,000. There will, however, be an increased SDLT charge (of 5%) from April next year on all residential properties worth over £1m.
- Legislation will be introduced in the next Finance Bill to ensure that the existing SDLT anti-avoidance rules also apply to transactions undertaken by companies and individuals which seek to exploit the SDLT partnerships rules by artificially reducing the SDLT payable on some land transactions. Subject to certain transitional rules, the legislation will have effect for transactions on or after 24 March 2010.



*If you have any questions concerning these developing issues, please do not hesitate to contact either of the following Paul Hastings London lawyers:*

Arun Birla  
44-20-3023-5176  
arunbirla@paulhastings.com

Jiten Tank  
44-20-3023-5133  
jitentank@paulhastings.com

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