

## *UK Emergency Budget*

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On 22 June 2010 the new UK coalition government announced its first budget since taking office. This was an 'emergency' budget described by the UK Chancellor of the Exchequer as being "unavoidable" in the light of the UK's fiscal deficit.

This summary sets out the key highlights:

### **Bank Levy**

- A bank levy based on banks' balance sheets will be introduced, following consultation, effective from 1 January 2011. It is proposed that the levy will be set at a rate of 0.07%, with a lower initial rate of 0.04% in 2011.
- The Government has also announced that it will explore the costs and benefits of a Financial Activities Tax (outlined by the International Monetary Fund), working with international partners to secure agreement.

### **Corporation Tax**

- The UK's headline corporation tax rate of 28% will be reduced to 27% from April 2011, with further reductions of 1% a year for the three years thereafter to 24%. The small companies' corporation tax rate will be cut to 20% next year.
- A 5 year plan to consult on and reform corporation tax was announced, including: (i) a commitment to move to a territorial basis for taxing the profits of foreign branches; (ii) reforming the UK's controlled foreign company rules to make the rules more competitive; and (iii) consulting with businesses on possible changes to the taxation of intellectual property and support for research and development.
- To compensate for the reduction in corporation tax rates, from April 2012, the rate of capital allowances on the general pool of plant and machinery will be reduced from 20 % to 18 %, and the rate of allowance on the special rate pool of plant and machinery will be reduced from 10 % to 8 %. The annual investment allowance will be reduced from £100,000 to £25,000.

### **Capital Gains Tax**

- The top rate of capital gains tax is to increase to 28% for individual higher rate tax payers from midnight 22 June 2010. Lower and middle income tax payers will continue to pay 18%.
- Entrepreneurs' relief has been extended to cover the first £5 million of qualifying gains.

## VAT

- From 4 January 2011 the standard rate of VAT will increase from 17.5% to 20%.

## Personal Taxes

- The Government announced that there will be a review of the tax treatment of non-domiciled individuals.

## Asset Management

- The Government will consult on a range of issues to increase the UK's competitiveness in the asset management arena, including, among other things, reform of stamp duty reserve tax and the modernisation of tax rules relating to investment trust companies.

## Anti-Avoidance

- There will be an 'informal' consultation on a general anti-avoidance rule.
- The Government is examining whether additional anti-avoidance rules are needed to prevent avoidance of stamp duty land tax on high value property transactions.

The emergency budget measures should not have come as a huge surprise, as many of the announcements had already been subject to media coverage. However, the devil will be in the detail which will continue to emerge over the coming months. In particular, the proposed bank levy is of interest because it provides an indication that, the UK Government hopes to take the initiative in pushing for a global levy on banks before a meeting of the leaders of the G20 countries later this month.



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

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