



Keeping you informed

Budget 2012 Briefing Note

Introduction

On 21 March 2012, George Osborne delivered his third budget speech as Chancellor of the Exchequer. Whilst the outlook for the UK economy remains uncertain, the Chancellor did confirm that the Office for Budget Responsibility (OBR) has revised its growth forecast for the UK marginally up to 0.8% for 2012. The UK's structural deficit is gradually falling and this budget was intended to be fiscally neutral over a five year period. The target for inflation based on the Consumer Prices Index is 2%.

Mr Osborne stated that this was a 'budget to reward work' and 'unashamedly backs business'. The Government's longer term aim continues to be to overhaul the UK tax system, ensuring it is simple, predictable, supports work and is fair to all. One new initiative is the introduction of a Personal Tax Statement from 2014-2015 for around 20 million taxpayers, covering both self-assessment and PAYE. This statement will outline how much Income Tax and National Insurance Contributions the individual has paid in the year, and how this has been spent.

This briefing note summarises the key points of most relevance to the employers

Pensions

State pensions

In April 2012, the basic state pension will benefit from its highest ever single increase of £5.30 per week, taking the amount of full basic state pension for a single person to £107.45 per week.

The Chancellor confirmed that the previously outlined proposal to introduce a simplified State pension system will go ahead. This will be a flat rate scheme, based on National Insurance Contributions, and is currently estimated to be in the region of £140 per week. Further details on the new proposed state pension system will be released next month.

In addition, the government will investigate the possibility of automatically linking state pension age to match increasing rates of longevity. The details of the review will be published this summer alongside the OBR's 2012 *Fiscal Sustainability Report*.

Pension tax relief

No further changes to tax relief on pension contributions are currently planned.

Income Tax

Personal allowance and income tax bands

The Government's medium term goal of removing the lowest paid from the tax system altogether remains,

and the increase in the personal allowance to £8,105 from April 2012 will go ahead. In addition, from April 2013 another significant increase will apply, taking personal allowance to £9,205 per annum.

The 2012 £630 increase to the personal allowance will be accompanied by a corresponding £630 decrease in the basic rate tax band, taking it to £34,370. The higher rate threshold will remain at £42,475 for the 2012-2013 tax year.

Income Tax rates

The main income tax rates for 2012-2013 will remain at their 2011-2012 levels. The 50% additional rate of Income Tax was again in the spotlight. HMRC's report



into the revenue generated as a result of this top tax rate highlights 'massive distortions' in tax receipts as a result of the 50% band. Headline figures include £16 billion of income deliberately shifted to the previous year, at a cost to the taxpayer of £1 billion, and self assessment receipts coming in £3.6 billion below forecast.

It was therefore confirmed that, from April 2013, this rate will be reduced to 45%.

Age related allowances

From 6 April 2013, the availability of age related Income Tax allowances will be restricted to existing recipients. From that date, the existing age related allowances will be frozen at their 2012-2013 levels until they align with the personal allowance, at which point the age related allowances will be removed completely.

Income tax reliefs

The Government will introduce a new limit on all uncapped income tax reliefs. Any individual seeking to claim more than £50,000 in 'reliefs' in any one year

will be subject to a cap of the greater of 25% of their income or £50,000. This new limit will not be extended to reliefs that are already capped, such as pension contributions and enterprise investment schemes.

National Insurance Contributions

The Chancellor confirmed that the government will be pushing ahead with plans to integrate the Income Tax and National Insurance Contributions (NICs) systems in the UK. A detailed consultation is due to be published next month.

Corporation Tax

In line with the Government's aim to make Britain's tax system 'more competitive for business than anywhere else in the world' the Chancellor announced further planned reductions to Corporation Tax rates.

The small companies rate of Corporation Tax will remain at 20% from April 2012.

The main rate of corporation tax will reduce to 24% in April 2012, followed by two further 1% reductions in April 2013 and April 2014. The Government's long term aim is to reduce the main rate of corporation tax down to 20%, in line with the small companies rate and the basic rate of Income Tax.

In addition, it was announced that the Government will introduce a new cash based system for calculating tax for companies with revenue up to £77,000 per annum.

Child Benefit

The Government has revised its changes to Child Benefit. From January 2013, for households where someone has an income of over £50,000 per annum, Child Benefit will be withdrawn through an Income Tax charge. Where the individual is earning between £50,000 and £60,000 per annum the charge will apply gradually, in order to avoid a 'cliff edge' effect. Child Benefit will be removed completely for any households where someone is earning more than £60,000 per annum.

Please contact us if you have any questions.

We also look forward to hearing from you on anything employee benefits related

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