FINANCE BILL 2010
LOBBY NOTES

PART 1

RATES, ETC

Corporation tax

Clause 1 amends the main rate of corporation tax for the financial year beginning 1 April 2011 and sets it at 27 per cent for companies with profits other than ring fence profits of North Sea oil companies.

Capital gains tax

Clause 2 and Schedule 1 change the rates at which capital gains tax is charged. This replaces the single rate of 18 per cent for all gains (with gains qualifying for entrepreneurs' relief being reduced to deliver an effective rate of 10 per cent). The rate of CGT for gains that do not qualify for entrepreneurs' relief will now be 18 per cent up to any unused amount of an individual's income tax basic rate band; and 28 per cent for other gains, including gains of trustees and the personal representatives of deceased persons. The 10 per cent rate for gains qualifying for entrepreneurs' relief remains, but is now delivered simply by charging those gains at that rate, and the lifetime limit for gains qualifying for the relief is increased from £2 million to £5 million. The changes take effect for gains arising on or after 23 June 2010.

Value added tax

Clause 3 provides for the standard rate of VAT to increase to 20 per cent on 4 January 2011. Clause 3 and Schedule 2 also introduce an anti-forestalling measure which provides for a supplementary charge to VAT of 2.5 per cent on certain supplies that span the date on which the standard rate of VAT changes from 17.5 per cent to 20 per cent.

Insurance premium tax

Clause 4 increases the standard rate of insurance premium tax (IPT) from 5 per cent to 6 per cent and the higher rate of IPT from 17.5 per cent to 20 per cent, both with effect from 4 January 2011.

PART 2

OTHER PROVISIONS

Pensions

Clause 5 gives HM Treasury a power to make an order repealing section 23 of and Schedule 2 to the Finance Act (FA) 2010. Section 23 and Schedule 2 to FA 2010 introduced, with effect from 6 April 2011, a restriction of pension tax relief to the basic rate for high income individuals, known as the "high income excess relief charge". This provision lapses after 31 December 2010; the order has to be made by that date to be effective.

Clause 6 and Schedule 3 modify how certain tax rules relating to registered pension schemes apply to individuals reaching age 75 on or after 22 June 2010. The clause and Schedule enable those reaching age 75 on or after 22 June 2010 to defer their decision on what to do with their pension savings until after the new rules announced by the Government are finalised next year.

Income tax

Clause 7 and Schedule 4 provide for the exemption from income tax of certain expenses paid or reimbursed to MPs following the introduction, by the Independent Parliamentary Standards Authority, of a new scheme for paying the expenses of MPs. This will broadly have the effect of maintaining the tax treatment that applied to similar expenses paid under the previous arrangements for reimbursing MPs' expenses.

Corporation tax

Clause 8 and Schedule 5 amend the corporation tax rules on loan relationships and derivative contracts that apply to amounts that are not fully recognised for accounting purposes. Where a company 'derecognises' a loan or derivative (and its associated cash flows) in accordance with generally accepted accounting practice, in specified circumstances amounts are brought into account for tax purposes as if the accounts had in fact recognised them. The Schedule amends these rules to extend the circumstances in which 'derecognition' is overridden for tax purposes.

Clause 9 introduces a new anti-avoidance rule, which ensures that section 432CA of the Income and Corporation Taxes Act 1988, introduced by Finance Act 2010, cannot be circumvented by the transfer of long-term insurance business from one company to another.

Final provisions

Clause 10 provides for the use of abbreviations for a variety of Acts. For example, it provides for the use of "ICTA" as an abbreviation for the Income and Corporation Taxes Act 1988.

Clause 11 provides for the Bill to be known as the "Finance (No.2) Act 2010" upon Royal Assent.