



**HM Revenue
& Customs**

**Aidan Reilly
Assistant Director (Financial Products
and Services)**

CT & VAT

Mail Station A
3rd Floor
100 Parliament Street
London
SW1A 2BQ

Tel 020 7147 2575
Fax 020 7147 2641
E Mail aidan.reilly@hmrc.gsi.gov.uk

Date 22 June 2010

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Budget June 2010

This is HMRC's Budget 2010 letter for the Financial Services sector. It brings together in one place a summary of those measures and announcements from the Budget which we believe will be of particular interest to those working in the sector, covering direct and indirect tax issues, and issues being led by HM Treasury. Further details of proposed changes can be found in the relevant Budget notes together with appropriate contact details.

The letter also includes details of other current work relevant to the financial sector, together with contact details for that work.

As in previous years HMRC and HM Treasury are extremely grateful to the various organisations and individuals who have contributed to the discussion of issues covered by this letter. We are grateful for your continued support and look forward to working with you again.

Aidan Reilly

The items covered by this letter are as follows:

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- Indexing ISA Limits from 2011 (BN21)

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- Corporation tax avoidance: Authorised Investment Funds (BN16)

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1. Banking

Bank Levy

The Government will introduce a levy based on banks' balance sheets, with effect from 1 January 2011, designed to encourage banks to move to less risky funding profiles and to ensure that banks make a fair contribution in respect of the potential risks they pose to the UK financial system and wider economy. The levy is based on the valuable work undertaken by the International Monetary Fund and complements the wider financial regulatory reform agenda. The Government will continue to discuss its approach with its international partners. Final details of the levy will be published later this year, following a period of consultation beginning later in the summer.

More details are provided on the [HM Treasury website](#).

Contact point for further details: Aidan Reilly on 020 7147 2575 or aidan.reilly@hmrc.gsi.gov.uk or Malcolm White on 020 7147 0565 or malcolm.white@hmrc.gsi.gov.uk

Financial Activities Tax

The Government has also announced that it will explore the costs and benefits of a Financial Activities Tax, working with international partners to secure agreement.

Contact point for further details: Aidan Reilly on 020 7147 2575 or aidan.reilly@hmrc.gsi.gov.uk or Malcolm White on 020 7147 0565 or malcolm.white@hmrc.gsi.gov.uk

Indexing ISA Limits from 2011 ([BN21](#))

From 6 April 2011 the annual Individual Savings Account (ISA) subscription limits will increase in line with the Retail Prices Index (RPI). Indexation of the ISA limits for subsequent tax years will have effect on and after 6 April of each year.

The new annual limits will be rounded to the nearest multiple of 120, so that individuals who save monthly will be able to calculate their monthly savings more easily.

The new limits will be calculated by reference to RPI for the September before the start of the new tax year. HMRC will announce the new limits as soon as possible after the RPI figure is published. So, for example, the 2011/12 ISA limits will be indexed to the published September 2010 RPI figure, rounded to the nearest multiple of 120.

In the event that RPI is negative, the ISA limits would be unchanged.

As is the case now, following indexation, the cash ISA limit will be half the value of the stocks and shares ISA limit.

Contact point for further details: Steve Lig on 020 7147 2827 or steve.lig@hmrc.gsi.gov.uk

2. Asset Management

Collective Investment Schemes

The Government announced today that it will hold discussions with industry and consultations on a range of issues to improve the competitiveness of the UK in the asset management sector, including:

- Reform of Schedule 19 Stamp Duty Reserve Tax in the context of investments in underlying funds;
- Undertakings for Collective investments in Transferable Securities (UCITS) IV implementation;
- Introducing a tax transparent contractual fund;
- A review of tax rules relating to Investment Trust Companies with a view to modernising the rules; and
- Potential changes to the Funds Investing in Non-Reporting Offshore Funds (FINROF) regulations for funds investing more than 20% in both reporting and non-reporting funds.

Contact point for further details: John Buckeridge on 020 7147 2560 or john.buckeridge@hmrc.gsi.gov.uk or Angela Nagarajah on 020 7147 2787 or angela.nagarajah@hmrc.gsi.gov.uk;

Contact point for further details relating to Schedule 19 SDRT: Jeremy Schryber on 020 7147 2788 or jeremy.schryber@hmrc.gsi.gov.uk

Corporation tax avoidance: Authorised Investment Funds ([BN16](#))

This measure will ensure that a corporate investor cannot make use of an authorised investment fund to create a credit for UK tax where no UK tax has been paid.

Contact point for further details: John Buckeridge on 020 7147 2560 or john.buckeridge@hmrc.gsi.gov.uk

3. Insurance

Life Insurance Companies: changes to tax rules ([BN15](#))

Section 432CA : Anti-avoidance rule

Finance Act 2010 introduced section 432CA TA 1988 which ensures that, when recognised, deferred profits are taxed on an appropriate basis. In recognition of the fact that section 432CA could be sidestepped if business was transferred the intention to legislate to introduce an anti-avoidance rule was announced on 24 March 2010. A technical note giving details of the proposed rule was also published on the same day. This anti-avoidance rule will be introduced in Finance Bill 2010.

The anti-avoidance rule will create a tax charge on the transferring company in respect of any excess in the fair value of assets transferred over the amount brought into account as a business transfer-out for the period of account in which the transfer occurred, or, if an actual period or deemed period of account ended immediately before the transfer, the period of account ending immediately before the transfer. The rule will only impact where a main purpose of either of the parties in entering into the transfer scheme arrangements was to avoid tax.

Where such a tax charge arises in the transferring company, there will be provision for relief in the transferee company to ensure that no amounts are taxed twice.

Contact point for further details: Carol Johnson on 020 7147 0517 or carol.johnson@hmrc.gsi.gov.uk

Transfers of business to non-EEA overseas company

The Government intends to consult informally with industry on modifications to the rules which govern transfers of long term insurance business to ensure that an unintended tax charge does not arise when long term insurance business is transferred to a non-EEA overseas company. The Government will legislate for this measure in an autumn Finance Bill.

Contact point for further details: Carol Johnson on 020 7147 0517 or carol.johnson@hmrc.gsi.gov.uk

Taxation of UK branch of an EEA company following transfer of business from a UK regulated entity

The Government intends to make regulations to ensure that where UK business is transferred from a UK regulated entity to an EEA regulated entity, the UK branch will be taxed on the basis of the return made to the overseas regulator, provided that it is equivalent to an FSA return. This is an interim measure, as UK branches will move to an accounts basis on a Solvency II timescale, along with all UK life insurance companies. Draft regulations will be published and the Government intends to consult with industry on their final form over the summer.

Contact point for further details: Carol Johnson on 020 7147 0517 or carol.johnson@hmrc.gsi.gov.uk

Update on other work

The Government will continue consulting on changes to the transfer of business rules.

The Government will continue consulting on the tax treatment of life insurance company investments in Venture Capital Investment Partnerships.

The Government will consult on changes to the rules used to determine the basis for the deduction in respect of policyholder tax with a view to the Regulations being amended before the end of the year.

Solvency II

The formal consultation period came to a close on 2nd June but consultation on proposed changes continues through a number of joint HMRC/industry working groups.

Contact point for further details: Andy Stewardson on 020 7147 2600 or andy.stewardson@hmrc.gsi.gov.uk

Life Insurance Deficiency Relief

The Government has confirmed in the Emergency Budget 2010 that it does not believe it is appropriate to extend life insurance deficiency relief to the additional

rates of income tax from 6 April 2010, as was announced on 24 March 2010. Instead the deficiency relief rules will continue as at present and will reduce tax due on income subject to the higher rate and dividend upper rate of tax only.

Contact point for further details: Jon Prothero on 020 7147 2785 or jon.prothero@hmrc.gsi.gov.uk

4. Direct Tax – Other Issues

Corporation tax reform

The Budget announcements include confirmation of the Government's intention to reform the Controlled Foreign Company regime. New CFC rules will be legislated in spring 2012 allowing time to consider carefully how to make the rules more competitive, to enhance long-term stability, and provide adequate protection of the UK tax base. Consultation will take place over the summer on interim improvements to be legislated in spring 2011 to make the current rules easier to operate and where possible increase competitiveness.

The Government has also stated that it will move to a more territorial basis for taxing the profits of foreign branches, and will consult in summer 2010 on options for retaining foreign branch loss relief as part of this, reforming the rules in 2011.

The Government will set out its more detailed programme for corporate tax reform in the autumn allowing it to take a more considered approach to implementing tax reforms and to listen to the needs of business through greater consultation and working together.

Contact point for further details on CFC reform: Nick Houghton on 020 7147 2601 or nick.houghton@hmrc.gsi.gov.uk

Contact point for further details on foreign branch review: Andrew Page on 020 7147 2673 or andrew.page@hmrc.gsi.gov.uk;

Review of the taxation of non-domiciled individuals

The Budget announced that the Government will review the taxation of non-domiciled individuals, confirming the statement made previously in the Coalition Agreement. The aim will be to establish whether changes can be made to the current rules to ensure that non-domiciled individuals make a fair contribution to reducing the deficit, in return for greater certainty and stability for those bringing skills and investment to the UK. The Government will announce further details on the scope and timeframe of the review in due course.

Contact point for further details: Offshorepersonal.taxteam@hmrc.gsi.gov.uk

Financial Products: debt cap modifications (BN7)

Amendments to the worldwide debt cap legislation (Part 7 TIOPA 2010) were announced last autumn, with some further changes announced in the March Budget.

These amendments are expected to be incorporated in an autumn Finance Bill. The changes include:

- The exclusion of securitisation companies from the operation of the main debt cap rules;
- An expansion of the financial assets and liabilities taken into account for the gateway test, to include arrangements having the economic effect of loans; and
- A power to make regulations to deal with accounting and computational mismatches between the measure of UK financing costs and the measure of worldwide financing costs.

Most of the amendments will have effect for the first period of account of the worldwide group beginning on or after 1 January 2010, the start date for the debt cap legislation as a whole.

Contact point for further information: Lesley Hamilton on 020 7147 2564 or lesley.hamilton@hmrc.gsi.gov.uk

Loan relationships and derivative contracts: derecognition ([BN17](#))

The Finance Bill 2010 will include an extension to the anti-avoidance rules in sections 311/312 and 599A/599B CTA 2009, which deal with the 'derecognition' of loan relationships and derivative contracts. With effect from today, the rules will also apply in cases where derecognition arises as a result of the acquisition or variation of a capital interest in a company, partnership or trust, or is triggered by an event that occurs in a later accounting period to that in which the derecognition takes place. In addition, a Technical Note will be issued shortly setting out proposals to amend this legislation to provide a more generic rule to counter avoidance schemes involving derecognition.

Contact point for further details: Tony Sadler on 020 7147 2608 or email tony.sadler@hmrc.gsi.gov.uk

Pensions: annual allowance

The Government has affirmed its commitment to protect the public finances through introducing reforms to pensions tax that raise no less revenue than has already been accounted for in the public finances. However, it has concerns about the high income excess relief charge legislated for in Finance Act 2010 and has announced it is considering restricting pensions tax relief from 6th April 2011 by reforming the existing pension tax allowances, principally through a significantly reduced annual allowance.

The Government wishes to engage employers, pension schemes, experts and other interested parties to determine the best design of a regime. Provisional analysis suggests an annual allowance in the range of £30,000 - £45,000 might deliver the necessary yield.

It is intended that the Government's approach to restricting pensions tax relief will commence on 6 April 2011. Legislation will be introduced in Finance Bill 2010 to introduce powers to repeal the high income excess relief charge.

Contact point for further details: Paul Cottis on 0115 974 2420 or pensions.policy@hmrc.gsi.gov.uk

Pensions: deferring the effective requirement to use money purchase pension savings to buy an annuity at age 75 ([BN22](#))

The Government has announced that it will end the effective requirement for members of registered pension schemes and their dependants to purchase an annuity by age 75 with effect from 2011-2012.

In the meantime, pension scheme members and dependants, who reach age 75 on or after 22 June 2010 without having secured a pension, won't have to buy an annuity or otherwise secure a pension income until they reach age 77. This will enable them to defer their decision on what to do with their pension savings until the new rules are finalised next year.

The Government will be consulting shortly on the details of the changes to be brought in next year.

Budget Note 22 published today gives more details of the transitional changes.

Contact point for further details: Stephen Webb on 020 7147 2872 or pensions.policy@hmrc.gsi.gov.uk

Pensions: NEST ([BN23](#))

The Government has announced that the National Employment Savings Trust (NEST) will be treated as an occupational pension scheme for pensions tax purposes which will enable it to be registered with HMRC.

Budget Note 23 published today gives more details.

Contact point for further details: Beverley Davies on 020 7147 2869 or pensions.policy@hmrc.gsi.gov.uk

Real Estate Investment Trusts (REITS) and Stock Dividends ([BN18](#))

This measure will allow UK-REITs to issue stock dividends in lieu of cash dividends in meeting the requirement to distribute 90 per cent of the profits from the property rental business of the REIT. The Government will legislate for this measure in a Finance Bill introduced in the autumn.

Contact point for further details: Tony Linehan on 020 7147 0527 or tony.linehan@hmrc.gsi.gov.uk

Changes to the rules on the deduction of income tax at source ([BN13](#))

Following a consultation which closed on 28th May, the Government has announced that legislation will be included in the Finance Bill introduced in the autumn to provide HMRC with a power to make changes by regulations to amend the rules on the collection of income tax deducted at source from interest and similar payments.

Proposals for changes to be made by regulations will be published later in 2010.

Contact point for further details: Nicky Rass on 020 7147 2802 or email nicola.rass@hmrc.gsi.gov.uk

5. Indirect Tax

VAT: Increase in the standard rate of VAT ([BN43](#) and [BN44](#))

The standard rate of VAT will increase from 17.5 per cent to 20 per cent with effect from 4 January 2011.

Also, anti-forestalling legislation, announced by the Exchequer Secretary to the Treasury in a Written Ministerial Statement on 22 June 2010, will be introduced to counter arrangements that purport to apply the 17.5 per cent VAT rate to goods or services to be delivered or performed on or after 4 January 2011. The legislation has been targeted on artificial arrangements and is unlikely to affect suppliers conducting their business as they normally do when no VAT rate increase is anticipated.

Contact point for further details: Ian Allen on 020 7147 0009 or ian.allen@hmrc.gsi.gov.uk

Insurance Premium Tax (IPT): Increases in the Standard Rate and Higher Rate ([BN19](#))

The Government has announced today that legislation will be introduced in the Finance Bill 2010 to increase the standard rate of IPT from 5% to 6 %, and the higher rate from 17.5% to 20% in line with the increase in the standard rate of VAT to 20%, both with effect from 4 January 2011. The increase will apply to premiums received under taxable insurance contracts on or after that date.

Existing anti-avoidance measures help to prevent insurers from adding additional or new risks to existing contracts and prevent insurance contracts being paid for or arranged in advance of the date the rate rise takes effect, thereby avoiding the increase in tax.

Contact point for further details: Helen West on 020 7147 0602 or helen.west@hmrc.gsi.gov.uk