

Review

Budget 2011



BUDGET NOTES - EMPLOYMENT

The key points in today's Budget relevant to employment are as follows

- NIC rates are to rise with effect from 6 April 2011. The employer's NIC rate rises to 13.8% and the standard and higher employees' rates rise to 12% and 2% respectively. This was a previously announced change.
- The income tax personal allowance will be increased by £1,000 on 6 April 2011 and by a further £630 in April 2012. However, the higher rate band threshold will be reduced from £37,400 to £35,000 on 6 April 2011.
- The rules on "disguised remuneration" that were announced last December are to be implemented. These new anti-avoidance rules are very wide ranging and have been widely criticised. Although the rules are primarily targeted at arrangements to defer tax using Employee Benefit Trusts, the Government is also using them to enforce the new £50,000 contributions limit for registered pension schemes by making alternative arrangements less tax efficient. The new rules also potentially catch some normal share schemes and deferred bonus arrangements and may result in some schemes/arrangements needing to be revised or unwound. It will be important to check the impact of the rules prior to making any deferred share or bonus awards on or after 6 April 2011, when the rules come into effect. There are also anti-forestalling rules which can apply to the payment of sums (including loans) or transfer of assets to employees between 9 December 2010 and 5 April 2011. The final legislation is expected to be available on 31 March.
- There will be consultation on merging the operation of income tax and NICs for employees. Running two separate taxes through PAYE clearly adds to the burdens on businesses but a full merger of income tax and NICs would not be straightforward. The danger is that the tax system could become even more complex with a wide range of different tax rates. Or, if a blended rate is applied to all income, there could be some substantial winners and losers.
- The 50% tax rate was described as a "temporary measure", albeit it is "not currently the right time to remove it".

Please contact your Squire Sanders Hammonds contact to discuss further.

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