Budget Summary 20 March 2013

The Budget

shipleys LLP

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Chartered Accountants & Professional Business Advisers

Budget Summary 2013

Introduction

Evening Standard readers might be forgiven for skipping our Budget Summary this year if they were lucky enough to get a sneak (or should that be leak) preview before the Chancellor even stood up. For those that missed it, we have our very own "read all about it" here.

It might not merely be old news, but there were certainly some echoes of the past in this Budget: the new "help to buy" initiative to encourage people to climb the property ladder might remind you of a certain previous government's famous "right to buy" campaign. And one thing is abundantly clear: this Chancellor is definitely not for turning – where have we heard that before?

Every Chancellor tries to convince us that he can cure the country's woes and that this time things can only get better. But is there any substance to this? Recent Budgets seem to be more about tinkering at the edges, with a rate change here, a new initiative there and tax legislation which is longer and more complex than ever before. These are difficult enough times without all the rule changes and red tape (a favourite topic of ours here at Shipleys). Uncertainty is always unwelcome – as evidenced by the recent events in Cyprus and the Eurozone.

Whether it's the fault of his own policies, a hangover from his predecessor or part of the much wider global economic situation, just about everybody agrees that the numbers show that the Chancellor is not where he would like to be. It looks like the recovery is going to be long haul and, regardless of your politics, this could be the "new normal". If you've been waiting for things to get better, it might be time to pinch yourself and take a small dose of reality.

Whilst there were some interesting-sounding measures to help business in the Chancellor's speech, and covered in this Summary, in our experience what people really crave is certainty and stability so they can plan for the long term growth that's so badly needed. It's important for businesses and individuals to be aware of the tax and other changes at Budget time so that you know what the opportunities are. It's our job at Shipleys to look through the politics of it all and to keep on top of the detail so that we can help you steer the right path; you could say 'more of the same energising your aspirations'.

Ken Roberts
Managing Principal

Budget Highlights

Income tax – For 2013/14 the personal allowance is £9,440 (and the basic rate band £32,010). The 40% rate applies to income over £41,450. The top rate on income over £150,000 falls from 50% to 45%.

Pensions – The maximum amount that may be drawn down from a registered pension scheme (by those whose pension income otherwise does not exceed £20,000) is increased from 100% (of comparable annuity rates) to 120% for pension years beginning after 25 March 2013.

Cap on reliefs – The cap on reliefs for losses, etc against income tax applies from 6 April 2013.

Integration of income tax and NICs – The Government is to wait for further progress on planned changes to the tax system before formally consulting on integrating the operation of income tax and NICs.

Statutory residence test – A statutory definition of tax residence for individuals will apply from 6 April 2013. The concept of 'ordinary residence' is abolished from that date.

Annual investment allowance – £250,000 for expenditure in 2013 and 2014.

Corporation tax rates – The main rate is 23% from 1 April 2013 and 21% from 1 April 2014 (where previously it was to be 22%). The ‘small profits rate’ remains 20%.

Cash basis – ‘Small’ traders can adopt a simplified cash basis accounting system for tax purposes from 2013/14.

Disincorporation relief – A company may transfer its business as a going concern to its shareholders (if all individuals) after March 2013 without tax arising on goodwill and land & buildings (held as fixed assets) if their total market value does not exceed £100,000.

Non-domiciled spouses – From 6 April 2013 the exemption for gifts and bequests by someone domiciled in the UK to a non-domiciled spouse, currently £55,000, is increased to an amount equal to the nil rate band, currently £325,000. Alternatively, a non-domiciled spouse will be able to elect to be treated as UK domiciled.

General Anti-Abuse Rule (GAAR) – This will apply from Royal Assent to the Finance Bill to thwart tax avoidance otherwise not affected by targeted provisions.

Annual Tax on Enveloped Dwellings (ATED) – A tax charge of up to £140,000 will apply from 1 April 2013 to UK dwellings worth over £2m on 31 March 2012 or subsequent purchase (or part disposal) if such dwellings are owned by companies, etc, both resident and non-resident, save for a number of exceptions, such as those owned by landlords (with unconnected tenants), traders, developers, etc.

ATED-chargeable gains – Gains over market value as at 5 April 2013 realised on disposals of UK dwellings subject to ATED will be subject to 28% capital gains tax.

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(2012/13 figures in brackets)

	Dividends	Interest	Other
The first £2,790 *(£2,710)*	10%* *(10%)*	10%* *(10%)*	20% *(20%)*
£2,791 - £32,010 *(£2,711 - £34,370)*	10% *(10%)*	20% *(20%)*	20% *(20%)*
£32,011 - £150,000 *(£34,371 - £150,000)*	32.5% *(32.5%)*	40% *(40%)*	40% *(40%)*
Over £150,000 (*Over £150,000)*	37.5% (42.5%)	45% (50%)	45% (50%)

* Dividends are treated as the top slice of total income, interest as the next slice. The 10% rate band applies to savings (interest and dividends) income only. If non-savings income is in excess of £2,790 *(£2,710)* the 10% rate band does not apply.

Discretionary and Accumulation & Maintenance Trusts: 37.5% on dividends *(42.5%),* otherwise 45% *(50%)*, save that the first £1,000 *(£1,000)* income is taxed at 10% or 20% according to its nature, (that band being shared between trusts with the same settlor), and trusts for the most vulnerable may elect that the trust income is taxed as the beneficiary's.

Construction industry sub-contractors: tax deduction on account 20%, or 30% if the sub-contractor is unregistered.

Allowances

		2013/14 £	*2012/13* *£*
Relief at individual's top tax rate			
Personal	- born after 5 April 1948*	9,440	*8,105*
	- born between 5 April 1938 and 6 April 1948**	10,500	*10,500*
	- born before 6 April 1938**	10,660	*10,660*
Blind person's allowance		2,160	*2,100*
Relief at 10%			
Married couple* (only available to those born before 6 April 1935)		7,915	*7,705*

* The personal allowance is reduced by £1 for every £2 of income in excess of £100,000 (regardless of age), until it is completely removed.

** The additional allowances for those born before 6 April 1948 are reduced by £1 for every £2 of income in excess of £26,100 *(£25,400),* to a minimum allowance of £9,440 *(£8,105)* for the personal allowance and £3,040 *(£2,960)* for the married couple's allowance.

The main personal allowance for those born after 5 April 1948 is to increase to £10,000 from 6 April 2014.

Cap on Income Tax Reliefs

With effect from 6 April 2013 income tax reliefs that were previously unlimited will now be restricted to the greater of £50,000 and 25% of an individual's income. The reliefs affected are trade losses, interest payments and share loss relief (but not share loss relief applying to shares qualifying under the Enterprise Investment Scheme or Seed Enterprise Investment Scheme).

Employment Related Loans

With effect from 6 April 2014 the tax exempt threshold for beneficial loans from employers to their employees will increase from £5,000 to £10,000, providing that the outstanding loan balance does not exceed £10,000 at any time during the tax year.

Life Assurance Qualifying Policies

With effect from 6 April 2013, income tax relief on premiums paid by an individual for qualifying life insurance policies issued after 5 April 2013 will be restricted to an annual limit of £3,600. Transitional rules will apply to policies issued between 21 March 2012 and 5 April 2013.

Life Policies 'Chargeable Gains'

Gains over the premiums paid on life insurance policies are subject to income tax. The existing rules for time apportioned reductions from such gains for periods when the policyholder is resident outside the UK only provide for reductions where a policy has been issued by a foreign insurer. From April 2013 this will extend to policies issued by UK insurers, and the reductions calculated by reference to the residence history of the person liable to income tax on the gains and not by reference to the residence history of the legal owner of the policy.

Employee Shareholder Status

A new employment status, known as "employee shareholder status" is being created. As an incentive to employees to agree to this new status, employers will be required to give employee shareholders shares worth at least £2,000 free of income tax and NIC. This will apply to shares received from 1 September 2013. Capital gains on these shares will not be subject to capital gains tax, whenever the shares are disposed of, subject to a maximum value on acquisition by the employee of £50,000.

Pension Annual and Lifetime Allowances

For pension input periods ending in 2014/15, the annual pension contribution limit will be £40,000 *(2012/13 £50,000)* and from 6 April 2014 the standard lifetime allowance will be £1.25 million *(2012/13 £1.5 million)*.

There will be a transitional protection regime for individuals whose pension rights already exceed or who think they may have rights in excess of £1.25 million when they take their pension benefits. Those who want to rely on the "fixed protection 2014" must notify HM Revenue & Customs by 5 April 2014.

To maintain fixed protection no further pension contributions must be made or further benefits accrued above the "relevant percentage" (in a defined benefits scheme)

The relevant percentage will normally be the annual rate specified in the scheme rules at 11 December 2012 for the revaluation of accrued rights, or the Consumer Prices Index if no rate is specified, although certain statutory increases will be excluded.

Individuals with an existing A-day primary enhanced protection, but without a lump sum protection, will retain a right to a lump sum payment of 25% of £1.25 million.

Individuals with primary protection will not receive an increased lifetime allowance when the lifetime allowance is reduced.

Tax Relief for Childcare

Under the proposed new tax-free childcare voucher scheme, which is expected to start in Autumn 2015, parents will be able to open an online account with an authorised voucher provider and pay in up to £4,800 for each child aged under five for whom they incur childcare costs. The provider will claim a tax credit from the Government of 20p for every 80p paid in by the parents and will issue vouchers worth up to £6,000. The vouchers can be used to pay towards childcare costs with a regulated childcare provider.

The qualifying conditions are that both parents in a couple are working (or a lone parent is working); each parent's total income is below £150,000 in a tax year; and the parents do not receive tax credits or the universal credit.

The existing Employer Supported Childcare (ESC) scheme, under which employers can provide employees with vouchers worth up to £55 per week exempt of income tax and NICs (with lower exempt amounts for higher rate and additional rate taxpayers who joined the scheme after 5 April 2011) will be closed to new entrants once the new scheme commences. Existing participants will be able to leave the ESC scheme and join the new scheme.

Unlike the ESC, the maximum potential tax saving under the new scheme will depend on the number of children in childcare. Parents with two children in childcare under the new scheme will be able to save up to twice as much as they can save under the ESC. Also, unlike ESC, there is no requirement for an employer to be involved. Indeed, although it is unclear, it seems possible that the new scheme will apply to the self-employed as well as those in employment.

Non-Domicile Taxation

Measures to simplify some parts of the remittance basis of taxation for non-domiciled individuals are being introduced in Finance Bill 2013.

At present, UK resident non-domiciled individuals are able to bring to the UK certain exempt property (watches, footwear, jewellery and clothing) purchased with overseas income without triggering a charge to UK tax. This exemption only applies if the items are brought to the UK for personal use by the individual who brought them, their spouse or minor child. Legislation is to be introduced which will remove a tax charge which may arise if property of this kind is lost, stolen or destroyed whilst in the UK.

The range of property purchased with overseas income which can be brought into the UK for public displays at approved establishments such as museums and galleries without attracting a charge to UK tax is also to be extended.

Legislation is also to be introduced to remove the liability to UK tax on repayments of foreign income or gains used to make payments on account of the remittance basis charge, which are later repaid to an individual who does not eventually use the remittance basis in the year for which the payments on account were made.

Seed Enterprise Investment Scheme

Eligible Companies

A company is disqualified from issuing shares under the Seed Enterprise Investment Scheme (SEIS) if it is controlled by another company. The independence test will be amended to make it clear that a company which is initially established by another company, such as a company formation agent, but which is then sold to the ultimate owners prior to the issue of qualifying shares and commencement of trade will not be caught by the rule.

CGT Re-Investment Relief

Capital gains tax (CGT) re-investment relief for those investing in shares in 2012/13 under the Seed Enterprise Investment Scheme (SEIS) was more favourable than under the Enterprise Investment Scheme (EIS) in that a capital gain realised in 2012/13 was not simply deferred until the eventual sale of the shares, but exempted from CGT entirely.

The CGT exemption will be extended to gains realised and investments made in 2013/14 but the maximum amount of capital gain which will be exempted from CGT entirely will be restricted to half the amount invested under SEIS; so a maximum of £50,000 gain may be sheltered.

National Insurance Contributions

		2013/14	*2012/13*
Class 1	Employees' contributions (weekly)		
	On earnings up to £149 *(2012/13 £146)*	Nil	*Nil*
	On earnings between £149 and £797 *(2012/13 £146 and £817)*	12%	*12%*
	On earnings over £797 *(2012/13 £817)*	2%	*2%*
	Employees' contracted-out rebate (weekly)		
	On earnings between £109 and £797 *(2011/12 £102 and £817)*	1.4%	*1.4%*
	Married women's reduced rate (weekly)		
	On earnings between £149 and £797 *(2012/13 £146 and £817)*	5.85%	*5.85%*
	On earnings over £797 *(2012/13 £817)*	2%	*2%*
	Employers' contributions (weekly)		
	On earnings up to £148 *(2012/13 £144)*	Nil	*Nil*
	On earnings over £148 *(2012/13 £144)*	13.8%	*13.8%*
	Employers' contracted-out rebate (weekly)		
	On earnings between £109 and £797 *(2012/13 £107 and £817)*	3.4%	*3.4%*
Class 1A	Employers' contributions on taxable benefits in kind	13.8%	*13.8%*
Class 2	Self employed contributions (weekly)	£2.70	*£2.65*
	Small earnings exception (annual)	£5,725	*£5,595*
Class 3	Voluntary contributions (weekly)	£13.55	*£13.25*
Class 4	Self-employed (annual profit related)		
	On profits between £7,755 and £41,450 *(2012/13 £7,605 and £42,475)*	9%	*9%*
	On profits over £41,450 *(2012/13 £42,475)*	2%	*2%*

Capital Gains Tax

	2013/14	*2012/13*
Annual exemption		
Individuals, personal representatives* and certain trusts**	£10,900	*£10,600*
Other trusts		
Divided by the number of trusts created after 6 June 1978 by the same settlor, with a minimum of £1,090 *(2012/13 £1,060)*	£5,450	*£5,300*

* for year of death and following two years

** for persons mentally disabled or in receipt of attendance allowance or disability living allowance. divided by the number of such trusts created after 9 March 1981 by the same settlor, with a minimum of £1,090 (2012/13 £1,060)

Rates of Tax

Gains, other than those eligible for entrepreneurs' relief, are taxed at 28% unless – in the case of individuals – the total of taxable income and gains (net of capital losses and the annual exemption) is less than the basic rate band, in which case gains are taxed at 18%.

Gains eligible for entrepreneurs' relief are taxed at 10%.

The lifetime limit on gains eligible for entrepreneurs' relief is £10 million.

Employee Share Ownership Structure

In order to incentivise employee ownership, the Government will fund the introduction of a capital gains tax relief for the sale of a controlling interest into an employee share ownership structure. It is intended that the new relief will be introduced in the Finance Bill 2014. The Government will also consider measures targeted at employees through indirect ownership models.

Inheritance Tax

Rates at Death	From 6 April 2013	*From 6 April 2012*
Nil	Up to £325,000	*Up to £325,000*
40%*	Over £325,000	*Over £325,000*

* from 6 April 2012, a reduced 36% rate of IHT will be available where 10% or more of the estate net of reliefs, exemptions and the nil rate band is left to charity.

The nil rate band is to be frozen at £325,000 until 5 April 2018.

Lifetime chargeable transfers are charged at 20%.

Transfers between spouses or civil partners are exempt except when the transferor is UK domiciled and the transferee is not, when the exemption is £55,000 overall limit.

Business property relief is 100% for shares in most unquoted trading companies and for most unincorporated trading businesses.

Agricultural property relief is 100% for qualifying holdings of agricultural land.

Annual exemption for lifetime gifts is £3,000.

Small gifts annual exemption per donee is £250.

Regular gifts out of income are exempt provided that the donor can maintain his or her usual standard of living without resorting to capital.

Reduced tax charge on transfers within seven years of death					
Years between gift and death	**0-3**	**3-4**	**4-5**	**5-6**	**6-7**
Percentage of tax chargeable on death	100%	80%	60%	40%	20%

Spouses and Civil Partners Domiciled Overseas

With effect from 6 April 2013, the exemption from inheritance tax (IHT) for transfers from UK domiciled individuals to their non-UK domiciled spouses or civil partners will be increased from £55,000 to the prevailing nil rate band level, currently £325,000.

As an alternative, a non-UK domiciled individual married or in a civil partnership with a UK domiciled individual is to be able to elect to be treated as UK domiciled for IHT purposes. The election may be made at any time during the marriage or civil partnership and/or within two years of the death of the spouse or civil partner where the death occurs after 5 April 2013.

Electing spouses or personal representatives will be able to choose a date the application applies from, up to a maximum of seven years, with the earliest date being specified as 6 April 2013. If the date is not stated a lifetime election has effect from the date it is made and a death election will take effect immediately before any transfer as a result of a disposition on the death of a UK-domiciled individual.

The election is irrevocable, but will cease to have effect if the electing person is resident outside the UK for four consecutive tax years.

EMI and Entrepreneurs' Relief

A shareholder who qualifies for entrepreneurs' relief pays capital gains tax (CGT) at a reduced rate of 10% on up to £10 million of gains (lifetime limit). To qualify for entrepreneurs' relief on a disposal of shares the shareholder must have owned at least 5% of the shares and voting rights in the company concerned for at least 12 months prior to the disposal.

Most employees who realise a capital gain on the disposal of shares acquired by exercising options granted under an Enterprise Management Incentive (EMI) option scheme would not qualify for entrepreneurs' relief under the existing rules as they either fail the 5% test or the 12-month ownership test.

From 6 April 2013 entrepreneurs' relief will be extended to employees who make a capital gain on the acquisition and disposal of shares acquired under an EMI option scheme after 5 April 2012, even if the shareholding does not meet the 5% test. Furthermore the 12-month test will be applied to the period between grant of the EMI option and the ultimate disposal.

The draft clauses suggest that shares acquired and sold in the 2012/13 tax year will also qualify for entrepreneurs' relief, but this is contradicted by HM Revenue & Customs' guidance which suggests otherwise.

Overseas Workday Relief

The concept of ordinary residence is to be abolished and Overseas Workday Relief (OWR) will apply to all non-domiciled individuals who come to work in the UK and were not resident in the UK for the three tax years prior to their arrival. OWR will apply for the tax year of their arrival and the following two tax years.

New rules will put on a statutory footing the administrative simplification which allows eligible employees to continue to make just and reasonable apportionment of their earnings between UK and overseas workdays as before. They will also continue to be able to work out their UK tax liability based on overall amounts of earnings transferred to the UK from a particular overseas account in a tax year, rather than adopting the usual approach for overseas accounts held by non-domiciled individuals, which looks at remittances on a transaction by transaction basis. This treatment will be extended to joint accounts and to overseas accounts receiving earnings from multiple employments.

Motor Car Benefits

The taxable benefit is a percentage of the car's list price. If a car is at least 15 years old and worth £15,000 or more, market value is adopted for list price.

For cars registered after 1997 with approved CO_2 emissions less than 120 g/km *(2012/13 - 125 g/km)* the benefit is 15% of list price (18% if diesel), increased by 1% for every 5 g/km thereafter over that level to a maximum of 35%. The taxable benefit for such cars with CO_2 emissions less than 95 g/km is 10% of list price (13% if diesel). increased by 1% for every 5 g/km over that level up to 15% and entry into the 'main' table.

For cars registered before 1998, or after 1997 without approved CO_2 emissions, the benefit is as follows:

Engine Size	**Registered after 1997**	**Registered before 1998**
0 – 1400cc	15% (18% if diesel)	15%
1401cc – 2000cc	25% (28% if diesel)	22%
over 2000cc	35%	32%
Electric cars	0%	0%
Others with no cylinder capacity	35%	32%

The annual benefit charge will be 5% of the list price of cars with a CO_2 emissions no greater than 75g per km up to 5 April 2015.

Motor Van Benefits

The annual benefit taxable for an employee's private use of a van (not over 3,500kg) is £3,000. This amount is reduced if the van is not used for the whole tax year or, if someone else also uses the van for private travel or if something is paid for using the van privately.

Fuel Benefits (Cars & Vans)

Where the employer also provides fuel for private motoring in a car provided to an employee, a further benefit is taxable. For 2013/14, it is the 'car benefit percentage' of £21,100 (*2012/13 £20,200).* This figure is also subject to NIC for employers. Where fuel for private use of a van (not over 3,500kg) is provided, a benefit charge of £564 applies (*2012/13 £550*).

A 2% discount on the company car fuel multiplier for benefits in kind applies if the car is capable of being run on E85 fuel (unleaded petrol mixed with 85% bioethanol)

Advisory fuel rates for company cars (per mile) from 1 March 2013 *(Rates from 1 December 2012 in brackets)*

	LPG	Diesel	Petrol
1400cc or less	10p (11p)	13p (12p)	15p (15p)
1401 – 2000cc	12p (13p)	15p (15p)	18p (18p)
over 2000cc	18p (18p)	18p (18p)	26p (26p)

Business Taxation

Corporation Tax

Rates and Bands	**Year to 31 March 2014**	***Year to 31 March 2013***
Main rate*	23%	*24%*
Small profits rate	20%	*20%*
Small profits limit**	£300,000	*£300,000*
Small profits marginal band**	£300,000 - £1.5m	*£300,000 - £1.5m*
Marginal rate	23.75%	*25.00%*

* From 1 April 2014 the main rate of corporation tax will be reduced to 21%, and from 1 April 2015 further reduced to 20%.

** Shared among active associated companies.

The small profits rate is not available to a 'close-investment company'.

Deduction For Employee Share Acquisitions

The corporation tax relief available to a company which grants share options or awards shares to its employees is usually on an amount equal to the gain taxable as income on the employee, or which would be taxable if the acquisition were not exempt under the Enterprise Management Incentive (EMI) scheme or not chargeable to income tax because the employee is not UK resident. For shares acquired after 19 March 2013, companies will not be able to claim any relief for any connected matter other than where specified.

Deferral of Exit Charges

Under UK law, when a company ceases to be resident in the UK, or when the trade of a UK branch of a non-UK resident company is transferred abroad, there is a deemed disposal of all capital assets of the company or branch and corporation tax is due on the capital gains less capital losses arising. The tax due is referred to as an 'exit charge'.

Under the EU principle of freedom of establishment, there should be no tax charge or other penalty when a company incorporated in any EU or EEA member state chooses to relocate itself or a branch from one member state to another. The Court of Justice of the EU has ruled that, as a minimum, member states have to offer such companies or branches the option of paying the exit charge in instalments over a longer period.

UK law will be amended and companies who do not wish to pay the exit charge on the normal due dates for payment of corporation tax for the final period of UK residence will be given two options to defer payment of the exit charges triggered on or after 11 December 2012. A company can choose to pay in six equal annual instalments after leaving the UK; or to calculate the exit charge on an asset-by-asset basis and to pay any corporation tax due in equal instalment over the remaining useful life of each asset, with a maximum deferral period of ten years, and earlier payment if an asset is disposed of before the expected end of its useful life. Any tax deferred will be subject to interest.

Disincorporation Relief

For the five years commencing 1 April 2013 no corporation tax liability will arise on gains realised on the transfer by a company to its shareholders on disincorporation of goodwill and interests in land and buildings held as fixed assets, provided that the total value of such assets does not exceed £100,000. The shareholders' acquisition cost on subsequent disposal will be the lesser of the company's cost and the market value at the date of transfer. The draft clauses published in December 2012 indicate that this relief will only apply if all the shareholders are individuals who have held their shares for at least 12 months.

Lease Premium Relief

The availability of lease premium relief will be limited where leases of more than 50 years are granted. Legislation will take effect for leases granted from 1 April 2013 for companies and 6 April 2013 for individuals and partnerships.

Capital Allowances

Main Capital Allowances from April 2013

Plant and machinery generally annual investment allowance (on up to £250,000 from 1 January 2013*)	*100%*
annual writing-down allowance (but 8% for integral features and cars with CO2 emissions over 160 g/km)	*18%*

* Expenditure on plant & machinery other than cars. The allowance is shared by companies in a group. (*£25,000 - pre 1 January 2013*).

Energy Saving and Water Efficient Technologies

Subject to state aid approval, the list of technologies and products covered by the energy saving and water efficient enhanced capital allowances (ECA) scheme is to be updated from a date to be announced. This is part of the annual update of the ECA schemes.

New Employment Allowance

From April 2014, all employers are to be entitled to a new employment allowance of up to £2,000 against their liability for employers' national insurance contributions. The allowance will be deducted from the employer's NIC liability over the course of the year's PAYE payments.

Research & Development

Large companies will be able to claim a 10% "Above the Line" (ATL) credit in respect of qualifying R&D expenditure incurred from 1 April 2013.

Companies will be required to elect to claim the R&D relief. However, the ATL credit will become mandatory on 1 April 2016.

Animation, High-End TV and Video Games

New enhanced reliefs from corporation tax are proposed for companies' UK expenditure on animation and high-end television production and for video games development, with effect from 1 April 2013 (subject to state aid approval).

Simpler Income Tax For Small Businesses

With effect from the tax year 2013/14, sole traders and partnerships with turnover not exceeding the VAT registration threshold (currently £77,000) may adopt a simple method to work out their taxable profits on a cash basis, rather than on an accruals basis. They will not be required to make any tax adjustments to profits or distinguish between capital and revenue expenditure. They will also be able to use a simplified flat rate basis for deductions such as motor expenses, business use of home and private use of business premises.

Other Taxation

Value Added Tax

	2013/14	*2012/13*
Standard Rate	20%	*20%*
Registration level	£79,000	*£77,000*
De-registration level	£77,000	*£75,000*

Changes to the Place of Supply Rules

Some changes to the place of supply rules that will take effect from 1 January 2015. The changes will affect supplies to consumers in other EU countries of telecommunications, broadcasting and e-services. Currently, a UK business must charge UK VAT at 20% on these services to all consumers in the EU, regardless of which country the consumer normally lives in.

With effect from 1 January 2015 businesses supplying these services will be obliged to charge VAT at the rate applicable in the customer's country. However, to avoid the necessity of multiple VAT registrations, businesses will be able to register for what is known as the 'Mini One Stop Shop' system.

This system will allow affected businesses to operate an EU-wide registration for affected supplies. So although they will have to charge VAT at the prevailing rate in the customer's country they will only have to do one VAT return and deal with only one VAT authority.

VAT on Private Fuel

VAT payable per three month period when fuel is provided for private motoring. For the first VAT accounting period starting after 30 April 2013 the amount of VAT is dependent on the CO2 emissions band, and ranges from £168 per qr. if 120g/km or less to £590 if 225g/km or more.

Stamp Duty and Stamp Duty Land Tax

Rates and Bands

Transfers for consideration*	Percentage of total consideration
Shares and marketable securities (not loan stocks)	0.5%
Interests in land and in partnerships (to the extent of their interests in land)	
Residential:	
£0 - £125,000	Nil
£125,001 - £250,000	1%
£250,001 - £500,000	3%
£500,000 - £1 million	4%
£1 million - £2 million	5%
Over £2 million when bought by certain non-natural persons	15%
Over £2 million otherwise	7%
Non-residential:	
£0 - £150,000	Nil
£150,001 - £250,000	1%
£250,001 - £500,000	3%
Over £500,000	4%
Net present value of lease rentals**	1%

* and certain transfers of land to a connected company and in connection with partnerships, where market value is substituted if more than actual consideration

** to the extent it exceeds £150,000 (non-residential) or £125,000 (residential)

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

The Finance Bill 2014 will abolish stamp duty and SDRT on transfers of shares dealt in on AIM and similar markets.

High Value UK Residences held by Companies

Annual Tax on Enveloped Dwellings (ATED)

The ‘annual charge’ which was proposed in the March 2012 Budget is now called ATED and is imposed from 1 April 2013 on a company, a partnership having one or more companies among its members or a collective investment scheme which owns a UK dwelling with a ‘taxable value’ exceeding £2 million on a ‘valuation day’. Valuation days are 1 April 2012, each 1 April falling five years or a multiple of five years after 1 April 2012, the effective date of any acquisition and the date of any part disposal (which includes even the grant of a shorthold tenancy), whichever is the most recent.

Taxable value, which determines the rate of ATED, is market value as at a valuation day. A valuation day includes the 'effective day of acquisition', which is the date a purchase is completed. Market value could differ from cost, if only because of a change in value after contracts were exchanged, even sufficient to push a property into another value band.

Reliefs from the charge will apply to dwellings owned by property dealers and property developers, let to unconnected tenants, open to the public, farmhouses, and dwellings acquired by financial institutions in the course of a lending business or occupied in the course of a trade.

If a 'chargeable person' is within the charge with respect to a single-dwelling interest on the first day of a 'chargeable period', the year commencing 1 April 2013 and each subsequent year beginning 1 April, the tax due is as follows:

- £15,000 if the taxable amount is over £2m but not over £5m
- £35,000 if the taxable amount is over £5m but not over £10m
- £70,000 if the taxable amount is over £10m but not over £20m
- £140,000 if the taxable amount is over £20m

These ‘annual chargeable amounts’ are to be increased if the RPI is higher for September in 2013 or any later year.

An ATED return is to be filed within 30 days of the first chargeable day, save in the case of a new dwelling, when it has to be delivered within 90 days. However, in the case of a return for the year commencing 1 April 2013, the due date is deferred to 1 October 2013. The tax due in accordance with the return has to be paid by the filing date.

Capital Gains Tax

A capital gains tax charge at 28%, which was previously proposed to apply only to non-residents, will apply to gains realised by all non-natural persons subject to ATED (including UK resident companies) who dispose of UK residential property for more than £2 million. It will not apply to non-resident trusts (which had previously been suggested). Nor will it apply to gains realised by non-natural persons on disposal of shares in companies owning such property (as had also initially been suggested).

It will apply to disposals from 6 April 2013, but normally only to that part of the gain attributable to periods after 5 April 2013 to which the ATED applies. In other words, there will be a re-basing for such properties as at 5 April 2013.

There will be marginal relief, limiting the taxable amount to 5/3rds of the excess of disposal proceeds over £2 million. Losses will be limited, effectively making disposal proceeds not less than £2 million.

Stamp Duty Land Tax

Separately, further **SLDT** exemptions from the 15% rate of SDLT are to apply, so that the 7% rate will apply to purchases of dwellings costing over £2m not subject to the ATED, provided that they remain exempt from ATED for at least three years. This will apply to purchases completed from the date the Finance Bill 2013 receives Royal Assent.

Anti-Avoidance

General Anti-Abuse Rule

Draft clauses setting out how a new General Anti -buse Rule (GAAR) will operate were published in December 2012, together with detailed guidance notes. The GAAR will come into effect from Royal Assent to the Finance Bill. Tax schemes that are entered into before Royal Assent will not be affected by the new rules, which do not replace existing anti-avoidance legislation.

The GAAR will initially apply to income tax, corporation tax, capital gains tax, inheritance tax, stamp duty land tax, the new annual tax on enveloped dwellings (ATED) and petroleum revenue tax. It will also apply to national insurance contributions under separate legislation.

The criteria to determine whether a scheme or arrangement is covered by GAAR are:

- Are there arrangements which give rise to a tax advantage?
- Does the tax advantage relate to one of the taxes to which GAAR applies?
- Is it reasonable to conclude that the obtaining of a tax advantage was the main purpose, or one of the main purposes, of the arrangements?
- Are the arrangements abusive?

If the answer to all of the above questions is yes, then GAAR will apply. If GAAR is put before a tribunal or court, the burden of demonstrating that the scheme or arrangement is abusive will lie with HM Revenue & Customs.

Counteraction by HM Revenue & Customs will have to follow certain procedural requirements and be referred to an Advisory Panel, which is to be established with the purpose of reviewing the GAAR guidance before implementation and providing opinions to HMRC as to whether a tax arrangement constitutes a 'reasonable course of action'.

Stamp Duty Land Tax Avoidance

The contract for a transfer of an interest in land is disregarded for Stamp Duty Land Tax (SDLT) purposes when the purchaser transfers or sells his rights under the contract to a third party and completion or substantial performance of the first contract is simultaneous with the second contract. SDLT is only due on the second contract.

Some SDLT avoidance schemes involve a transfer of rights which is not to be completed for a number of years. The intended result is that the immediate purchaser is left in possession but bears no SDLT liability and the value of the rights transferred, although in principle liable to SDLT, falls below the SDLT threshold.

The law will be amended to provide that the original contract will not be disregarded where the transfer of rights is substantially performed but not completed at the same time as the completion or substantial performance of the original contract; the purchaser under the original contract is in possession after the date of completion or substantial performance; and a main purpose of the scheme is to obtain a tax advantage.

The new measure will apply if the transfer of rights takes place on or after 21 March 2012.

Loans by Close Companies To Participators

From 20 March 2013 three rules will be introduced to tackle avoidance of the charge to tax in the case of loans to participators:

- Measures will be introduced that will put beyond doubt that loans to various intermediaries are within the scope of the charge. This will include loans from close companies to participators made via partnerships (including LLPs) in which the close company and at least one partner/member is a relevant person who is a participator (or associate of a participator);

- Transfers of value (other that loans) are brought within the scope of the charge when arrangements mean there is also a corresponding receipt of value by the participator; and

- The repayment rules are reinforced so relief is only given for genuine repayments. The repayment provisions will be amended to deny relief (subject to a de minimis) where repayments and re-drawings are made within a short period of time of each other, or there are arrangements (or there is an intention) to make further chargeable payments at the time the repayment is made (and there are subsequent re-drawings).

Offshore 'Close' Companies' Capital Gains

Amendments are to be made to the anti-avoidance provision which charges UK resident 'participators' in closely-controlled non-resident companies to capital gains tax on their 'share' of the company's capital gains (if the company itself is not liable for UK tax thereon). The changes, which are expected to be effective from 6 April 2012, are intended to secure compatibility with European Union law. There is to be an exclusion of gains arising from assets used in genuine business activities overseas and an increase in the threshold at which the charge applies to unconnected minority participators from 10% to 25%.

Transfer of Assets Abroad

Existing anti-avoidance provisions relating to the transfer of assets abroad are to be amended.

The existing transfer of assets abroad legislation works to prevent individuals who are ordinarily resident in the UK from using offshore structures to shelter income from UK tax. Where the transfer of assets provisions apply, income arising to the offshore entity is taxable on an individual who actually made the transfer where they or their spouse are able to enjoy the income. Where the income is not assessable on the person who made the transfer, individuals not involved in making the transfer can be taxed on income arising in the offshore structure to the extent that they receive a benefit from it.

From 6 April 2013, when the concept of ordinary residence will be abolished, the anti-avoidance legislation will apply to individuals who are UK resident.

The new legislation will amend the existing anti-avoidance provisions and put in place a new exemption. This will apply where the EU treaty freedoms are in point, and looks at whether a transaction is genuine in nature and whether it fulfils the purpose of the freedoms of establishment and movement of capital. The changes are intended to protect genuine commercial business activities taking place outside the UK, where transactions are carried out on arm's length terms, and where income

arises as a result of 'economically significant' activities carried out overseas. Transactions which have no commercial basis but are genuine transactions will also be covered by the exemption.

HM Revenue & Customs will be allowed to check each transaction to determine whether it is genuine or not, either in whole or in part. Where the transaction is held to be partly genuine and partly not genuine, income arising in respect of the part which is not genuine will be potentially subject to UK tax under the anti-avoidance provisions.

There is to be clarification where income could be subject to tax both under this anti-avoidance legislation and other parts of tax legislation and how reliefs under double taxation agreements will apply, with the aim of preventing either the anti avoidance provisions or treaty provisions from being used to claim relief which would not otherwise be due.

The legislation will apply with effect from 6 April 2012 in relation to the exemption for genuine transactions and with effect from 6 April 2013 in relation to the clarification amendments.

Controlled Foreign Companies

From 1 January 2013 (in most cases) measures will be introduced to remove some specific opportunities for corporation tax avoidance by Controlled Foreign Companies (CFCs). The following amendments will be introduced:

- the current definition of 'relevant finance lease' (RFL) will be amended to widen its scope
- those parts of the new CFCs rules that require consideration of accounting treatment where accounts have not been prepared using UK accepted accounting practice or international accounting standards (IAS) will be made by reference to IAS
- a limit on the amount of double tax relief that can be claimed by a UK company when one or more UK companies form part of an arrangement where a loan is made from one CFC to another CFC that is the ultimate debtor of the loan
- minor changes to ensure the arbitrage rules continue to work as intended
- an amendment to the matched interest rule
- minor amendments to the CFCs definition of group treasury companies
- a relaxation of the qualifying resources UK debt restriction rule.

Self-Employment and LLPs

The Government will consult on measures to:

- remove the presumption of self-employment for limited liability partnership (LLP) partners. This is to tackle the disguising of employment relationships through LLPs.
- counter the manipulation of profit/loss allocations by partnerships including a company, trust or similar vehicle in order to secure tax advantages.

This legislation will be introduced in the Finance Bill 2014.

Offshore Employment Intermediaries

Offshore corporate intermediaries have been increasingly used to employ workers and avoid employment taxes, often unbeknown to the employee.

HM Revenue & Customs will be provided with powers to collect employment taxes in respect of all employees in the UK irrespective of where the payroll is located. It is envisaged that these new measures will come into force on 1 April 2014.

Loss Buying

Legislation effective from 20 March 2013 will extend the rules that prevent 'loss buying', whereby companies pass the potential to gain access to corporation tax relief to unconnected third parties. The new rules will:

- apply to a transfer of ownership of a company that is not a trading company nor a property or investment business which holds non-trading loan relationship deficits and non-trading intangible fixed asset debits and credits;
- apply to a company that has undergone a change of ownership, if that trade or part trade is subsequently transferred to a fellow group company; and
- add to the threshold which 'relevant amounts' must exceed before they can be surrendered by way of group relief. The threshold will be amended to include any apportionments of profits under controlled foreign company rules made to the surrendering company.

Further legislation will be introduced to bring the tax treatment of an unrealised loss involved in a transfer between unconnected parties into line with the treatment of realised losses. The proposed changes relate to reliefs, deductions, allowances and expenses for which it is possible to dictate or predict in advance the timing of their crystallisation.

The Budget Summary is based on the Chancellor's Budget Statement of 20 March 2013, supplemented by information from official publications and previous announcements.

It reflects our understanding of proposed changes to tax law and practice as at the date of publication but it is not a complete and definitive guide. The Budget proposals may be amended before the Finance Bill becomes law. Specific advice should therefore be obtained before taking action, or refraining from taking action on the basis of this information.

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