Budget Summary 19 March 2014

The Budget

shipleys LLP

shipleys LLP
Chartered Accountants & Professional Business Advisers

Budget Summary

2014

Introduction

In recent years the Chancellor's annual Budget statement has become a bit of a guessing game. Will there be any big surprises or is the cat already out of the bag? This year it was the turn of Mr Osborne's Liberal Democrat coalition partners to try and spoil the party by 'leaking' the increase in the personal allowance.

As usual, we have to wade through the detail to get to grips with what has already been announced in the Autumn pre-Budget report and what is genuinely new. Given that this was the penultimate Budget before a General Election – and the last where any new measures can actually be implemented – was there anything left for the Chancellor to keep up his sleeve?

A doubling of the annual 100% investment allowance to £500,000 is certainly noteworthy, effectively allowing businesses to claim the full tax benefit in the year of investment, rather than spreading this over many years.

On the personal taxes front, although the personal allowance was increased as expected, in a break with recent practice there is to be no corresponding reduction in the point at which 40% tax kicks in. In previous Budgets the effect of this has been to remove the benefit of the increase in the personal allowance for higher rate taxpayers.

Then there were the changes to the rules on the taxation of pensions. Interestingly, this includes the 'right to advice' – tacit acknowledgement perhaps of just how complicated the rules have become. Unfortunately the same principles of clarity and simplicity appear unlikely to apply to tax any time soon – neither do we expect the Chancellor to extend the same right to tax advice!

Meanwhile the crackdown on tax avoidance continues, including a new requirement for those participating in marketed schemes to pay the tax upfront, removing the hoped-for cash flow benefit until the matter has been resolved by the Courts. This is likely to prove a major disincentive for this type of tax avoidance. It is important to remember, however, that many legitimate tax planning opportunities remain.

As ever, my colleagues at Shipleys are here to guide you through the finer points of the Budget – or even to discuss the merits of the new £1 coin unveiled alongside it!

Ken Roberts
Managing Principal

Budget Highlights

Income tax – The personal allowance for 2014/15 is increased to £10,000 (and the basic rate band reduced to £31,865). So the 40% rate applies when chargeable income exceeds £41,865 for 2014/15 (against £41,450 for 2013/14). The band of savings income (reduced by the excess of non-savings income over the personal allowance) charged at 10% is increased to £5,000 from 6 April 2015 and charged at 0%.

Partnerships – Changes apply from 6 April 2014 affecting members of LLPs regarded as disguised employees and attacking certain profit (and loss) sharing arrangements in 'mixed' partnerships, i.e those with both individual and corporate partners.

Pensions – Pending major changes to pensions legislation to apply from April 2015, the lifetime limit is cut to £1.25 million from 6 April 2014, subject to a new election to adopt one's pension fund value as at 5 April 2014 instead, with a maximum of £1.5 million. From 27 March 2014 the amount of relevant income required to enable flexible drawdown is reduced from £20,000 to £12,000. For pension periods starting after 26 March 2014 the maximum drawdown is increased from 120% to 150% of a comparable annuity rate. The annual limit is cut to £40,000 for pension input periods ending after 5 April 2014.

Income tax and NIC integration – No further announcement has been made.

Capital gains tax – The annual exemption for 2014/15 is increased to £11,000. CGT is to be charged on non-residents' gains on disposal of UK residential property after 5 April 2015. A consultation on details is still awaited.

Annual investment allowance – This is increased from £250,000 to £500,000 for expenditure from 1 April 2014 for companies, 6 April 2014 otherwise, and will apply until 31 December 2015.

Film tax relief – From April 2014 the tax credit is 25% on the first £20 million qualifying core expenditure and 20% thereafter (but subject to a maximum of 80% of such expenditure). The minimum UK expenditure element falls to 10%.

Corporation tax rates –The main rate is cut from 23% to 21% from 1 April 2014.The 'small profits rate' remains 20%.

Employee-controlled companies – Capital gains tax and inheritance tax exemptions are available from 6 April 2014 for transfers of shares in a trading company which result in it being controlled by an 'employee ownership trust' and inheritance exemption for transfers by the company to the trust.

Inheritance tax – The nil rate band remains £325,000.

Stamp Duty Land Tax – The 15% rate is extended to purchases by companies of UK dwellings for more than £500,000 from 20 March 2014, subject to the usual exemptions such as where the property is let to third parties.

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Personal Taxation

Income Tax

Rates and Bands

(2013/14 figures in brackets)

	Dividends	Interest	Other
The first £2,880 *(£2,790)*	10%* *(10%)*	10%* *(10%)*	20% *(20%)*
£2,881 - £31,865 *(£2,711 - £32,010)*	10% *(10%)*	20% *(20%)*	20% *(20%)*
£31,866 - £150,000 *(£32,011 - £150,000)*	32.5% *(32.5%)*	40% *(40%)*	40% *(40%)*
Over £150,000 (*Over £150,000)*	37.5% (37.5%)	45% (45%)	45% (45%)

* 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 £2,880 *(£2,790)* the 10% rate band does not apply. This band will be increased to £5,000 and set at 0% from 6 April 2015.

Discretionary and Accumulation & Maintenance Trusts: 37.5% on dividends *(37.5%),* otherwise 45% *(45%)*, 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

		2014/15 £	*2013/14* *£*
Relief at individual's top tax rate			
Personal	- born after 5 April 1948*	10,000	*9,440*
	- 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		2,230	*2,160*
Relief at 10%			
Married couple* (only available to those born before 6 April 1935)		8,165	*7,915*

* 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 personal allowance is to be increased to £10,500 from 6 April 2015.

** The additional allowances for those born before 6 April 1948 are reduced by £1 for every £2 of income in excess of £27,000 *(£26,100),* to a minimum allowance of £10,000 *(£9,440)* for the personal allowance and £3,140 *(£3,040)* for the married couple's allowance.

Tax Allowances for Married Couples and Civil Partners

With effect from 6 April 2015 a spouse or civil partner whose income falls within the basic rate band will be able to elect to transfer £1,050 of their personal allowance to their spouse or civil partner. Those who are entitled to claim married couples allowances will not be entitled to make this transfer.

From 6 April 2016 the transferable amount will be 10% of the basic personal allowance.

The Starting Rate of Tax for Savings

From 6 April 2015 the maximum amount of an eligible individual's savings income qualifying for the starting rate of tax for savings, such as bank or building society interest, will be increased to £5,000. The starting rate of tax for savings income will be reduced from 10% to zero.

The change will primarily benefit those with low overall incomes – typically pensioners, part-time workers and non-working adults with savings income above the personal allowance.

Beneficial Loans

From 6 April 2014 the threshold for the benefit from a loan to be treated as earnings is increased to £10,000.

Qualifying Loan Interest Relief

Individuals who borrow money in order to invest in a close company which is not a close investment holding company can claim tax relief for the interest paid on the borrowings. The relief is currently only available for investments in UK resident companies. From 6 April 2014 interest relief can be claimed for money borrowed to invest in similar companies (i.e. which would be close companies, but which are not close investment holding companies, if they were UK resident) which are resident anywhere in the European Economic Area.

National Insurance Contributions

		2014/15	***2013/14***
Class 1	Employees' contributions (weekly)		
	On earnings up to £153 *(2013/14 £149)*	Nil	*Nil*
	On earnings between £153 and £805 *(2013/14 £149 and £797)*	12%	*12%*
	On earnings over £805 *(2013/14 £797)*	2%	*2%*
	Employees' contracted-out rebate (weekly)		
	On earnings between £111 and £805 *(2013/14 £109 and £797)*	1.4%	*1.4%*
	Married women's reduced rate (weekly)		
	On earnings between £153 and £805 *(2013/14 £149 and £797)*	5.85%	*5.85%*
	On earnings over £805 *(2013/14 £797)*	2%	*2%*
	Employers' contributions (weekly)		
	On earnings up to £153 *(2013/14 £148)*	Nil	*Nil*
	On earnings over £153 *(2013/14 £148)*	13.8%	*13.8%*
	Employers' contracted-out rebate (weekly)		
	On earnings between £111 and £805 *(2013/14 £109 and £797)*	3.4%	*3.4%*
Class 1A	Employers' contributions on taxable benefits in kind	13.8%	*13.8%*
Class 2	Self employed contributions (weekly)	£2.75	*£2.70*
	Small earnings exception (annual)	£5,885	*£5,725*
Class 3	Voluntary contributions (weekly)	£13.90	*£13.55*
Class 4	Self-employed (annual profit related)		
	On profits between £7,956 and £41,865 *(2013/14 £7,755 and £41,450)*	9%	*9%*
	On profits over £41,450 *(2013/14 £41,450)*	2%	*2%*

Capital Gains Tax

	2014/15	***2013/14***
Annual exemption		
Individuals, personal representatives* and certain trusts**	£11,000	*£10,900*
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)*	£5,500	*£5,450*

* 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 £1,100 (2013/14 £1,090)

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.

Non-Residents and UK Residential Property

Legislation will be introduced with effect from April 2015 to charge capital gains tax on future gains made by non-residents disposing of UK residential property. A consultation process will look at how to implement the charge.

Private Residence Relief

With effect from 6 April 2014 the period immediately before disposal of a property, which is disregarded when determining the capital gains tax exemption on the disposal where the property has, at some time, been an individual's main residence, will be reduced from 36 to 18 months. This is except where the disposal is by someone who is disabled or a long-term resident in a care home and who has no other residence.

The above changes will not apply if contracts for the sale of the property are exchanged before 6 April 2014 and completed before 5 April 2015.

Remittance Basis and Split Year Treatment

Legislation will be introduced to ensure that capital gains made by a remittance basis user whilst they are not resident in the UK and claiming the split year treatment will not be charged to tax. This is intended to correct a defect in the existing legislation.

Inheritance Tax

Rates at Death	From 6 April 2014	*From 6 April 2013*
Nil	Up to £325,000	*Up to £325,000*
40%*	Over £325,000	*Over £325,000*

* a reduced 36% rate of IHT is 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 £325,000 cumulative 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%

Trust IHT Charges and the Nil Rate Band

The Government is to consult on revised proposals related to the simplification of periodic IHT charges on 'relevant property' trusts and on the division of the nil rate band available for trusts created by the same settlor. Legislation is expected in the Finance Bill 2015.

IHT Exempt Persons

The Government is to consult on the possibility of extending to emergency service personnel who die in the line of duty, the same IHT exemption available for members of the armed forces who die in active service. Legislation is expected in the Finance Bill 2015.

Tax Charges on Trusts

HMRC has introduced measures to align the IHT filing and payment dates for relevant property trusts. In future IHT returns and IHT payments will both be due six months after the end of the month in which the chargeable event occurs. The same measures will also rationalise the complicated IHT treatment on income accumulations so that in future any income undistributed for more than five years will be deemed to be trust capital for the purposes of calculating the ten-year anniversary charge.

These measures will take effect after 5 April 2014.

IHT Estates

The Finance Act 2013 introduced new rules preventing certain liabilities from being deductible for inheritance tax purposes, where the liability was incurred in acquiring excluded property. This measure targeted certain estate planning for non UK domiciled individuals

HMRC identified a loophole which exploits the excluded property status of UK based foreign currency bank accounts. Borrowed funds which would otherwise have been caught by the new 2013 provisions could be deposited into a foreign currency account of a UK bank and thereby be disregarded for IHT purposes.

To thwart this, a liability will be disallowed as a deduction from a non UK domiciled person's estate on death where the borrowed funds have been deposited into a UK foreign currency account.

The new measure will apply to estates where death occurs on or after Royal Assent to the 2014 Finance Bill. However it will apply to liabilities incurred at any time.

Venture Capital Trusts

In respect of venture capital trust (VCT) shares issued after 6 April 2014, legislation will be introduced to prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares. The measure is intended to ensure that tax reliefs offered to investors are well-targeted and that the VCTs continue to support growth. The change will not affect distributions made from realised profits.

EIS and SEIS

The Government will consult on the use of convertible loans in EIS and SEIS. Any necessary legislation will be included in a future Finance Bill.

The Seed Enterprise Investment Scheme (SEIS) was originally introduced for shares issued after 5 April 2012 but before 6 April 2017. Investors receive an income tax credit of 50% of the amount they subscribe for shares in a qualifying company and can also deduct half the amount subscribed from any taxable capital gains realised in the year of investment.

SEIS reliefs will now also apply to shares in qualifying companies subscribed for after 5 April 2017.

Pensions

Pending major changes to pensions legislation to apply from April 2015, the lifetime limit is cut to £1.25 million from 6 April 2014, subject to a new election to adopt one's pension fund value as at 5 April 2014 instead, with a maximum of £1.5 million.

A number of changes will be made to drawdown and commutation of pensions with effect from 27 March 2014. The maximum income a drawdown pensioner can choose to receive is increased from 120% to 150% of a "basis amount" (a comparable annuity). There is no limit on the amount the pensioner can take annually as drawdown if their 'relevant income' is at least £20,000. From 27 March this threshold is reduced to £12,000.

Pension members over 60 with total pension savings of £30,000 or less will be able to take all of their pension savings as lump sums. In certain circumstances a small pension pot can be commuted into an authorised lump sum. A maximum of £18,000 can be paid.

From April 2015, at least for defined contribution schemes, it seems that the annual limit is to be removed, and up to 25% may be drawn tax-free with any excess taxed as income when drawn. The position of defined benefits schemes is unclear, but it is assumed that the cap for them will also be removed. The inheritance tax position is also unknown.

Pension Liberation

From 20 March 2014 new provisions are to be introduced to tackle the threat of pension liberation fraud where individuals are encouraged to access their pension savings before they reach retirement. These include a widening of the circumstances in which HMRC can refuse to register a pension scheme; an increase in HMRC's powers in respect of new applications to register pension schemes; and new penalties for false information of up to £3,000.

Savings

ISAs

From July 2014 all ISAs will become a simpler product, the 'New ISA' (NISA). The subscription limit of the NISA will be £15,000 for 2014/15, and, for the first time, it will be possible to subscribe for the full amount in cash (currently only 50% can be saved in cash). Under the NISA, new rights will allow investors to transfer their securities from a stocks and shares ISA into an all cash NISA.

The amount that can be subscribed to a Junior ISA or Child Trust Fund in 2014/15 will increase to £4,000.

From July 2014 a wider range of investments will be permitted for NISAs, Junior ISAs and Child Trust Funds, including certain retail bonds with less than five years before maturity and core capital deferred shares issued by building societies.

Savings Support for Over-65s

For individuals aged over 65, National Savings & Investments will launch two fixed rate savings bonds. The exact details are still to be finalised but it is envisaged that NS&I will offer a one-year bond at 2.8% gross/annual equivalent rate (AER) and a three-year bond at 4.0% AER. Investments will be limited to £10,000 per product. The bonds will be available from January 2015.

There will also be a new scheme to allow pensioners to make Voluntary National Insurance Contributions to top up their Additional State Pension. The scheme will be available from October 2015 and will be open for 18 months.

Childcare Subsidy

The Government will introduce a childcare subsidy in September 2015. The scheme will cover children up to the age of 12. It will be open to families where both parents work (if earning at least £50 a week and with an annual income under £150,000). Parents who qualify will be able to reclaim 20% per child of their childcare costs, up to a maximum of £2,000 each.

Anti-Avoidance

From the date of Royal Assent measures will be introduced to enable HMRC to apply the outcome of tax cases that have been litigated through Tax Tribunals and the courts to other similar cases under appeal. HMRC will be able to issue a "Follower Notice" to the user of a tax avoidance scheme where there is an open appeal and, in HMRC's opinion, another judicial decision which is relevant to their case. Taxpayers will be advised that they should settle their dispute in accordance with that judicial decision.

If the taxpayer does not settle the dispute, they will be required to pay the tax under dispute upfront to continue the appeal.

High Risk Promoters

From Royal Assent there will be further information requirements for the Disclosure of Tax Avoidance Scheme (DOTAS) rules, with new information powers and penalties for high risk promoters. Appeal rights and threshold conditions within the high risk promoter legislation have been revised.

Schemes Covered by the DOTAS Rules

From the date of Royal Assent, taxpayers will have to pay up front any disputed tax associated with schemes covered by the Disclosure of Tax Avoidance Schemes (DOTAS) rules or counteracted under the General Anti-Abuse Rule (GAAR)

HMRC will have the power to issue a “Notice to Pay” to any taxpayer for whom there is an open enquiry or where the matter is under appeal where the taxpayer has claimed a tax advantage by the use of arrangements that fall to be disclosed under DOTAS, or where the GAAR Advisory Panel is of the opinion that the arrangements are not a reasonable course of action.

The notice will require taxpayers to settle the disputed tax within 90 days. This can be extended by a further 30 days where the taxpayer requests HMRC to reconsider the amount of the payment notice. Where the matter is under appeal, no postponement of tax will be permitted.

Artificial Use of Dual Contracts by Non-Domiciles

With effect from 6 April 2014 UK resident non-domiciles claiming the remittance basis and using separate employment contracts for UK and overseas duties with the same or associated employers will be taxed using the arising basis. The following measures will be introduced:

- Overseas employment income will be taken out of the definition of “chargeable overseas earnings”
- Employment-related securities income will be taken out of the definition of “foreign securities income”
- Overseas employment income provided through a third party will be taken out of the calculation of third party income to which the remittance basis applies.

Income associated with an overseas employment that meets certain criteria will be taxed in the UK on an arising basis, with any foreign tax credit relief available being set against the UK tax charge.

This will not apply to overseas income that falls within the three-year period for overseas workday relief.

Social Investment Tax Relief

From 6 April 2014 a range of income and capital gains tax reliefs will be introduced for investment by individuals in qualifying social enterprises. These reliefs will be broadly similar to reliefs under the Enterprise Investment Scheme, such as the income tax credit of 30% of the amount invested.

Motor Car Benefits

CO2 emissions g/km	Petrol engine %	Diesel engine %
75 or less	5	8
76-94	11	14
95-99	12	15
per additional 5g/km, until 195 g/km	+1	+1
195-199	32	35
200-204	33	35
205-209	34	35
210 and above	35	35

Motor Van Benefits

The annual benefit taxable for an employee's private use of a van (not over 3,500kg) is £3,090 (*2013/14 £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 2014/15, it is the 'car benefit percentage' of £21,700 (2013/14 £21,100). 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 £581 applies (2013/14 £564).

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 2014

	LPG	Petrol		Diesel
1400cc or less	9p	14p	1600cc or less	12p
1401 – 2000cc	11p	16p	1601 – 2000cc	14p
over 2000cc	17p	24p	over 2000cc	17p

Vehicle Excise Duty

Current legislation includes an exemption from Vehicle Excise Duty for vehicles constructed before 1 January 1973, provided they are not used commercially. From 1 April 2014 the exemption will be extended to include vehicles constructed before 1 January 1974 and will be rolled forward one year at each 1 April thereafter in order to continually exempt vehicles constructed 40 years prior.

Business Taxation

Corporation Tax

Rates and Bands	**Year to 31 March 2015**	***Year to 31 March 2014***
Main rate*	21%	*23%*
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	21.25%	*23.75%*

* From 1 April 2015 the main rate of corporation tax will be reduced to 20%.

** Shared among active associated companies.

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

Brought Forward Losses on Change of Ownership

Current tax legislation prevents ‘loss buying’ by restricting relief for losses brought forward in a company if there is a change in ownership and a major change in the nature of the company’s activities. The legislation as worded restricts the carry forward of losses when an existing group of shareholders insert a new holding company above an existing group of companies. The legislation will be amended to make it clear that the restriction does not apply in such cases from 1 April 2014.

Capital Allowances

Main Capital Allowances from April 2014

Plant and machinery generally annual investment allowance (on up to £500,000*)	*100%*
annual writing-down allowance (but 8% for integral features and cars with CO_2 emissions over 160 g/km)	*18%*

* Expenditure on plant & machinery other than cars (*£250,000 in 2013/14*). The allowance is shared by companies in a group.

* Cars that emit 110 grams of CO_2 per kilometre driven (g/km) or less are eligible for a 100 per cent FYA;

Annual Investment Allowance

From 1 April 2014 for corporation tax and 6 April 2014 for income tax the maximum amount of the annual investment allowance (AIA) will increase from £250,000 to £500,000. The increase will apply until 31 December 2015 after which it will return to £25,000.

Mineral Extraction Allowance

For companies involved in the mineral extraction industry, including oil and gas, planning costs incurred on and after Royal Assent will be treated as expenditure on mineral exploration and access rather than as expenditure on acquiring a mineral asset. This measure will accelerate relief because expenditure on mineral exploration and access qualifies for capital allowances at 25% per annum or 100% for oil and gas.

Business Premises Renovation Allowances

The rules in respect of qualifying expenditure under the Business Premises Renovation Allowance (BPRA) will be refined. With effect from 1 April 2014 for corporation tax, and 6 April 2014 for income tax, the scope of expenditure will be defined so that relief is only available for actual costs of construction and building work, and for certain specified activities such as architectural and surveying services. Unspecified activities such as project management services will qualify for relief at a limited rate of 5% of the actual costs.

Additionally the following rules will be introduced:

A claim for BPRA will be prevented where another form of State Aid has or will be received. The proposal to limit qualifying plant and machinery to integral features has been widened to cover additional listed items.

The rule preventing expenditure on buildings qualifying for relief before they have been unused for a year will be clarified.

Where relief is claimed immediately for expenditure paid in advance, the work to which the expenditure relates must be completed within 36 months or that relief will be withdrawn.

The period in which balancing adjustments must be made, if certain events occur, will be reduced from seven to five years.

Enterprise Zones

The period in which companies investing in plant or machinery in designated enhanced capital allowances sites in Enterprise Zones can qualify for 100% capital allowances is to be extended to 31 March 2020.

Share Schemes

Increase in Limits under Employment Share Schemes

From 6 April 2014 the maximum value of ‘free’ shares which can be awarded to employees under all-employee Share Incentive Plans each year will be increased from £3,000 to £3,600 and the maximum value of ‘partnership’ shares which an employee can purchase will be increased from £1,500 to £1,800.

Review of Tax Advantaged Share Schemes

The tax rules and administrative procedures for employee share schemes will be simplified. The main changes are to enable businesses to self-certify their schemes instead of having to apply for HMRC approval and online filing of returns and information. The changes will have effect from 6 April 2014.

Internationally Mobile Employees

A corporation tax deduction is usually available to match any amounts taxable on employees' share-related gains. This relief will be extended to gains realised by internationally mobile employees with effect from 6 April 2015.

Films

From April 2014 all films will receive a tax credit at 25% on the first £20m qualifying UK core production expenditure, and 20% on any excess. The percentage of qualifying expenditure on a film which has to be UK expenditure is reduced from 25% to 10%.

Theatre Tax Relief

A new corporation tax relief for theatrical productions will be introduced during the passage of the Finance Bill 2014. The Government will consult on the design of the relief.

Television Tax Relief

The television tax relief legislation will be amended to clarify that only those television programmes on which the relief is claimed are to be treated as separate trades. The change will have effect from the date of Royal Assent.

Video Games Tax Relief

Legislation will be introduced in Finance Bill 2014 to clarify that only those games on which relief is claimed are to be treated as separate trades. These changes will have effect once State Aid approval has been received.

Compensating Adjustments

Individuals who use the compensating adjustment mechanism in the transfer pricing legislation will be prevented from making a claim where the counterparty is a company.

This will not normally be relevant to an SME, unless it elects, the other party is a resident of a non-qualifying territory or, in the case of a medium enterprise, HMRC directs.

Where the compensating adjustment claim is denied but the claim would have related to excess interest paid by the counterparty, the excess interest will be treated as a dividend rather than interest, and taxable at dividend rates.

The measure will be effective in relation to amounts that are referable to times on or after 25 October 2014.

Employment Taxes

PAYE Debts of Companies

The Finance Bill 2014 will authorise HMRC to seek recovery of amounts deducted or accounted for by a company or limited liability partnership under PAYE regulations from persons involved in the management of the company or partnership.

Employee Benefits and Expenses

The Government will consult on four issues with a view to introducing legislation in Finance Bill 2015 :

- Abolishing the threshold for the taxation of benefits in kind for employees who earn less than £8,500.
- Introducing a statutory exemption for trivial benefits.
- Introducing a system of voluntary payrolling for benefits in kind.

- Replacing the expenses dispensation regime with a Reimbursed Expenses Exemption.

The Government also intends to review the rules underlying the tax treatment of travel and subsistence expenses but has not elaborated on the scope of the intended reforms.

Employer Expenditure on Medical Treatment

To support employees returning to work after ill-health or injury, the cost of recommended medical treatment met by an employer is to be exempt from income tax, up to an annual cap of £500 per employee. This measure is expected to have effect from Autumn 2014.

Offshore Employment Intermediaries

With effect from 6 April 2014 legislation will be introduced to strengthen obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries.

Onshore Employment Intermediaries

With effect from 6 April 2014 legislation (including a targeted anti-avoidance rule) will be introduced targeting employment intermediaries being used to avoid employment taxes.

Partnerships

New legislation targets three main areas in relation to partnerships:

- ‘fixed share’ or ‘disguised employment’ partners in LLPs
- tax-motivated profit-sharing arrangements in mixed partnerships
- transfers of assets or income streams by partners.

‘Fixed Share’ or ‘Disguised Employment’ Partners

The profit share of those members whose status is affected will be treated as employment income, subject to PAYE and Class 1 NICs. Their ‘salaries’ and the associated employer’s NICs will then be a tax-deductible expense of the LLP.

This will apply if all three of the following apply:

1 It is reasonable to expect that at least 80% of the amounts payable for the member's services will be

- fixed,
- variable, but variable without reference to the overall results of the LLP, or
- not, in practice, affected by the overall results of the LLP

2 The member does not have 'significant influence' over the affairs of the LLP – in practice most members of an LLP of any size will not be able to claim ‘significant influence’.

3 The member's capital contribution is less than 25% of the member's 'disguised salary'.

There is to be a 'firm commitment' by 5 April 2014 to contribute capital within three months which must not be withdrawn while a member. For those becoming members after 5 April 2014, the three months is cut to two. For this purpose capital doesn't include temporarily undrawn profits or tax reserves.

There are anti-avoidance provisions to counter arrangements regarded as artificial. For example, if a member is enabled to introduce sufficient capital by means of a non-recourse loan.

A further provision is that, if an individual gives his services through a non-individual (typically a company), in order to avoid the new disguised salary provisions, the individual is treated as receiving the profit share of the non-individual member for tax purposes.

Tax-Motivated Profit Sharing Arrangements

Typically a corporate partner's shareholders would include the individual partners. Such an arrangement enables profits (notably surplus or undrawn) to be allocated to the corporate partner, which pays tax at a much lower rate (20% or 23%) than the individual's (often up to 45%).

Legislation is to apply to re-allocate profits where that attributed to a corporate partner is held to be excessive. Only profits which reflect the corporate partner's services (excluding any supplied by the individual partner) and an 'appropriate notional return on capital' (a rate which 'in all the circumstances' is a commercial return on capital) can be allocated to the corporate partner. Any excess is then treated as part of the individual partner's profit share for income tax purposes.

Furthermore, if the profit share of a non-individual partner is derived, at least in part, from services provided to the firm by an individual who it would be reasonable to suppose would have been a partner in the firm during the relevant period of account or any earlier period, the excess of the non-individual partner's profit share over the aggregate of 'the appropriate notional return on capital' and 'the appropriate notional consideration for services' other than the services of the individual partner is treated as that individual's for tax purposes.

These provisions apply to periods of account beginning on or after 6 April 2014 and to the part of periods of account beginning before that date that fall after 5 April 2014.

Where either provision applies, payments may be made without income tax consequences by the non-individual partner to the relevant individual, up to the amount of income that the latter is deemed to have for tax purposes.

Individual partners will be denied relief from 2014/15 for losses which result from 'relevant tax avoidance arrangements' – such as those which reduce the loss that would otherwise arise to a corporate partner.

There are also provisions effective from 6 April 2014 to deal with certain tax consequences of the Alternative Investment Fund Managers Directive (AIFMD). Where, in consequence of the AIFMD, certain partnership profits cannot be immediately accessed and the firm so elects, those deferred profits are not allocated to the partners as such, but to the firm itself and taxed at 45%. Credit is given for this tax when the profits subsequently vest in partners.

Transfers of Assets or Income Streams by Partners

Draft legislation is aimed at tax-motivated disposals of the right to receive sums that would otherwise go to an individual partner. It will apply where the arrangements are made after 5 April 2014.

If it applies, the consideration received (substituting market value if the consideration is substantially less than market value) is to be treated as the transferor's income for income tax purposes. Comparable provisions

are to apply to companies where the transfer occurs after 31 March 2014.

Employee-Owned Companies

A gain realised on disposal after 5 April 2014 of shares in a trading company (or the principal company of a trading group) to an 'employee ownership trust' is to be exempt from capital gains tax if the trust owns a controlling interest at the end of the tax year but did not do so before that tax year. An employee ownership trust is one which can benefit only 'eligible' employees of the company (or group) on the 'same' terms.

From 6 April 2014 a transfer of shares to the trust is exempt from inheritance tax. And a transfer of cash or other assets by a close company to such a trust is not a transfer of value, and thus does not result in an inheritance tax liability for the participators.

With effect from 1 October 2014, an employee-owned company may make tax-free 'qualifying bonus payments' to its employees of up to £3,600 a year

Reinvestment in Intangible Fixed Assets

Current legislation will be amended to clarify the existing position that intangible assets created or acquired by a company since 1 April 2002 are excluded from being replacement assets for the rollover relief provisions. A capital gain realised from a pre-April 2002 intangible asset or any other capital gains assets, primarily land and buildings, cannot be rolled-over into the cost of a new intangible asset.

R&D Tax Credits

From 1 April 2014 the rate of R&D payable tax credit for loss making small SMEs will be increased from 11% to 14.5%.

An SME is a company or organisation with fewer than 500 employees and either an annual turnover not exceeding €100m or a balance sheet not exceeding €86m.

A new measure will be introduced that will amend an adverse anomaly from Finance Act 2013. This introduced targeted loss buying anti-avoidance rules to bring the tax treatment of unrealised losses more closely into line with the treatment of realised losses by restricting their offset against other profits including group relief. As this had an unintended adverse impact on Research and Development Allowances, from 1 April 2014 RDAs will be excluded from this anti-avoidance legislation.

The new measure will benefit non-trading companies that have incurred capital expenditure on R&D as this will preserve the value of their investment on the sale or partial sale of the company.

Other Taxation

Value Added Tax

	2014/15	*2013/14*
Standard Rate	20%	*20%*
Registration level	£81,000	*£79,000*
De-registration level	£79,000	*£77,000*

Prompt Payment Discounts

HMRC has announced changes to the VAT treatment of supplies where a prompt payment discount is offered. UK VAT law currently allows the supplier to account for VAT on the discounted amount regardless of whether the customer pays in time to earn the discount.

HMRC believes that this facility is being abused and will introduce legislation in the Finance Bill 2014 to require VAT to be accounted for by reference to the amount actually paid by the customer rather than the discounted amount.

Most suppliers will be required to implement this change for supplies taking place on or after 1 April 2015. Suppliers of telecoms and broadcasting services will be obliged to implement the new legislation with effect from 1 May 2014 but only in relation to supplies to consumers.

Reverse Charge for Gas and Electricity

Following consultation with relevant trade bodies HMRC has announced that it will introduce measures to combat fraud in the electricity and gas wholesale supply industry. A reverse charge for wholesale supplies will be introduced, which means that the customer rather than the supplier will account for the VAT. The changes will be made from a future date to allow time for affected businesses to make system changes.

Place of Supply Rule Changes

The VAT rules that determine whether a cross-border supply of services is subject to UK VAT have undergone a number of changes over recent years. These changes apply across the whole of the EU and the next tranche will come into effect from 1 January 2015.

The services affected are cross-border supplies to consumers (and other non-business customers) of broadcasting, telecoms and E-services. Currently a UK based supplier can treat such supplies as if they are being made to UK based customers and apply VAT at 20%. With effect from 1 January 2015 the supplier must charge VAT at the rate applicable in the country where the customer normally resides.

As this could lead to a requirement for suppliers to become VAT registered in multiple locations there will be a simplified VAT collection and reporting mechanism available called the "Mini-One Stop Shop". This will enable affected suppliers to account for the VAT collected from customers via a single VAT registration and deal with only one VAT authority.

A number of legislative amendments will be required to effect these changes, some of which will appear in the Finance Bill 2014.

Stamp Duty Reserve Tax

Stamp Duty Reserve Tax on the redemptions of units in UK collective investment schemes (such as unit trusts or open ended investment companies) will be abolished from 30 March 2014.

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	7%
Over £500,000 when bought by certain non-natural persons	15%
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)

Charities Relief

From Royal Assent, relief from SDLT will be available to a charity that purchases land jointly with a non-charity purchaser. The legislation will provide that where a charity purchases an interest in land jointly, as tenants in common (or in Scotland as owners in common) with a non-charity purchaser, relief will be available provided that the charity intends to hold its share of the land for qualifying charitable purposes.

The amount of relief will be based on the proportion of the total chargeable consideration paid by the charity (or any person connected with it) or the proportion of the chargeable interest held by the charity, whichever is the lower.

SDLT in respect of the non-charity purchaser's share in the land will be chargeable at the rate applicable to the total consideration paid for the property.

High Value UK Residential Property

The Government is extending the tax regime affecting UK dwellings owned by a non-natural person (NNP)–i.e. companies, partnerships with company members and collective investment schemes–which currently applies if the property was worth over £2m at a relevant date. The regime is to be extended to properties worth more than £500,000 but not more

than £2m:

- Stamp Duty Land Tax at 15% will apply if the effective date of transfer is after 19 March 2014. Transitional provisions will apply in respect of contracts entered into before 20 March 2014.

- From 1 April 2015 a new band for the Annual Tax on Enveloped Dwellings (ATED) will apply to UK dwellings worth over £1m but no more than £2m at £7,000. The first return will be due on 1 October 2015, with payment required by 31 October 2015. From 1 April 2016 an additional band for ATED will apply to UK dwellings worth more than £500,000 and not more than £1m, at £3,500.

- All NNPs affected by the new ATED bands will be subject to capital gains tax on disposal of the properties held, at a rate of 28%. The extension to the ATED-related CGT charge will apply to disposals from 6 April 2015 of UK dwellings worth more than £1m and not more than £2m and will only apply to gains accrued on or after that date. In relation to properties worth more than £500,000 and not more than £1m the CGT charge will apply from 6 April 2016 for gains accruing after 5 April 2016.

Annual Tax on Enveloped Dwellings (ATED)

	Year end 31 March 2015	*Year end 31 March 2014*
Annual charge based on property value:		
£0 - £2 million	Nil	*Nil*
£2 million - £5 million	£15,400	*£15,000*
£5 million - £10 million	£35,900	*£35,000*
£10 million - £20 million	£71,850	*£70,000*
Over £20 million	£143,750	*£140,000*

Anti-Avoidance

Direct Recovery of Tax and Tax Credit Debts

The Finance Bill 2015 will include legislation which allows HMRC to recover tax debts and overpaid tax credits of £1,000 or more directly from taxpayers' or recipients' bank accounts, subject to rigorous safeguards.

Establishing Charities for Tax Avoidance

The Government continues to consult on measures to prevent charities established for the purpose of tax avoidance from being entitled to claim charitable tax reliefs. Legislation will follow at a later date

Transfer of Corporate Profits

Payments under derivative contracts between connected companies are not deductible expenses for corporation tax if the recipient company is not liable to corporation tax on the receipt. This principle will be extended to payments between connected companies made after 18 March 2014 which are intended to transfer taxable profits, but use a mechanism other than a derivative contract.

The Budget Summary is based on the Chancellor's Budget Statement of 19 March 2014, 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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