Budget Summary 18 March 2015

The Budget

shipleys LLP

This Budget Summary is based on the Chancellor's Budget statement of 18 March 2015, 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 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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Chartered Accountants & Professional Business Advisers

Budget Summary 2015

Introduction

For his final Budget speech before the Election, the Chancellor denied he would be announcing any pre-Election giveaways. Perhaps that's why he effectively 'leaked' his new proposals on further pensions reform in advance!

On the day, Mr Osborne worked hard to explain his preference for reducing the deficit over 'electioneering', but did claim that on the "road from austerity to prosperity – this budget works for you."

Measures that work for savers include new Help to Buy ISAs for first-time home buyers and a new £1,000 personal savings allowance to provide "tax free banking" for most people.

There had been much speculation prior to the Budget speech about changes to national insurance contributions and personal tax allowances. The Chancellor confirmed increases in allowances and that the higher rate threshold will rise above the rate of inflation.

There were certainly plenty of claims about progress from austerity to prosperity. Mr Osborne described Britain variously as "walking tall", "working again", "paying its way", "out in front" and "the comeback country" where "the sun is starting to shine" (from where we do not know) during the course of this one Budget speech. Whatever your view of the state of the nation, however, it's clear that tax – and the ongoing battle against its avoidance – will continue to play a key part in this or any future government's deficit reduction plans.

Another theme was greater simplification of tax. Abolition of the annual tax return and its replacement with a "revolutionary tax collection system" appears very attractive, but next year sounds like a very ambitious target date, given governments' track record on previous major IT projects.

This may be just the first of several Budgets this year if there is a change of government after the Election. Whether all of the current Chancellor's plans will be implemented we can only speculate, but in the meantime, it's important to know what action you can take now in response. Politicians often make headline-grabbing statements that are not always borne out by the substance. It's our job to get to the truth and to sort the wheat from the chaff. Did the Budget "work for you", as the Chancellor claimed? Read on to find out.

Ken Roberts
Managing Principal

Budget Highlights

Income tax – The personal allowance for 2015/16 is increased to £10,600. The 40% rate applies when chargeable income exceeds £42,385 for 2015/16. The band of savings income (reduced by the excess of non-savings income over the personal allowance) is increased to £5,000 from 6 April 2015 and charged at 0%.

A new personal savings allowance will apply from 6 April 2016, exempting the first £1,000 of savings income of basic rate taxpayers and the first £500 for higher rate taxpayers. From the same date, basic rate tax will no longer be deducted at source by banks and building societies.

Pensions – As already known, there is a general relaxation in the drawing of benefits from defined contribution schemes from 6 April 2015. Those currently drawing a pension annuity are to be allowed to sell it to interested third parties after 5 April 2016. The lifetime limit on pension funds is to be cut from £1.25m to £1m, also from 6 April 2016.

Income tax and NIC integration – No further announcement has been made. But Class 2 contributions are to end from April 2016 with some changes then made to Class 4.

Capital gains tax – The annual exemption for 2015/16 is £11,100.

Non-residents' – Gains realised after 5 April 2015 on UK residential property will be subject to CGT, with some exceptions.

Non-domiciled remittance basis charges – Are increased from 6 April 2015.

Annual investment allowance – This was to fall from £500,000 to £25,000 for expenditure after 31 December 2015, but the Chancellor said that the figure for 2016 would be reviewed.

Corporation tax rates –The rate is 20% from 1 April 2015.

Inheritance tax – The nil rate band remains £325,000. Changes are made to the taxation of relevant property trusts. Deeds of variation are to be reviewed.

ISAs – The annual limit is £15,240 from 6 April 2015. In the Autumn, ISAs will be made more flexible, enabling savers to replace withdrawn amounts. A new Help to Buy ISA will be introduced from April 2016 for those saving for their first home. Nothing was said about 'inheriting' a deceased spouse's ISA, as announced in the Autumn Statement.

ATED – This regime is extended to 'enveloped' dwellings worth over £1m from 6 April 2015 and those worth over £500,000 from 6 April 2016, with ATED-related CGT following this. The rates of charge are increased, but with some relaxation in administration.

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Personal Taxation

Income Tax

Rates and Bands

(2014/15 figures in brackets)

	Dividends	Interest	Other
The first £5,000 *(£2,880)*	0%* *(10%)*	0%* *(10%)*	20% *(20%)*
£5,001 - £31,785 *(£2,881 - £31,865)*	10% *(10%)*	20% *(20%)*	20% *(20%)*
£31,786 - £150,000 *(£31,866 - £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 0% *(10%)* rate band applies to savings (interest and dividends) income only. The starting rate band is reduced by the excess of non-savings income over the personal allowance.

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

		2015/16 £	*2014/15* *£*
Relief at individual's top tax rate			
Personal	- born after 5 April 1948*	10,600	*10,000*
	- born between 5 April 1938 and 6 April 1948**	10,600	*10,500*
	- born before 6 April 1938**	10,660	*10,660*
Blind person's allowance		2,290	*2,230*
Relief at 20%			
Transferable tax allowance for married couples etc ***		1,060	-
Relief at 10%			
Married couple* (only available if either born before 6 April 1935)		8,355	*8,165*

* To increase to £10,800 in 2016/17 and £11,000 in 2017/18. 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 £27,700 *(£27,000),* to a minimum allowance of £10,600 *(£10,000)* for the personal allowance and £3,220 *(£3,140)* for the married couple's allowance.

*** Those who are entitled to claim married couple's allowance will not be entitled to make this transfer.

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 £1,060 of their personal allowance to their spouse or civil partner. The transferee will then get a tax credit of 20% of the amount transferred.

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

Remittance Basis for the Non-Domiciled

The charge for the non-domiciled who elect to be taxed on remittances of offshore income and gains from 6 April 2015 is to be increased from £50,000 to £60,000 for those who have been UK resident 12 out of the preceding 14 tax years, and to £90,000 for those resident for 17 out of the preceding 20 years.

Personal Savings Allowance

From April 2016, the Government proposes to introduce a Personal Savings Allowance (PSA). Basic rate taxpayers will be exempt from tax on the first £1,000 of savings income; higher rate taxpayers will be exempt on £500. The PSA will not be available to additional rate taxpayers – those with annual income over £150,000.

Peer-to-Peer Lending

Individuals who make loans through peer-to-peer (P2P) platforms are to be able to set off bad debts arising against the interest they receive from P2P loans made after 5 April 2015 when calculating their taxable income.

Special Purpose Share Schemes

Companies have helped investors avoid income tax by circumventing the rules on the taxation of scrip dividends. Under a 'special purpose share scheme', the holders of a particular class of shares are issued with new bonus shares instead of being paid a taxable cash dividend, and the new shares are then bought back by the company or a third party.

The resulting capital gains tax liability is usually lower than the income tax would have been on a dividend with the same cash value. The Finance Bill 2015 will introduce a provision to charge such 'alternative receipts' to income tax.

Gift Aid Small Donations Scheme

Under the small donations scheme, charities can currently claim 25% relief on anonymous cash donations of up to £5,000 in any tax year. With effect from 6 April 2016, the maximum is to be increased to £8,000.

Self-Employed Farmers

From 6 April 2016, self-employed farmers are to be able to average their profits for income tax purposes over five years rather than two.

Interest Paid on Private Placements

From Royal Assent to the Finance Bill 2015, companies will no longer have to withhold income tax from payments of interest on 'qualifying private placements'. These are defined as loan relationships issued for a minimum period of three years which are not listed on a recognised stock exchange.

The Treasury will retain the power to make further regulations setting out conditions relating to the security itself, the issuer and the holder of the security and introduce safeguards to ensure that the exemption is not being abused.

Miscellaneous Loss Relief

Relief for income tax purposes will be denied where a loss arises as a result of relevant tax avoidance arrangements. This will affect losses and income arising after 2 December 2014. Relief will also be denied against miscellaneous income that arises after 5 April 2015 as a result of relevant tax avoidance arrangements.

Childcare Subsidy

Tax-Free Childcare for each child under 12 (or under 17 if disabled) for whom an individual is responsible is to be available to those employed or self-employed who are not additional rate taxpayers (nor their partner), not receiving tax credits or the Universal Credit nor getting childcare vouchers from an employer.

For every £8 paid into a childcare account the Government will pay in £2, up to a maximum of £500 every three months for each child. The childcare account is to be used only for child care that is registered or approved.

National Insurance Contributions

		2015/16	*2014/15*
Class 1	Employees' contributions (weekly)		
	On earnings up to £155 *(2014/15 £153)*	Nil	*Nil*
	On earnings between £155 and £815 *(2014/15 £153 and £805)*	12%	*12%*
	On earnings over £815 *(2014/15 £805)*	2%	*2%*
	Employees' contracted-out rebate (weekly)		
	On earnings between £112 and £815 *(2014/15 £111 and £805)*	1.4%	*1.4%*
	Married women's reduced rate (weekly)		
	On earnings between £155 and £815 *(2014/15 £153 and £805)*	5.85%	*5.85%*
	On earnings over £815 *(2014/15 £805)*	2%	*2%*
	Employers' contributions (weekly)		
	On earnings up to £156 *(2014/15 £153)*	Nil	*Nil*
	On earnings over £156 *(2014/15 £153)*	13.8%	*13.8%*
	Employers' contracted-out rebate (weekly)		
	On earnings between £112 and £815 *(2014/15 £111 and £805)*	3.4%	*3.4%*
Class 1A	Employers' contributions on taxable benefits in kind	13.8%	*13.8%*
Class 2 *	Self employed contributions (weekly)	£2.80	*£2.75*
	Small earnings exception (annual)	£5,965	*£5,885*
Class 3	Voluntary contributions (weekly)	£14.10	*£13.90*
Class 4	Self-employed (annual profit related)		
	On profits between £8,060 and £42,385 *(2014/15 £7,956 and £41,865)*	9%	*9%*
	On profits over £42,385 *(2014/15 £41,865)*	2%	*2%*

* to be abolished in the next parliament

Abolition of Class 2 NICs

The Government announced its intention to abolish Class 2 NICs in the next parliament and reform Class 4 NICs to introduce a new benefit test. The Government will consult on the detail and timing of these reforms later in 2015.

Class 3A NICs

From October 2015, those who have reached state pension age before 6 April 2016 will be able to buy additional state retirement pension of up to £25 a week by paying new voluntary Class 3A contributions. For example, someone aged 70 in October 2015 would have to pay £19,475 to buy extra pension of £1,300 a year, that extra then increasing at the same rate as the existing state retirement pension.

Capital Gains Tax

	2015/16	***2014/15***
Annual exemption		
Individuals, personal representatives* and certain trusts**	£11,100	*£11,000*
Other trusts		
Divided by the number of trusts created after 6 June 1978 by the same settlor, with a minimum of £1,110 *(2014/15 £1,100)*	£5,550	*£5,500*

* 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 £1,110 (2014/15 £1,100)

Rates of Tax

Gains, other than those eligible for entrepreneurs' relief, realised by UK resident individuals and trusts 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%.

ATED-related gains of companies are taxed at 28%

Chargeable gains realised on disposal of UK residential property after 5 April 2015 by non-resident individuals will be taxed at 28% unless the total of their UK taxable income and gains (net of deductible losses and the annual exemption) is less than the basic rate band, in which case gains are taxed at 18%.

Chargeable gains realised on disposal of UK residential property after 5 April 2015 by non-resident trusts will be taxed at 28%, those realised by non-resident companies will be taxed at 20% (after indexation allowance).

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

Entrepreneurs' Relief Joint Ventures and Partnerships

The definition of a 'trading company' and 'the holding company of a trading group' will change for individuals who make a claim for entrepreneurs' relief (ER) in respect of a company which invests in joint venture companies or which is a member of a partnership. With effect from 18 March 2015, such a company must have a significant trade of its own in order to be considered as a trading company.

Entrepreneurs' Relief on Sale of Goodwill

Entrepreneurs' relief will not apply to the sale of goodwill to a related company after 3 December 2014 (unless under a contract entered into before 4 December). Furthermore, corporation tax relief will be restricted.

Gains eligible for entrepreneurs' relief which are instead deferred after 2 December 2014 into investments which qualify for the Enterprise Investment Scheme or Social Investment Tax Relief are to remain eligible for entrepreneurs' relief when the gain is realised.

Entrepreneurs' Relief on Deferred Gains

Under the reinvestment relief rules, a person with a taxable capital gain can defer the tax liability by reinvesting the gain into certain types of company, primarily those which would qualify under the Enterprise Investment Scheme (EIS), Seed EIS or for Social Investment Tax Relief.

Under current rules, the deferred gain becomes chargeable to capital gains tax at the normal rates (currently 18% or 28%) when the new investment is disposed of, even if the original deferred gain would have qualified for the lower entrepreneurs' relief (ER) CGT rate of 10%.

Entrepreneurs' relief is to be available when a deferred gain becomes chargeable if it originally arose after 2 December 2014 and would have qualified for ER.

Entrepreneurs' Relief on Associated Disposals

If personal assets used in a business are disposed of after 17 March 2015, the gain will only qualify for entrepreneurs' relief (ER), if the claimant reduces participation in the business by also disposing of at least a 5% stake in the company or partnership carrying on the business.

Non-Residents and UK Residential Property

From 6 April 2015 gains on UK residential property realised by non-resident individuals (on their own or in partnership), non-resident trustees, personal representatives of a non-resident deceased person and non-resident companies controlled by five or fewer persons (except where that company or at least one of the controlling persons is a 'qualifying institutional investor') will be subject to capital gains tax. ATED-related gains are excluded from these new provisions. Gains chargeable under the new provisions are excluded from those arising to non-resident trusts and companies and individuals 'temporarily non-resident' that are otherwise chargeable under existing anti-avoidance provisions

The new charge will apply to gains realised on the disposal of UK residential property and property which has the potential to be used as a residence. This includes property which is currently being built or adapted for residential use.

Residential property which is used on a communal basis like care homes, school boarding houses, military accommodation, hospitals, hospices, prisons and purpose-built student accommodation including at least 15 bedrooms is to be exempt from the new charge.

Only the increase in value after 5 April 2015 will be chargeable. For properties held then the chargeable gain will be the excess over market value at that date, unless an election is made either to calculate the gain

by time apportionment, charging only the proportion of the gain attributed to the period after 5 April 2015, *or* (where market value at 5 April 2015 is less than original cost) by comparing disposal proceeds with the original cost. If a loss arises on disposal this is 'ring-fenced' to be set only against gains caught under this new regime.

For individuals the CGT charge will be 18% for basic rate taxpayers and 28% for higher rate taxpayers. The applicable rate will be determined by the non-resident's UK source income for the year. Non resident trusts will be liable at 28%. The normal annual capital gains tax exemptions will apply to individuals and trustees. The charge on companies will be 20%.

The gain on disposal will have to be reported within 30 days of completion, and the tax paid as well if the seller does not already file UK tax return.

Exemption for Certain Wasting Assets

A capital gain realised on disposal of certain wasting assets is currently exempt from capital gains tax (CGT). This includes gains from assets used as ’plant and machinery’ if capital allowances could not be claimed.

In a recent case, this CGT exemption was available on the sale of a ‘wasting asset’, a valuable painting that was not used in the seller’s business but had been loaned out for use in a third party business. To counter this, to qualify for the ‘wasting asset’ exemption, an asset must have been used in the business of the person disposing of it.

The change will be effective for gains accruing after March 2015 for corporation tax purposes and after 5 April for CGT purposes.

Main Residence Relief

With effect from 6 April 2015 the main residence exemption can only be claimed in relation to a UK home by a non-UK resident who has spent at least 90 days in their UK home(s) in that tax year. From 6 April 2015 a UK resident may only claim main residence exemption in the case of a home *outside* the UK if he occupied it for at least 90 days in the tax year.

Inheritance Tax

Rates at Death	From 6 April 2015	*From 6 April 2014*
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 annual exemption for lifetime gifts of £3,000 and the small gifts annual exemption of £250 have remained at these levels for 31 years.

IHT Exempt Persons

The existing exemption from inheritance tax for members of the armed forces who die from injuries sustained in active service is to be extended to emergency service personnel and aid workers whose death occurs after 18 March 2014.

Exemption for Emergency Service Personnel

The existing inheritance tax exemption for members of the armed services whose death is caused or hastened by injury on active service is to be extended to members of the emergency services and humanitarian aid workers if death occurs after 18 March 2014. This will also include serving and former police officers and service personnel targeted because of their status.

IHT and Relevant Settlements

Instead of the complicated regime proposed in June 2014, a simpler change is to be made. This will affect all charges arising after 5 April 2015 in respect of relevant property trusts created or added to after 9 December 2014, with a transitional relief for those under the will of someone dying before 6 April 2017 if the will was executed before 10 December 2014. The main change is to link trusts to which property is added on the same day, but with a *de minimis* of £5,000, to prevent the use of multiple trusts.

Pensions

From April 2016, people who have retired and are receiving an annuity will be allowed to sell the annuity to a third party, to give them the same flexibility as those retiring post April 2015.

A number of changes will be made to the pension tax rules from 6 April 2015 to reflect the greater flexibility individuals in defined contribution pension schemes will have access to their pension savings from age 55. The aim of the changes is to make the tax system fairer by ensuring people have greater choice about how they access their money purchase pension savings, while also protecting against the new flexibility being exploited to create a tax advantage. The new rules will:

- allow all of the funds in a defined contribution arrangement to be taken as an authorised lump sum, removing the higher unauthorised payment tax charges;
- increase the flexibility of the income drawdown rules by removing the maximum ‘cap’ on withdrawal and minimum income requirements for all new drawdown funds from 6 April 2015;

- enable those with ‘capped’ drawdown to convert to a new flexible drawdown fund once arranged with their scheme, should they wish;

- enable pension schemes to make lump sum payments directly from pension savings with 25% taken tax-free (instead of a tax-free lump sum) before the pension fund is ‘crystallised’;

- introduce a limited right for scheme trustees and managers to override their scheme’s rules to pay flexible pensions and lump sums from defined contribution pension savings;

- remove some restrictions on lifetime annuity payments;

- ensure that individuals do not exploit the new system to gain unintended tax advantages by introducing a reduced annual allowance for defined contribution schemes where the individual has flexibly accessed their savings;

- increase the maximum value and scope of trivial commutation lump sum death benefits;

- provide new information requirements to ensure that individuals who have flexibly accessed their pension savings are aware of the tax consequences of doing so;

- restrict and reduce certain tax charges that apply to death benefits;

- enable persons other than dependants to inherit unused drawdown funds and provide that where death occurred before the age of 75, lump sum death benefits and drawdown pension from such funds can be paid tax free, subject to there being sufficient available lifetime allowance;

- allow annuities paid to a beneficiary on the death of a member before age 75 to be paid tax free;

- make changes to the rules for individuals who have received UK tax relief in respect of pension savings in non-UK pension schemes, so that flexibilities and restrictions on relief will apply equally to them.

The lifetime allowance is to be cut from £1.25m to £1m from 6 April 2016, after which the level is to be varied in line with the consumer price index. Fixed and individual protection regimes will be introduced to protect savers who may be affected.

Anti-Avoidance

Penalties for Offshore Non-Compliance

Measures are to be introduced to strengthen existing penalties for offshore non-compliance, to include extending the regime to include:

- inheritance tax
- offences where the proceeds of non-compliance are hidden offshore
- updating the territory classification system
- introducing a new penalty of moving hidden funds to continue evading tax.

Serial Avoiders

Tougher measures are to apply to those who persistently enter into tax avoidance schemes which fail. A special reporting requirement is proposed, together with a surcharge for serial avoiders whose latest tax return is inaccurate as a result of a further failed avoidance scheme.

The Government will also look to restrict access to reliefs for those who have a record of trying avoidance schemes that don't work, and to publish the names of those miscreants.

In addition, legislation will widen the current scope of the Promoters of Tax Avoidance Schemes regime by bringing in promoters whose schemes regularly fail.

Penalties for the General Anti-Abuse Rule

Legislation will be introduced in a future Finance Bill that will increase the deterrent effect of the General Anti-Abuse Rule (GAAR) by introducing a specific tax-geared penalty that applies to cases tackled by the GAAR.

Tackling Offshore Evasion

Financial intermediaries and tax advisers will be required to explain to their UK resident clients with UK or overseas accounts the impact of the Common Reporting Standard, the opportunities to disclose and the penalties they could face for non-disclosure.

Direct Recovery of Debts

The Government intends to pursue proposals to allow HM Revenue & Customs to 'raid' the bank accounts of those owing tax or tax credits. This continues to be subject to consultation.

Savings

ISAs

An additional ISA allowance is to be available from 6 April 2015 equal to the value of the ISA inherited by the surviving spouse or civil partner of anyone who die after 2 December 2014.

More Flexible ISAs

From Autumn 2015, ISA savers will be able to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year.

Help to Buy ISA

A new ISA is being introduced to help people save towards a first home. Buyers will be able to save up to £200 a month using the new ISA and the Government will contribute a further 25%, up to a maximum of £3,000.

The maximum initial deposit is to be £1,000. The new ISA will be available from Autumn 2015 and will be available for four years, but there will be no limit on how long to save for.

The property being purchased must be in the UK and the 25% bonus will be available for purchases of up to £450,000 in London and up to £250,000 outside London.

The Help to Buy ISA is to be available per person (age 16 and over) rather than per home, so it will be possible for those buying together to both benefit from this.

ISAs and Child Trust Funds – Qualifying Investments

Listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange are to be added to qualifying investments for ISAs and Child Trust Funds with effect from 1 July 2015. The Government will consult on further extending the list of qualifying investments to include debt securities and equity securities offered via crowd funding platforms.

Tax-Efficient Investments

Social Venture Capital Trusts

Social Venture Capital Trusts (Social VCTs) will be introduced in a future Finance Act. They will have the same excluded activities as for social investment tax relief. They will have the same tax advantages as existing VCTs: an income tax credit of 30% of the sum invested and exemption from tax on dividends and capital gains on disposals of shares in the Social VCT.

Renewable Energy Companies

With effect from 6 April 2015, investments in companies that benefit substantially from subsidies for the generation of renewable energy will be excluded from the tax-advantaged venture capital schemes (EIS, SEIS and VCTs) unless the company is a qualifying community energy organisation.

In addition, from 6 April 2015 investments in companies receiving foreign subsidies similar to contacts for difference will be excluded from the schemes.

Social Investment Tax Relief (SITR)

The Government has sought EU approval to increase the investment limit to £5 million a year per social enterprise up to a maximum of £15 million per organisation and to extend the relief to small-scale community farms and horticultural activities. The changes will come into effect from 6 April 2015, subject to State aid clearance. Investors in qualifying enterprises are entitled to a 30% tax credit on a maximum investment of £300,000 a year, which may be into new shares or a qualifying debt investment, if not realised within 3 years.

Motor Car Benefits

CO2 emissions g/km	Petrol engine %	Diesel engine %
50 or less	5	8
51-75	9	12
76-94	13	16
95-99	14	17
per additional 5g/km, until 210 g/km	+1	+1
210 and above	37	40

Fuel Benefits (Cars & Vans)

Advisory fuel rates for company cars (per mile) from 1 March 2015

	LPG	Petrol		Diesel
1400cc or less	8p	11p	1600cc or less	9p
1401 – 2000cc	10p	13p	1601 – 2000cc	11p
over 2000cc	14p	20p	over 2000cc	14p

Business Taxation

Corporation Tax

Rates and Bands	**Year to 31 March 2016**	***Year to 31 March 2015***
Main rate	20%	*21%*
Small profits rate	N/A	*20%*
Small profits limit*	N/A	*£300,000*
Small profits marginal band*	N/A	*£300,000 - £1.5m*
Marginal rate	N/A	*21.25%*

* Shared among active associated companies.

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

Goodwill Bought from Related Parties

Corporation tax relief will be restricted where a company has acquired internally-generated goodwill or customer related intangible assets from related individuals on the incorporation of a business after 2 December 2014, (unless under a contract concluded before 3 December 2014).

Annual Investment Allowance

The maximum amount of the annual investment allowance (AIA) is currently due to fall from £500,000 to £25,000 after 31 December 2015. However, George Osborne implied in his Budget speech that this would be replaced by a figure higher than £25,000, yet to be announced.

Corporate Debt and Derivative Contracts

For accounting periods beginning from 1 January 2016, taxable and allowable debits and credits will be based on the amounts calculated under normal accounting and commercial rules for the computation of profits and losses.

The credits which arise when the debts of a company in distress are restructured or released with a view to ensuring its continued solvency will not be treated as taxable from 1 January 2015, supplementing the existing rule which exempts credits arising in debtor companies when creditors exchange debt investment for an equity stake.

A new regime-wide anti-avoidance rule will be introduced to counter arrangements entered into from 1 April 2015 which have a main purpose of obtaining a tax advantage by way of the loan relationships and derivative rules.

Banks' Compensation Payments

Banks are to be denied corporation tax relief for the compensation payments they have to make to their customers for mis-selling. The Government is to consult on the detail. No start date has been given.

Creative Industries

Film Tax Credit

From 1 April 2015, the distinction between limited budget films and other films is removed and the rate of film tax relief will be increased to 25% for all qualifying core expenditure for all eligible film productions.

High-End Television Tax Credit

From 1 April 2015, the percentage of qualifying expenditure on a high-end television or animation production which has to be UK expenditure is reduced from 25% to 10%. At the same time, the cultural test will be modernised.

Children's Television Tax Credit

The existing television tax relief is to be extended to children's television programmes, including children's game shows and competitions, with effect form 1 April 2015.

Orchestra Tax Relief

A new tax relief for orchestras is to be introduced with effect from 1 April 2016.

R&D Tax Credits

The definition of qualifying consumable items as part of R&D qualifying expenditure is to be revised to exclude the cost of materials incorporated in products that are then sold as part of the company's normal business.

Diverted Profits Tax

The Diverted Profits Tax (DPT) will be introduced by the Finance Bill 2015. The tax will be at the rate of 25% of 'diverted profits' relating to UK activity arising from 1 April 2015 if either of two rules applies:

- The first rule applies if a person is carrying on an activity in the UK in connection with supplies of goods and services to UK customers by a non-UK resident company, where the non-UK resident company does not itself have a UK permanent establishment, thereby avoiding corporation tax on UK profits.

- The second rule applies to certain arrangement which lack economic substance involving entities with an existing UK taxable presence. The measure will counteract arrangements which exploit tax differentials and will apply where the detailed conditions are met.

- The first rule will not apply to non-resident companies whose total annual UK sales do not exceed £10m. Neither rule will apply if the persons or companies involved are small or medium-sized enterprises.

Link Company Requirements For Consortium Claims

For accounting periods beginning after 9 December 2014, the corporation tax legislation will be revised for group relief to remove the requirement for the “link company” to be located in either the UK or the European Economic Area (EEA).

Previously, in order for group relief to flow between a consortium and a group owning a share in that consortium, the company that is a member of both the group and consortium (the link company) had to be located in the UK or EEA.

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.

Capital Allowances

Anti-avoidance Rules for Plant and Machinery

Existing anti-avoidance rules applicable to transactions between connected persons and sale and leaseback transactions are to be extended so as to exclude capital allowances where the vendor did not incur any expenditure when the asset was acquired or where the vendor is not required to bring the disposal value into account for capital allowances purposes.

Energy Saving and Water Efficient Technologies

These schemes will be updated to adopt the Waste Heat to Electricity sub-technology, and to remove the Packaged Chillers sub-technology.

In addition, the qualifying criteria for some sub-technologies in both schemes will be amended in summer 2015, subject to State aid approval.

Employment Taxes

Threshold for Benefits in Kind

The £8,500 threshold that determines whether employees pay income tax on all of their benefits in kind and expenses will be abolished from 6 April 2016.

Qualifying Expenses Payments

With effect form 6 April 2016, certain expenses payments and benefits in kind provided to employees are to be exempt from tax. This will apply where employees would have been eligible for tax relief if they had incurred and met the cost of expenses or benefits themselves. The exemption will replace the current dispensation arrangements. It will not apply where expenses are paid as part of a salary sacrifice arrangement or any other arrangements that seek to replace salary with expenses.

Real Time Collection of Tax on Benefits in Kind

HMRC is to be able to change PAYE Regulations to provide for voluntary payrolling of benefits in kind, with effect from 6 April 2016.

Trivial Benefits in Kind

With effect from 6 April 2015, a statutory exemption from tax and national insurance contributions will apply to qualifying trivial benefits in kind of £50 or less. There will be an annual cap of £300 for office holders of close companies and employees who are their family members.

Travel and Subsistence Expenses

The Government will consult on proposals to restrict tax relief for travel and subsistence expenses incurred by workers engaged through an employment intermediary such as an umbrella company or a personal service company. The relief will be restricted to the amount which normal employees can claim, so there will be no relief for home to work travel expenses and daily subsistence costs.

Any changes will take effect from 6 April 2016.

Other Taxation

Value Added Tax

	2015/16	*2014/15*
Standard Rate	20%	*20%*
Registration level	£82,000	*£80,000*
De-registration level	£80,000	*£79,000*

Partial Exemption for Foreign Branches

The UK VAT Regulations relating to partial exemption are to be amended to give effect to a judgement of the Court of Justice of the European Union in a case involving Credit Lyonnais. This case looked at whether or not a business should include in its partial exemption calculations the turnover generated by its foreign branches or other overseas establishments.

The Court ruled that it was not appropriate to include this turnover in these calculations and UK VAT law must be amended to ensure that income from supplies made by foreign branches or overseas establishments is not included in any partial exemption calculations.

The effective date of the revised legislation will depend on the partial exemption year of the business, which is normally the year ending 31 March, 30 April or 31 May depending on the VAT quarters used by the business. It can, however, be linked to the financial year of the business if permission has been granted by HMRC.

Affected businesses will be required to implement the revised legislation for partial exemption years starting after 31 July 2015.

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.

Refunds for Palliative Care Charities

A new VAT refund scheme is to be introduced to provide relief for charities that provide palliative care. The scheme will start on 1 April 2015 and will enable affected charities to claim refunds of VAT incurred on costs relating to their non-business activities.

Refunds for Medical Courier Charities

A new VAT refund scheme is to be introduced to provide relief for charities that provide free, out-of-hours, medical courier services to the NHS. The scheme will start on 1 April 2015 and will enable affected charities to claim refunds of VAT incurred on costs relating to their non-business activities.

Search and Rescue Charities

A new VAT refund scheme starting in April 2015 will provide relief for search, rescue and air ambulance charities. It will enable affected charities to claim refunds of VAT incurred on costs relating to their non-business activities.

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)	
Net present value of lease rentals**	1%
Non-residential:	
£0 - £150,000	Nil
£150,001 - £250,000	1% of the whole consideration
£250,001 - £500,000	3% of the whole consideration
Over £500,000	4% of the whole consideration

Interests in land and in partnerships (to the extent of their interests in land)	Percentage of **portion shown**
Residential:	
on the first £125,000	Nil
on the next £125,000	2%
on the next £675,000	5%
on the next £575,000	10%
on the remainder (above £1.5 million)	12%

* 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)

Shared Ownership Properties

From Royal Assent to the Finance Bill, Stamp Duty Land Tax (SDLT) multiple dwellings relief will apply if a housing association sells a superior leasehold interest in land subject to shared ownership leases as the 'lease' element of a 'lease and leaseback' financing arrangement, and the 'leaseback' element itself, qualifies for SDLT relief.

Authorised Property Funds

A future Finance Bill will introduce two Stamp Duty Land Tax (SDLT) reliefs for certain collective property investment schemes (Property Authorised Investment Funds and Authorised Contractual Schemes). These are treated as transparent for income tax purposes, so rental income is distributed gross and taxed at the investor's marginal rate, so tax-exempt investors receive rental income tax free.

The first relief is called 'seeding relief' and applies to both types of scheme. It will apply when an existing property portfolio is transferred into a new scheme without an underlying change in ownership.

As a tax transparent entity, each time there is a redemption or issue of a unit in an Authorised Collective Scheme, a strict interpretation of current legislation means that SDLT is triggered because there has been a change in the beneficial ownership of the underlying property, even if the scheme as a whole has not disposed of or acquired any property. The second relief will be that SDLT will not be triggered by the issue or redemption of units in such a scheme.

High Value UK Residential Property

Annual Tax on Enveloped Dwellings (ATED)

UK dwellings owned by non-natural persons' (companies, partnerships with a corporate member and other collective investment vehicles, but not trusts) have been subject to ATED. This is an annual tax charge based on the value of the property on 1 April 2012, or, if later, the date of acquisition or substantial addition or substantial disposal of part.

Furthermore, a gain realised on disposal, compared with the market value at 5 April 2013 or subsequent acquisition, which is, on a time-apportionment basis, attributable to a period when ATED is chargeable (an ATED-related gain) is subject to capital gains tax at 28%.

The £2m threshold drops to £1m from 1 April 2015 and then to £500,000 from April 2016, with the ATED-related gain for properties then caught being related to market value at 5 April 2015 or 2016 respectively.

The ATED charge is as follows:

	2014/15	**2015/16**
£½-£1m	N/A	N/A
<£1-£2m	N/A	£7,000
<£2-£5m	£15,400	£23,350
<£5-£10m	£35,900	£54,450
<£5-£20m	£71,850	£109,050
<£20m	£143,750	£218,200

There are numerous exemptions, for example covering developers and traders but these must be claimed on an annual return even if there is no resultant tax liability.

The Government has acknowledged that there is a significant amount of administrative burden for 'non-natural persons' (NNPs) who are eligible for full relief so there is no ATED liability arising. To ease the burden from periods ending after 31 March 2016, it will introduce a "relief declaration return" for those persons holding eligible properties. A separate return will be required for one or more properties for each separate type of relief being claimed. A separate return will be required where a property is acquired in the year and it qualifies for a different type of relief. The returns will not require valuation details for properties eligible for relief.

For NNPs eligible for the ATED relief in 2015/16 only, the returns must be filed no later than 1 October. For subsequent years the normal filing date of 30 April will apply.

Anti-Avoidance

Promoters of Tax Avoidance Schemes

With effect from Royal Assent, legislation will be introduced to enable HM Revenue & Customs to issue conduct notices to promoters and to subsequently monitor promoters who breach a conduct notice. Monitored promoters will be subject to new information powers and penalties that will also apply to intermediaries that continue to represent them after the monitoring commences. This will include associated and successor entities of promoters.

Disclosure of Tax Avoidance Schemes

Changes to existing legislation on disclosure of tax avoidance schemes (DOTAS) will be included in the Finance Bill 2015 to come into force at Royal Assent.

A number of changes will be made including updating the rules determining what has to be disclosed, changing the information to be provided to HM Revenue & Customs and enabling it to publish information about promoters and disclosed schemes.

Penalties applicable to scheme users who fail to correctly report the use of the scheme to HMRC will increase.

Tax Enquiries – Closure Rules

The Government is considering responses to a consultation on a new power to enable HM Revenue & Customs to refer matters to the tax tribunal in order to achieve early resolution of one or more aspects of a tax enquiry whilst leaving other aspects of the tax enquiry open.

Disclosure Facilities

The disclosure period of the Crown Dependencies Disclosure Facility will be brought forward from September 2016 to December 2015.

The end date for the Liechtenstein Disclosure Facility will be brought forward from April 2016 to December 2015.

The Government announced a new time limited disclosure facility that will run after the existing facilities close. The time limited disclosure will have tougher terms, including penalties of at least 30% and no guarantee in relation to criminal investigation.

Automatic Exchange of Information Agreements

In compliance with EU rules to improve international tax compliance and the UK's obligations under agreements with non-EU jurisdictions for Common Reporting Standards (CRS), the Treasury is introducing regulations creating due diligence and reporting obligations for UK financial institutions. Financial institutions can include companies, trusts or partnerships, but not individuals.

The obligations require the financial institutions to:

- identify accounts maintained for specified persons, i.e. account holders who are tax resident in jurisdictions with which the UK has entered into an agreement to exchange information about financial accounts and investments to help tackle tax evasion;
- collect and report information in a specified manner on specified persons to HM Revenue & Customs.

The regulations also revoke and replace the current regulations for the UK's exchange of information agreement with the USA, known as the Foreign Account Tax Compliance Act (FATCA).

In relation to the EU and CRS agreements, the regulations will have effect from 1 January 2016. With regard to the FATCA agreement, they will apply 21 days later.

Loss Refresh Prevention

Legislation applicable to accounting periods beginning after 17 March 2015 will prevent companies from obtaining a tax advantage by entering into contrived arrangements to convert brought forward reliefs into in-year deductions. The legislation will cover carried forward corporation tax trading losses, non-trading loan relationship deficits and management expenses.

Where a company enters into arrangements meeting the conditions outlined below, it will be unable to use these brought forward reliefs against profits created in the relevant company.

The conditions to be met in order for the new rules to apply will be:

- a company receives profits from which it can deduct any of the relevant carried forward reliefs and it is reasonable to assume that the profit would not have arisen to that company without the arrangement;
- the company, or a company connected with it, is entitled to bring a deductible amount into account as a consequence of the arrangement;
- the main purpose or one of the main purposes of entering into the arrangement is to obtain a tax advantage involving both the deduction and use of the carried forward relief.

Accelerated Payments and Group Relief

From Royal Assent, where a company makes a corporation tax return asserting a tax advantage through a tax avoidance scheme that falls within the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and then surrenders all or part of that advantage as group relief, HM Revenue & Customs will be allowed to issue an accelerated payment notice to the effect that the asserted advantage may not be surrendered while the dispute is in progress.

Tax Simplification

Tax Returns

The Government announced that it will abolish the tax return for millions of individuals and small businesses through the introduction of digital tax accounts. It is proposed that the digital tax accounts will be available from early 2016 and will enable individual taxpayers and small businesses to view and manage their tax information online in real time and not wait until after 5 April each year.

If you would like further information or advice on the impact of the Budget proposals on your business or personal finances, please talk to your usual contact at Shipleys LLP or call one of our tax specialists.

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