TAX FACULTY

SUMMER BUDGET 2015

10 JULY 2015

SUMMER BUDGET 2015 REPORT

The Chancellor of the Exchequer delivered his 2015 Summer Budget on 8 July 2015.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

The Budget documents include details of changes which have been announced previously. This summary focuses on new announcements.

The Budget announcements and publications can be found on GOV.UK on the Summer Budget 2015 home page. There is also a page with links to all the HMRC tax-related documents and announcements.

The main Budget documents are the Red Book, which summarises the Budget announcements and policy decisions, and the Overview of Tax Legislation and Rates (OOTLAR), which contains detailed Tax Information and Impact Notes (TIINs) on all the Budget and Finance Bill measures. This time the OOTLAR also has a useful summary of when measures take effect and when they will be enacted, with cross-references to paragraphs in the Red Book.

The Summer Finance Bill (FB) will be published on 15 July 2015.

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Budget overview

A budget for working people – but not for simplification

This was the first Budget speech delivered by a chancellor in a Conservative majority government since Ken Clarke stood up on 26 November 1996. Nineteen years later, the world is a very different place but, looking back at the Budget Red Book from 1996, it is fascinating to see how the themes underlying that Budget were remarkably similar to those of today.

The four key themes back then were:

- Lasting prosperity – combining sustained economic growth with low inflation so that living standards go on rising year after year.
- Helping people keep more of what they earn – the basic rate of income tax was reduced to 23p, income tax personal allowances were further increased and the inheritance tax threshold increased by £15,000.
- Responsible public finances – maintaining firm control of public spending and reinforcing the downward path of borrowing.
- Protecting the ordinary taxpayer – boosting the fight against tax and social security fraud and closing tax loopholes.

Those words could almost have been cut and pasted, suitably modified, directly into the July 2015 Budget Red Book. The economic and fiscal landscape was pretty similar as well, recording steady growth after a recession in 1990/91, falling unemployment and the 'lowest mortgage rates for a generation'. Ken Clarke also had a budget deficit to fix, which for 1996/97 was estimated at £26.5bn, but which at the time was forecast to return to the black by the turn of the century. It all sounds very familiar.

However, the main difference between 1996 and 2015 is that Mr Osborne is at the start of a new parliament and therefore had an opportunity to set out his stall for five years. The Chancellor took that opportunity and presented a landmark budget that sought to grasp firmly a number of nettles in the tax and welfare world. With a full five-year term ahead, the Chancellor was keen to stress this was a budget for working people and his message was clear – he wants to increase employment, make work pay and reduce the welfare bill. To support this approach, the Chancellor introduced a new national living wage for all workers aged over 25. This will be set at £7.20 from April 2016, 50p higher than the national minimum wage due to take effect from October 2015.

Personal tax

Prior to the election the Conservatives had pledged a triple lock on tax – namely no rises in rates of income tax, national insurance or VAT. There were also manifesto commitments to increase the tax-free personal allowance and to increase to £1m the value of a family home that could be passed on down the family. The Chancellor duly announced a further increase in the personal allowance and the higher rate threshold (to £11,000 and £43,000 respectively in 2016/17), together with a new IHT relief of up to £175,000 per person in respect of the family home, resulting in the manifesto commitment of £1m.

What appears to be a major development is the announcement of a new tax treatment of dividends. The existing dividend tax credit will be abolished. There will be a £5,000 per person dividend exemption but dividends above this will then be subject to new rates of income tax. The government estimates that this measure will raise £8.5bn over the life of the parliament and will reduce tax-motivated incorporation by a further £2bn over the same period.

In addition, there were a number of changes to further restrict tax relief, including the scaling back of interest relief on buy-to-let properties to the basic rate and further restrictions on pensions tax relief for those with earnings of £150,000 or more. The Chancellor also announced some major changes to restrict the tax advantages of non-domiciled status, including its abolition where a person has lived in the UK for 15 of the past 20 years. Finally, there was the first rise in insurance premium tax for many years, up from 6% to 9.5%, which is estimated to raise over £8bn over the next five years.

Business taxes
A surprise announcement was the proposal to cut the rate of corporation tax further, from 20% to 19% in 2017 and to 18% in 2020. The Chancellor also announced that the future level of the annual investment allowance would not revert from £500,000 to £25,000 in January 2016 but instead be set at £200,000 for the life of this parliament. This should at least provide certainty and allow businesses to plan their capital expenditure.

The Chancellor also focused again on the growth agenda and measures to encourage employment with a further increase in the NIC employment allowance from £2,000 to £3,000; but, in a sign that this measure is aimed at encouraging employment, the ability of one-man companies to claim employment allowance will be curtailed.

The Chancellor announced that companies with profits of £20m or more will now have to pay corporation tax earlier, with quarterly payments all due within the accounting period rather than, as now, two instalments being paid after the end of it. This measure alone allows the Chancellor to bank nearly £8bn in the Red Book figures.

Tax avoidance and evasion
As usual the government has announced a number of proposals to tackle tax evasion and avoidance, including further measures to counter identified tax avoidance schemes. The Conservatives had previously estimated that they would raise a further £5.2bn from tackling tax avoidance and this figure now appears to have increased to over £7bn. Past experience suggests that the estimates of receipts from tax avoidance measures are frequently too optimistic. However, the measures announced continue the sustained assault on those engaged in tax avoidance and evasion. Further, the Chancellor announced a whopping increase in HMRC's budget of about £250m a year (the precise amount seems to vary depending on where you look in the documentation) to help tackle tax avoidance and evasion.

Fixing the public finances
The Chancellor has made it clear that his main weapon to reduce the deficit is to put a further squeeze on public spending rather than increase taxes. There will be further cuts in government spending but the big money is coming from cuts to welfare. In addition, public sector wage rises are being frozen at 1% for the next four years. The figures in the Red Book show a substantial fiscal tightening to the tune of £64bn between now and 2020/21 – of which £45bn will come from spending cuts.

The Office for Budget Responsibility (OBR) has forecast that the government's net deficit for 2015/16 will be down to under £70bn, nearly £6bn lower than forecast in March. However, the year that the UK records a budget surplus has been shunted back by a year to 2019/20.

Given the scale of the tightening mentioned above, it appears surprising that the estimated date by when the government finances return to a surplus will be a year later than that estimated at the time of the March 2015 Budget. Quite how this arises needs further investigation but these major differences in forecast out-turns highlight the problem of forecasting government receipts and expenses up to five years from now. If in less than four months we can record an improvement in the deficit of £6n this year and a £11bn deterioration in both 2016/17 and 2017/18, how can we really have any confidence that we will return to the black in 2019/20?

If Greece defaults and leaves the euro, all bets will be off about whether we hit this target. Nevertheless, we can say that, as in 1996, the Chancellor is making a concerted effort to bring the current deficit under control, even though the actual debt mountain continues to grow.

In conclusion
The first Budget of a new government is always a major event and this one was no exception. Mr Osborne used the opportunity to announce some major reforms of the taxation system, including the abolition of non-domiciled status for long-term residents and a reform of dividend taxation income that is expected to reduce the number of tax motivated incorporations.

One other thing was clear: this was not a budget for tax simplification. It is likely to add yet more complication onto the already overloaded UK tax system. The Finance Bill published next week looks all set to be yet another long and complicated addition to the UK tax system.

As usual, whatever misgivings we may have about the growth in size of the tax code and the increase in complexity, tax advisers will be in demand over this parliament!

Rates and allowances

Personal allowance: future increases
The government proposes to increase the personal allowance to £12,500 by the end of the current parliament.

The personal allowance in 2015/16 is £10,600. This will increase to £11,000 for 2016/17 and £11,200 for 2017/18. These figures are higher than those announced in the March 2015 Budget (£10,800 for 2016/17 and £11,000 for 2017/18).

The age allowance for those born before 6 April 1938 will be removed from 2016/17 onwards as announced in March 2015, following the increase in the standard personal allowance.

Higher rate threshold: increases
The government proposes to increase the higher rate tax threshold to £50,000 by the end of the current parliament.

The income tax basic rate band for 2015/16 is £31,785 with a 0% starting rate band of £5,000 for certain types of savings income.

The government previously announced that the 20% basic rate limit would be increased to £31,900 for 2016/17 and £32,300 for 2017/18. These figures have now been revised upwards to £32,000 for 2016/17 and £32,400 for 2017/18. As a result, the higher rate threshold (ie the personal allowance plus the basic rate band) will be £43,000 in 2016/17 and £43,600 in 2017/18. The national insurance contributions (NICs) upper earnings limit will also increase to remain aligned with the higher rate threshold.

In summary:

Year	Standard personal allowance	Basic rate band of 20% on income	Higher rate 40% threshold	Additional rate of 45% on income over
	£	£	£	£
2015/16	10,600	31,785	42,385	150,000
2016/17	11,000	32,000	43,000	150,000
2017/18	11,200	32,400	43,600	150,000

Personal allowance: indexation
Once the personal allowance has reached £12,500, legislation will apply so that it increases automatically in line with the equivalent of 30 hours a week at the national minimum wage for employees aged over 21. The Chancellor is also going to be obliged to consider the level of the national minimum wage in setting the personal allowance each year, until it reaches £12,500. The Chancellor will be required to report to parliament at each Autumn Statement or Budget to set out how this legal duty has been met.

Dividend allowance
A new tax-free dividend allowance of £5,000 is to be introduced from 2016 as part of the reform of the taxation of dividends.

Inheritance tax
The inheritance tax (IHT) nil rate band is frozen at £325,000 until April 2021.

Corporation tax
The rate of corporation tax is currently 20%. It will be reduced to 19% in 2017 and to 18% in 2020.

Tax lock on income tax, NIC and VAT
Legislation will be introduced to prevent an increase in the rates of income tax, NICs and VAT above their current (2015/16) levels for the duration of the parliament.

This so-called ‘tax lock’ will apply to the main rates of income tax, the standard (20%) and reduced (5%) rates of VAT, and employer and employee Class 1 NICs rates. It will also ensure that the NICs upper earnings limit cannot rise above the income tax higher rate threshold.

The lock on income tax rates will apply to earnings income in England, Wales and Northern Ireland, and to UK-wide savings income.

The provisions will also prevent the removal of any items from the VAT reduced rate and zero rate, again for the duration of the current parliament.

For income tax and VAT, the new legislation will take effect on the date that the Summer Finance Bill 2015 receives Royal Assent. For NICs, it will take effect from Royal Assent of the National Insurance Contributions Bill.

Personal and property taxes

End of permanent non-domicile status
From April 2017, anyone who has been resident in the UK for 15 of the past 20 years will be deemed to be UK-domiciled for all UK tax purposes, including IHT.

Also from April 2017, individuals who were born in the UK to parents who were domiciled here, and so at their date of birth had a domicile of origin in the UK, will no longer be able to claim non-domicile status for tax purposes when they are resident in the UK, even if under general law they have acquired a domicile in another country.

Individuals affected will be liable to tax on an arising basis on worldwide income and IHT on worldwide personal assets, and they will no longer be able to use the remittance basis.

These proposals will affect the taxation of foreign-domiciled individuals whether UK-resident or non-UK-resident and trustees and beneficiaries of excluded property trusts.

It will not affect their domicile status under general law.

The reforms are being made because the government believes that long-term UK-resident non-domiciled individuals should pay tax on their worldwide income and gains, and that those who have a strong UK connection by way of a UK domicile of origin, and who leave and on their return become UK-resident, should not be able to access the remittance basis even if they lose their UK domicile as a matter of law.

Non-domiciled individuals who have set up an offshore trust before they become deemed domiciled under the new 15-year rule will not be taxed on trust income and gains retained in the trust. Excluded property trusts will have the same IHT treatment as at present (subject to changes to the tax treatment of UK residential property held through offshore companies and similar vehicles announced in the March 2015 Budget). However, such long-term residents will from April 2017 be taxed on benefits, capital or income received from such trusts on a worldwide basis.

Individuals who had a UK domicile of origin and left the UK, obtained a non-UK domicile of choice under general law, and, having lost both their UK domicile of origin and deemed domicile for UK IHT purposes, set up excluded property trusts, and later return to the UK and become UK-resident but maintain their non-UK domicile of choice, will become deemed domiciled for UK tax purposes once they become UK tax-resident. At this point they will no longer benefit from favourable tax treatment in respect of trusts set up while not domiciled in the UK.

A detailed technical briefing explaining these proposals has been published alongside the Summer Budget. The government has undertaken to consult later in the year on the best way to deliver these reforms and, subsequently, on draft legislation for Finance Bill 2016. The consultations will cover *inter alia* interactions with the employment-related securities legislation and trust taxation rules including the 2008 rebasing provisions relating to trusts.

Buy-to-let landlords: restriction of interest relief

New rules will be phased in which will restrict tax relief for finance costs for higher rate taxpayers who use loans to finance buy-to-let properties. Relief will be restricted to basic rate (20%) only by April 2020. Finance costs include loan interest.

This restriction will be phased in over four years, starting from April 2017, and will be legislated in the Summer Finance Bill 2015.

In the transitional period, during which landlords will be able to obtain relief as follows:

- in 2017/18 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction;
- in 2018/19, 50% finance costs deduction and 50% given as a basic rate tax reduction;
- in 2019/20, 25% finance costs deduction and 75% given as a basic rate tax reduction.

From 2020/21 all financing costs incurred by a landlord will be given as a basic rate tax reduction.

This rule will not apply where the property meets the criteria of a furnished holiday letting, nor does it appear to apply to corporate landlords, just individuals.

Wear and tear allowance

In April 2016, landlords who let out furnished property will lose the 10% wear and tear allowance, which will instead be replaced by a new system that only allows them to get tax relief when they replace furnishings.

Those with longer memories will recall that the 10% allowance was originally meant to reduce the administrative burden for landlords who would otherwise need to claim for the actual cost of renewing furniture and white goods. It is unfortunate that this seems to have been overlooked in arriving at the decision to abolish it now, but we are promised a technical consultation in advance of Finance Bill 2016.

Capital allowances will continue to apply for landlords of furnished holiday lets.

Rent-a-room relief
Rent-a-room relief for those who rent out a room in their own home will go up to £7,500 from £4,250 from April 2016.

Taxation of sporting testimonials
A consultation has been published on proposals to reform the rules on the tax treatment of payments made from sporting testimonials or benefit matches. The changes proposed will affect individual sportspersons who may be awarded a sporting testimonial or benefit after 6 April 2016.

At present the tax treatment of such payments is governed by HMRC guidance. Broadly, where the right to a testimonial match is in the sportsperson's contract of employment, the payment is subject to income tax and NIC. Otherwise it will not be taxed as earnings. The consultation is looking at the link to the employment and consequent charge to income tax and NIC.

There is no intention to change the general corporation tax position of an independent testimonial committee. If the committee is considered to be trading, then its income will continue to be subject to corporation tax as appropriate.

Exemption for 2015 Anniversary Games
Legislation will be included in the Summer Finance Bill 2015 to exempt from income tax the income of non-UK-resident sportspeople competing in the London Olympic and Paralympic Anniversary Games this July. The exemption will also apply to a UK resident for whom this activity is performed in an 'overseas' part of the year.

Exemption for travel expenses of local councillors
From 6 April 2016, there will be a new exemption from income tax and NIC for travel expenses paid to councillors by their local authority.

Pensions

Pension changes
On 'A Day' in 2006 the government launched a single, simplified pension tax regime which it was anticipated would not need change for many years. In practice that regime has been the subject of almost annual change.

There has been a continuing reduction in both the annual and lifetime allowances and there are further changes now.

Lifetime allowance
The lifetime allowance is to be reduced from £1.25m to £1.0m from 6 April 2016. Transitional protection for pension rights already over £1m will be introduced alongside this reduction to ensure the change is not retrospective.

The lifetime allowance will be indexed annually in line with CPI from 6 April 2018.

Tapering of annual allowance
The annual allowance remains at £40,000, but it is now subject to a tapered reduction from 6 April 2016 for taxpayers with 'adjusted income' in excess of £150,000.

Adjusted income is a new concept and it reflects recent moves by many employers to use salary sacrifice as part of their pension scheme arrangements. The adjusted income includes any pension contributions funded by a salary sacrifice. The TIIN suggests that if an employee's 'unadjusted' income is less than £110,000 they will not have to carry out the 'adjusted income' calculation to work out whether the adjusted income exceeds £150,000 with a resultant clawback.

Where an individual is subject to the taper, their annual allowance will be reduced by £1 for every £2 by which their income exceeds £150,000, subject to a maximum reduction of £30,000. The annual allowance of £10,000 will, therefore, apply to taxpayers with adjusted income of £210,000 or more.

The carry forward of unused annual allowance will continue to be available, but the amount available will be based on the unused tapered annual allowance.

Pension input periods
The pension input periods which are currently based on 12-month periods from the start date of each individual pension policy will all be aligned to the tax year.

This realignment will affect the utilisation of the annual allowance for savings in 2015/16. As some contributions before the Budget were intended to utilise the untapered relief in the existing input period there are special rules for what contributions are allowable in 2015/16. In broad terms savings made before the Budget will be protected if they would not have breached the allowance that would have been available had the old rules continued.

Pension Wise
The government is extending access to what it says has been the successful Pension Wise service to those aged 50 and above and is launching a new comprehensive nationwide marketing campaign. This is intended to ensure that more people can access high quality, impartial guidance on making the most of the new pension flexibilities.

Consultation on future pension changes
The government has published a Green Paper Strengthening the incentive to save: a consultation on pensions tax relief.

One possibility set out in the Green Paper is to get rid of the current tax relief on initial contributions so that contributions would be paid out of taxed income. The income of the scheme would be tax-free as at present but when money was extracted from the fund it would be tax-free.

This would have enormous cash flow advantages for government as the tax relief given on pension contributions has been about £35bn a year since 2010/11. The tax foregone when the pension income becomes payable will not affect the public finances for many years to come.

If all withdrawals from the pension fund were to be tax-free then there would no longer be any need for a special rule, as under the current arrangements, that 25% of the fund can be withdrawn tax-free.

The government says it has an open mind on the proposals set out in the Green Paper but accepts that it will have to preserve some form of incentive to encourage pension savings and there will still need to be some form of government contribution.

Taxation of pensions at death
As announced at Autumn Statement 2014, the government will reduce the 45% tax rate that applies on lump sums paid from the pension of someone who dies aged 75 and over to the marginal rate of the recipient from 2016/17.

Unfunded employer financed retirement benefits schemes (EFRBS)
The government has said it will consult on tackling the use of unfunded EFRBS where they are being used to gain a tax advantage.

Equitable Life Payment Scheme
The Equitable Life Payment Scheme will close to new claims on 31 December 2015. As part of this, the government will undertake a further effort to trace remaining policy holders due £50 or more.

The government will make a further payment to Equitable Life policyholders on pension credit who received 22.4% of their relative loss. This payment will be for an additional 22.4% and will be made in early 2016.

Secondary market for annuities
It was announced in the March Budget that annuitants would be able to sell their right to income for a lump sum which they would then be able to access under the new freedom for pension rules.

Following consultation, the government has decided to delay implementation of this measure until 2017, in order to ensure there is a robust package to support consumers in making their decision. Further details will be published in the autumn.

Savings and investment

Dividend taxation
The Chancellor has announced that from April 2016 there will be a significant change to the dividend income tax regime. The reform is designed to reduce what the government perceives to be strong incentives to incorporate businesses and extract profits by way of dividend with a lower rate of overall tax.

The proposal is that:

- there will be a new annual dividend allowance of £5,000;
- the 1/9 tax credit will disappear;
- the new tax rates on dividend income will be 7.5%, 32.5% and 38.1% for basic, higher and additional rate taxpayers respectively.

These new rates will replace the 0%, 25% and 30.56% for basic, higher and additional rate taxpayers.

The £5,000 dividend allowance is separate to the £1,000 allowance for savings (which excludes dividends) income, which was announced previously and is also due to start in April 2016.

In his speech the Chancellor said that: ‘Those who either pay themselves in dividends or have large shareholdings worth typically over £140,000 will pay more tax’.

We shall have to wait for further clarification to find out what precisely this new regime will mean in practice and whether the ‘economics’ of incorporation have changed fundamentally or have merely been modified. It is conceivable that in the future the Chancellor will increase the tax rates on dividend income so that there is, in effect, a sort of NIC-equivalent charge on private company dividends. Those readers with really long memories will remember back to the days of the investment income surcharge!

The Budget Red Book anticipates that this particular change is going to bring in a very considerable additional amount of income to the public finances: £6.79bn over the next five years. The annual amounts look rather odd as they are between £2bn and £2.5bn for the first, fourth and fifth years, 2015/16 and 2019/21, but there is a reduction in the tax take of £890m in 2017/18 and a relatively reduced extra amount of £1.1bn in 2018/19. We shall have to look for further information from the government to understand how it thinks the change is going to impact on corporate behaviour and public finance receipts.

Changes to venture capital scheme rules
Further to the consultation published in March 2015, to which we responded in TAXREP 28/15, the government will implement changes to the venture capital scheme rules. This applies to venture capital trusts (VCT), the enterprise investment scheme (EIS) and the seed enterprise investment scheme (SEIS). The changes are subject to state aid approval and are intended to take effect from Royal Assent to the Summer Finance Bill 2015.

The changes are:

- All investments must be made with the intention of growing and developing a business.
- All investors must be ‘independent’ of the company at the time of the first share issue.
- Companies must raise their first investment under EIS, VCT or other risk finance investment within seven years of making their first commercial sale or 10 years if the company is a knowledge-intensive company. However, no age limit will apply to companies raising an investment where the amount of the investment is at least 50% of the company's annual turnover, averaged over the previous five years. The age limit will apply also to any business that has been owned previously by another company.
- There will be a new lifetime cap on the total investment a company can receive through the EIS and VCTs of £20m for knowledge intensive companies and £12m for other qualifying companies.
- The employee limit for knowledge intensive companies is increased from less than 250 to less than 500 employees.
- New rules will prevent EIS and VCT funds being used to acquire existing businesses, including extending the prohibition on management buyouts and share acquisitions to VCT non-qualifying holdings and VCT funds raised pre-2012, and preventing money raised through EIS and VCT from being used to make acquisitions of existing business regardless of whether it is through share purchase or asset purchase.

The requirement that 70% of SEIS money must be spent before EIS or VCT funding can be raised will be removed for qualifying investments made on or after 6 April 2015.

A policy document accompanies the Budget notes.

Venture capital schemes: renewable energy
The government has said that it will continue to monitor the use of the SEIS, EIS and VCT for investments in community energy organisations benefiting from subsidies for the generation of renewable energy, to ensure that support for community energy through the venture capital schemes provides good value for money for the taxpayer and is not subject to misuse.

Peer-to-peer loans
As announced in the Autumn Statement 2014, from April 2015 the government will allow tax relief for bad debts incurred on peer-to-peer (P2P) loans to be used against other P2P income. A technical note was published with the March Budget 2015. Draft legislation will be published later this year for inclusion in Finance Bill 2016.

At Autumn Statement 2014 the government also announced that new rules on how withholding tax would apply on P2P loans which would take effect from April 2017. The government will consult on these proposals over summer 2015.

Innovative Finance ISA
From April 2016, investors who lend through P2P platforms will be able to receive their interest tax-free using yet another type of ISA, a new Innovative Finance ISA (IF ISA). The limit will be the same as a standard ISA, currently £15,240.

Employment taxes and NIC

National living wage (NLW)
The government will introduce a new national living wage (NLW) for workers aged 25 and above by introducing a new premium on top of the national minimum wage (NMW). From April 2016, the new NLW will be set at £7.20 – a rise of 70p relative to the current NMW rate, and 50p above the NMW increase coming into effect in October 2015.

The government's aim is for the NLW to increase to 60% of median earnings by 2020, and, going forward, it will ask the Low Pay Commission (LPC) to recommend the premium rate in the light of this aim. 60% of median earnings is in line with the recommendations of Professor Sir George Bain, the first chair of the LPC, in a 2014 report on the future on the NMW. Forecasts from the OBR suggest that the NLW is expected to reach the government's target of over £9 by 2020.

The wages of younger workers will continue to be underpinned by the core NMW.

Enforcement of the NMW
The government will invest an additional £1m in 2015/16 in NMW enforcement to tackle non-compliant employers and help ensure that workers are aware of their obligations and rights.

Salary sacrifice
The government is concerned that salary sacrifice arrangements can allow some employees and employers to reduce the income tax and NIC that they pay on remuneration, that they are becoming increasingly popular and the cost to the taxpayer is rising. The government will actively monitor the growth of these schemes and their effect on tax receipts.

Termination payments
The government is going to consult on the tax and NIC treatment of termination payments.

Self-employed NIC
The government will consult in autumn 2015 on abolishing Class 2 NIC and reforming Class 4 NIC for the self-employed. This follows changes to how Class 2 NIC is paid so that it is now (from 2015/16) collected as part of the self assessment balancing payment rather than billed separately.

Employment allowance: increase
The employment allowance (EA) will be increased from £2,000 to £3,000 from April 2016. This allowance provides relief from employers' Class 1 NIC. The increase is in recognition of the fact that introducing a compulsory NLW may increase costs for some businesses. The government expects that up to 90,000 employers will see their employer NIC liability reduced to zero.

Employment allowance: one-man companies
Companies where the director is the sole employee will no longer be able to claim EA from April 2016. This is to ensure that EA is focused on businesses and charities that support employment.

Taxation of employee benefits and expenses
As announced at Autumn Statement 2014, from April 2016 the government will introduce a statutory exemption for trivial benefits-in-kind costing less than £50. This will be legislated in Finance Bill 2016.

This is the last part of a package of measures on benefits-in-kind, most of which were included in Finance Act 2015:

- the abolition of the £8,500 threshold for benefits in kind;
- allowing employers to voluntarily report and deduct tax on benefits-in-kind in real time ('payrolling'); and
- introducing an exemption for qualifying business expenses.

HMRC has published draft secondary legislation for payrolling benefits-in-kind, which has been extended to include all benefits-in-kind other than accommodation, beneficial loans and credit tokens and vouchers. Additional reporting requirements for employers payrolling cars will be introduced from April 2017.

Tax relief on travel and subsistence expenses
As announced at Budget 2014, following a report by the Office of Tax Simplification (OTS), the government will review the rules underlying the tax treatment of travel and subsistence expenses. A discussion paper will be published shortly outlining a potential framework.

Tax relief for travel and subsistence for workers engaged via intermediaries
HMRC has published a consultation document seeking comments by 30 September on detailed proposals to restrict tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. The objective is to bring those such workers engaged via employment intermediaries into line with employees generally, for whom tax relief on home-to-work travel and subsistence expenses is not usually available.

The changes will be legislated in Finance Bill 2016 and take effect from 6 April 2016. This is separate from the travel and subsistence review referred to above, which is taking place over a longer time-frame.

Apprenticeships levy
The government will introduce a levy on large UK employers to provide funding to encourage an increase in the number of apprenticeship starts with a view to reversing the long-term trend of employer underinvestment in training. In England, employers will be able to access this funding for apprenticeship training. There will be formal engagement with business on the implementation of the levy.

Tax credits and state benefits

Welfare reforms
A significant element of this Budget related to changes and cuts to the welfare system. As these are not tax matters, our report does not cover them all in detail. We list below some of the more significant changes, focusing on tax credits (working tax credit (WTC) and child tax credit (CTC)) and universal credit (UC).

Tax credits income thresholds
From April 2016 the income threshold in tax credits will be reduced from £6,420 to £3,850 per year. This is the income level above which the maximum tax credits entitlement is tapered away.

Tax credits taper rates
From April 2016 the taper rate for tax credits will be increased from 41% to 48% of gross income. Once claimants earn above the income threshold, their award will be withdrawn at a rate of 48p per extra £1 earned.

Income rise disregard in tax credits
From April 2016 the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted (the income rise disregard) will be reduced from £5,000 to £2,500.

Universal credit work allowances
From April 2016 work allowances in UC will be abolished for non-disabled childless claimants, and reduced to £192 per month for those with housing costs and £397 per month for those without housing costs. Claimants earning below these amounts will retain their maximum award.

Child element in tax credits and universal credit
The child element of tax credits and UC will no longer be awarded for third and subsequent children born after 6 April 2017. This will also apply to families claiming UC for the first time after April 2017.

Households that have been in receipt of tax credits or UC, with an interruption of less than six months, will be protected. Children with disabilities will continue to receive the disabled child element or severely disabled child element in tax credits and the equivalent in UC. Multiple births will be protected in both systems.

Family element
From April 2017, the family element in tax credits and the equivalent in UC will no longer be awarded when a first child is born. This will also apply for families with children making their first claim to UC.

Households who have been in receipt of tax credits or UC with an interruption of less than six months will be protected. Children with disabilities will continue to receive the relevant elements of tax credits and UC.

In housing benefit, the family premium will be removed for new claims and new births from April 2016.

Freeze on benefits uprating
Most working-age benefits will be frozen for four years from April 2016. This will apply to jobseekers' allowance, employment and support allowance, income support, child benefit, housing benefit and local housing allowance.

The uprating freeze will include CTC and WTC but excluding the disability elements. All disability elements will continue to be uprated by prices each year.

The benefit freeze does not apply to maternity allowance, statutory sick pay, statutory maternity pay, statutory paternity pay, statutory shared parental pay, statutory adoption pay, or the employment and support allowance support group component. It does not apply to the disability, carers and pensioners' premiums in the frozen benefits, or to other disability, carer and pensioner benefits, which will continue to be uprated in relation to prices or earnings as applicable.

Welfare benefit cap
The welfare benefit cap applies per household to cap the amount of benefits out-of-work working-age families can receive. It is currently £26,000 but will be reduced to £20,000 (£23,000 in Greater London).

Tax credit debt recovery
HMRC will extend the use of the private sector to improve the collection of tax credit debt.

HMRC will be able to recover overpayments of WTC from payments of CTC and *vice versa*.

Student maintenance
Maintenance loan support will rise for students from low and middle income backgrounds up to £8,200 a year studying away from home, outside London.

From the 2016/17 academic year, maintenance grants will be replaced with maintenance loans for new students from England, paid back when their earnings exceed £21,000 a year.

Student loans
To ensure that the long-term costs of the student loan book remain affordable, the government will consult on freezing the loan repayment threshold for the next five years, and review the discount rate applied to student loans and other transactions to bring it more into line with the long-term cost of borrowing.

Tax-free childcare
As announced on 1 July, the new scheme for tax-free childcare (TFC) will now be launched early in 2017, not October 2015 as first proposed.

The reason for the delay was a legal challenge to how the scheme was being implemented, which went all the way to the Supreme Court and has now been decided in the government's favour. While this case was in progress, development of the TFC system was suspended.

The precise rollout details for TFC will be confirmed in due course. In the meantime the current scheme of employer-supported childcare will be kept open to new entrants until TFC is launched.

Business tax

Business tax roadmap
The government has announced that it will publish a business tax roadmap by April 2016, setting out its plans for business taxes over the rest of this parliament. In November 2010 the previous administration published a corporate tax roadmap setting out the government's plans for corporate tax reform. Presumably, business tax will have a broader theme, and this announcement is welcome.

Annual investment allowance
The annual investment allowance, which was previously increased temporarily to the current rate of £500,000, will be set permanently at £200,000 from January 2016. It had been due to fall back to £25,000. We have previously commented that changing the limit creates complexity at the point of change so we will at least have some stability for the next four years.

In overview:

Annual investment allowance	Rate (per annum)
	£
1 or 6 April 2008 to April 2010	50,000
1 or 6 April 2010 to April 2012	100,000
1 or 6 April 2012 to 31 December 2012	25,000
1 January 2013 to 31 March 2014/5 April 2014	250,000
1 or 6 April 2014 to 31 December 2015	500,000
1 January 2016 onwards	200,000

Simplified expenses
Finance Bill 2016 will include legislation to amend the fixed rate expense deduction rules introduced in Finance Act 2013 to ensure that partnerships can fully access the provisions in respect of the use of a home and where business premises are also a home.

If the rules mirror those already in place for other unincorporated businesses, a set of fixed rates could replace actual expenditure for use of home or personal use of business premises (eg, guest houses).

Currently, the fixed rate expense option is not allowed for a partnership with a partner that is not a person, for example where one of the members is a company (new s94D, Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005)).

The intention is that this will simplify computations by permitting allowable expenditure to be calculated using simple flat rate allowances rather than by a potentially complex apportionment of actual expenditure.

Farmers averaging
As announced in the March Budget 2015, the averaging period for farmers will be extended from two to five years from 6 April 2016. A consultation will be published shortly and legislation included in Finance Bill 2016. It will be interesting to see if this will also apply to creative artists which share the same rules in s221, ITTOIA 2005.

Orchestra tax relief
As announced in the March 2015 Budget, from 1 April 2016 the government will provide tax relief to orchestras at a rate of 25% on qualifying expenditure. Legislation will be included in Finance Bill 2016.

R&D tax credits: universities and charities
Summer Finance Bill 2015 will include legislation to amend the qualifying conditions for research and development expenditure credit (RDEC) in s104A, Corporation Tax Act 2009. This will correct an anomaly in the R&D tax credits legislation so that universities and charities will not be able to claim the RDEC, which is in line with the original intention of the policy. This will apply to expenditure from 1 August 2015.

Personal service companies and IR35
This is the problem which just doesn't go away. It has reappeared in this year's Red Book as the government seeks once more to find a way to 'improve the effectiveness' of the existing intermediaries legislation. We expect the consultation document to be published within the next week or so. Watch our newswire for further details.

Business rates review
We responded earlier this summer to the business rates review, see TAXREP 33/15. This work is ongoing and is due to report by the end of 2015. It did appear to us that there were few new ideas for reforming the system and most businesses seem to see rates as a burden which can fall unfairly on some, particularly during times of hardship.

A policy paper has been published with the Summer Budget giving a summary of responses made to the interim findings of the review of the administration of business rates in England. Work continues, but meanwhile the government will:

- consult further with stakeholders on the proposed appeals system ahead of enabling legislation being considered in parliament in the Enterprise Bill;
- include provisions on improved information sharing between the VOA and local authorities as part of the Enterprise Bill;
- continue work across government to reduce the ratepayer burden of sharing the same information with multiple government bodies;
- continue work with local authorities and ratepayer representatives to further standardise billing and investigate digital channels to ease the burden on ratepayers of receiving, understanding and paying business rates bills.

The government has committed to making these practical improvements to the business rates system by 2017.

Business rates relief for local newspapers
A consultation has been published alongside the Summer Budget on a proposal for a temporary business rates relief for local newspapers.

Company tax

Corporation tax rate
A surprise measure was the cut in the corporation tax rate from 20% to 19% from April 2017, and to 18% in 2020. This continues the downward trend we have seen in recent Budgets and will be welcome news for companies.

Quarterly instalments
Large companies which have taxable profits over £20m will be paying tax earlier from 2017 under an extension of the quarterly instalment rules. This will require the first payment of corporation tax to be made three months earlier than currently for accounting periods starting on or after 1 April 2017. Affected companies will be required to pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting periods. Legislation is expected this autumn.

There were no changes that might assist the increasing number of smaller companies affected, which have to make payments on account once profits exceed £1.5m.

Company distributions
There will be a consultation on the rules for company distributions in autumn 2015. This seems likely to link in to a wider review of the whole area of dividend taxation.

Restriction of relief for goodwill amortisation
We have already seen tax relief for goodwill being restricted in recent Budgets. New rules will further restrict the corporation tax relief a company may obtain for the cost of goodwill (the reputation and customer relationships associated with a business). It affects purchases of unincorporated businesses where it is usual to structure the acquisition as a business and asset

purchase so that goodwill can be recognised. This will affect all acquisitions and disposals on or after 8 July 2015. Relief will still be available if the goodwill is sold.

Taxation of banks
The government has responded to criticism of the bank levy and it is to be reduced by more than a half over the next five years. However, the tax burden on banks is going to increase over the same period due to the introduction of a surcharge of 8% on bank profits and to making compensation payments to customers non-deductible.

The overall effect of these changes is to increase bank taxes by £2.63bn over the next five years. Of that amount £965m does not appear in the current Red Book tax change totals because it was announced in the March Budget and you have to look at the specific TIIN to get the costing. The changes have not gone down well in the banking industry.

Bank levy
The bank levy was introduced in January 2011 and applies to all banks and building societies operating in the UK. It is an annual charge on certain equity and liabilities in excess of £20bn. The bank levy is not deductible for the purposes of calculating income tax or corporation tax.

The bank levy has been increased nine times since its introduction going up from 0.04% in January 2011 to 0.21% currently. The first phased reduction to 0.16% will take place from January 2016 and it will decrease each calendar year to reach 0.10% in January 2021 which will still be more than double the initial rate in 2011.

Bank corporation tax surcharge
A supplementary tax on banking sector profit of 8% will be introduced from 1 January 2016. The tax will apply to banks' corporation tax profit before the use of any carry-forward losses but it will not apply to the first £25m of profit within a group.

Bank compensation payments to customers
It was announced in the March Budget that compensation payments to customers in respect of misconduct and mis-selling are to be made non-deductible for tax purposes. This will apply to expenses incurred on or after 8 July 2015 and, as stated above, is anticipated to bring in additional revenue of £965 over the next five years.

Bank definitions
For technical reasons there will be a change to the definition of a bank and building society to reflect the new EU Capital Requirements Regulations which were introduced in January 2014 and are now used by both the Bank of England Prudent Regulatory Authority and Financial Conduct Authority. This lines up banks' corporation tax and bank levy definitions with those used by their regulators.

Oil and gas
The application of the basin-wide investment and cluster area allowances will be broadened to support investment on the UK Continental Shelf. The definition of investment expenditure is to be extended to include certain discretionary non-capital spend and long term leasing of production units. The allowance exempts a portion of a company's profits from the supplementary charge. The cost of these measures will be £30m over the next five years.

Consortium relief: link companies
It was announced at the time of the Autumn Budget that the requirements in s133, Corporation Tax Act 2010 about the location of link companies in order to qualify for consortium relief were going to be removed and the legislation to achieve this will be in the Summer FB 2015.

Under the existing law, for corporation tax 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’) must be located in the UK or the European Economic Area (EEA) and, if in the EEA, must meet other requirements.

The *Felixstowe Dock and Railway Company Ltd* case had cast doubt on the EC Treaty compliance of the legislation prior to the changes made in CTA 2010 but ICAEW was concerned that the replacement legislation was still not EC Treaty compliant and we raised our concerns with the government. They agreed and the law is now to be changed to remove all requirements relating to the location of the ‘link’ company so that relief may flow regardless of where the link company is based.

Loan relationship and derivative contract rules
The government announced in the pre-election Budget plans to make wide-ranging changes to the loan relationship and derivative contract rules to include a clearer link between commercial accounting profits and taxation. These will include basing taxable amounts on items appearing in the profit and loss accounts.

The changes are prompted in part by the introduction of the new financial reporting standard FRS102 and other international accounting standard rules.

Separately, the updated tax provisions will include a new relief for the refinancing of distressed companies together with some new regime-wide anti-avoidance rules.

The changes will generally take effect for accounting periods commencing on or after 1 January 2016. Two measures will start from an earlier date: the new relief for refinancing distressed companies and a new regime-wide anti-avoidance rule will take effect from the date of Royal Assent of the Summer Finance Bill.

CFC loss relief restriction
The government will remove the ability for companies to use UK losses and reliefs against a controlled foreign companies (CFC) charge from 8 July 2015. This is an anti-avoidance measure intended to improve the effectiveness of the CFC regime in both deterring the diversion of profits and in taxing any profits that are diverted. It is anticipated that this will bring in nearly £800m over the next five years.

Transfer pricing on intragroup transfers of stock
The government will introduce legislation in FB 2015 to prevent corporate groups using a transfer pricing override to manipulate the value of assets in transfers between related parties.

This is an anti-avoidance measure which will ensure that transfers of trading stock and intangible assets made other than in the normal course of business are brought into account for tax purposes at full open market value. This is anticipated to bring in an extra £25m each year for the next five years.

IHT and trusts

New exemption for passing on the family home
For most people, the largest asset in the death estate is the family home. As house prices keep rising, more estates are predicted to come within the inheritance tax (IHT) net.

The government had already announced that it would introduce an extra IHT relief of up to £175,000 where parents leave the family home to children or grandchildren. In the Budget we obtained more detail of how this might work. The relief will be welcome but it is certainly not tax simplification!

Current rules
At the moment, the IHT nil rate band is £325,000 per person. Tax is payable at 40% above that.

There is no IHT on transfers of assets from one spouse or civil partner to the other.

If the first spouse or civil partner to die does not use their full nil rate band, it can be used calculating the IHT when the surviving spouse/partner dies – in effect, it is transferable.

The relevant amount available on the second death is calculated by identifying the proportion of the nil rate band unused on the death of the first spouse and applying that to the nil rate band in force at the date of the death of the second spouse. So the maximum available on the second death is currently £650,000.

New relief
The new relief is described in the Budget documents as the ‘main residence nil rate band’.

It will be an extra relief available where the value of the estate is above the IHT threshold and contains a main residence which is being passed on to ‘lineal descendants’. The existing nil rate band will be unaffected and will remain fixed at £325,000 to 2020/21 inclusive.

There will be a consultation on this in September 2015, with the legislation in Finance Bill 2016 – so there will be a lot more detail to come. Based on the July Budget announcements, the key features are:

- The relief will be introduced in April 2017, for deaths on or after that date.
- It will be phased in, starting at £100,000 in 2017/18, rising to £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 in 2020/21. For a couple, the £175,000 plus the existing £325,000, each, makes the £1m maximum relief quoted by the government.
- The relief will then increase in line with CPI from 2021/22 onwards.
- The relief applies only on death, not on lifetime transfers.
- The amount available will be the lower of the net value of the property and the maximum amount of the main residence nil rate band. The net value of the property is after deducting liabilities such as a mortgage.
- The property will qualify if it has been the deceased’s residence at some point. We await a clearer definition of this.
- The property must be left to lineal descendants: children, grandchildren, great-grandchildren, etc. Children include stepchildren and adopted children.
- The relief is transferable, so the estate of the second spouse to die can benefit from the main residence nil rate band of their deceased spouse, regardless of when that spouse died.
- The relief will be tapered away for estates with a net value over £2m, at the rate of £1 for every £2 over that limit, so will be reduced to zero on an estate of £2.35m.
- In a welcome move, the relief will be available where a person has sold a main residence in order to downsize or to realise a capital sum, for example to pay of care home fees. The main residence nil rate band can be used against assets in the estate of an equivalent value to the home which was sold.

UK residential property held by non-doms
The government intends from April 2017 to bring all UK residential property held directly or indirectly by foreign-domiciled persons, whether an individual or a trust, into the charge to IHT, even when the property is owned through an indirect structure such as an offshore company or partnership. The intention is that IHT will be levied in the same way as for UK-domiciled individuals.

The design of the charge will be based on the annual tax on enveloped dwellings (ATED) rules but will go further; for example, the ATED threshold and reliefs (eg for let properties) will not apply.

A detailed technical briefing has been published. The government has undertaken to consult with a view to including legislation in Finance Bill 2017.

IHT changes for trusts
It is confirmed that changes to the trust IHT regime, which have been under consultation for some time, will be included in the Summer Finance Bill.

Simplification of trust charges
Legislation will be introduced to remove the requirement to include non-relevant property when calculating 10-year anniversary charges and exit charges.

New rules to target IHT avoidance
Where property is added to two or more relevant property settlements on the same day and after the commencement of those settlements, the value added to the settlement together with the value of property settled at the date of commencement (that is not already in a related settlement) will be brought into account in calculating the rate of tax for the purposes of 10-year charges and for exit charges.

This will mean that individuals will no longer have the advantage of multiple nil rate bands by creating multiple trusts, but they will be able to settle property up to the value of the nil rate band into trust every seven years.

Conditional exemption for heritage property
The requirement that a claim must be made and the property designated before the 10-year charge will be removed and will instead allow trustees to make a claim for exemption within two years of the 10-year charge arising.

Successive life interests
Where one party to a couple succeeds to a life interest to which their spouse or civil partner was previously entitled during the latter's lifetime, and that interest is not a transitional serial interest, the settled property will be treated as being comprised in a settlement and therefore subject to the relevant property charges.

Appointments for the benefit of the deceased's surviving partner
The law will be changed so that where an appointment out of property settled by a will is made within three months of the date of death in favour of the deceased's surviving spouse or civil partner, it can be read back into the will and the spouse exemption can apply.

VAT and duties

VAT on services used and enjoyed in the UK
VAT 'use and enjoyment' provisions will apply so that, from next year, it will be clear that all UK repairs made under UK insurance contracts will be subject to VAT in the UK.

In addition, a wider review of offshore-based avoidance in VAT exempt sectors will be considered, with a view to introducing additional use and enjoyment measures for services such as advertising in the following year.

VAT refunds for shared services
Legislation will be introduced to refund to eligible public bodies the VAT incurred on specified shared services.

Insurance premium tax standard rate
From 1 November 2015, the standard rate of insurance premium tax (IPT) will be increased by 3.5 percentage points to 9.5%. From this date all premiums received by insurers using the IPT cash accounting scheme will be charged at 9.5%.

Apart from some of the welfare changes, this increase will have a greater impact on the public finances than any other single change in the Budget: an additional £8.16bn in the period to 2020/21.

For insurers using the special accounting scheme, there will be a four-month concessionary period that will begin on 1 November 2015 and end on 29 February 2016, during which premiums received that relate to policies entered into before 1 November 2015 will continue to be liable to IPT at 6%.

From 1 March 2016 all premiums received by insurers will be taxed at the new rate of 9.5%, regardless of when the policy was entered into.

Tobacco levy
Following consultation, the government will not proceed with a tobacco levy as the impacts on the tobacco market would be the same as a duty rise but with added complexity, costs and delay.

Control of raw tobacco
As announced at March Budget 2015, a registration scheme will be introduced for users and dealers in raw tobacco. There will be a consultation on the design and scope of the scheme.

Tackling illicit tobacco
The Fiscal Crime Liaison Officer network and the supporting UK intelligence staff will be expanded in order to reduce the supply of illicit tobacco from Europe.

The number of criminal investigation teams in HMRC working on tobacco fraud will be increased by 50% and additional Crown Prosecution Service staff will be recruited to manage additional prosecutions.

Tackling illicit alcohol
A new national alcohol control room and mobile taskforce will be introduced to tackle alcohol fraud.

Small cider
The UK is discussing with the EU Commission reforms to the relevant alcohol directive so that it includes explicit references to give member states the flexibility to support small cider makers through the duty regime. In parallel, the government is also looking at alternatives that could apply. The government will work with industry on both of these. The current duty exemption for small cider producers will be retained until and unless a replacement scheme is established.

Environmental taxes

Government policy on environment and energy taxes
The government says it will continue to use the tax system to encourage positive environmental outcomes where tax is an effective instrument to do so, for example in reforming vehicle excise duty (VED) and the business energy tax landscape. The government is not going to extend the coalition government’s commitment to increasing the proportion of revenue from environmental taxes to the current parliament. It suggests that such a target does not necessarily reflect the success of government policy in achieving environmental outcomes.

On the business energy tax front the government is going to consider how it can simplify and improve the effectiveness of the existing regime. A consultation will be launched in the autumn to review the climate change levy (CCL), the carbon reduction commitment energy efficiency scheme, and their interaction with other business energy efficiency policies and regulations.

Climate change levy: tax exemption scrapped
The exemption for renewably sourced electricity is to end on 1 August 2015. There will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date.

It is estimated that scrapping the exemption will save the government nearly £4bn over the next five years.

The Chancellor suggested in his speech that the long-term framework for investment in renewable energy was a better policy than this exemption which he said ‘has seen taxpayer money benefiting electricity generation abroad’. The *Financial Times* the day after the Budget ran a piece about Drax, the power utility that is switching from burning coal to wood pellets, and which will no longer benefit from the CCL exemption: its stock price fell nearly a third on the news of the change.

Aggregates levy
The government will reinstate the exemptions from the aggregates levy that had been referred to the European Commission to see whether they were state aid compliant. The ruling is that they are compliant, and from 1 August businesses can stop paying tax on the exempted materials and reclaim tax paid on them since the exemptions were suspended in April 2014.

Reform of VED rates and bands
A new VED banding system will be introduced for cars registered on or after 1 April 2017. This is being done because, on the CO2 bands introduced in 2001, an increasing number of ordinary cars now fall into the zero or lower-rated VED bands.

First year rates (FYRs) will vary according to the carbon dioxide emissions of the vehicle. There will be a flat standard rate (SR) of £140 for all cars except those emitting 0 grams of carbon dioxide per kilometre (gCO2/km), for which the standard rate will be £0. Cars with a list price above £40,000 will attract a supplement of £310 per year for the first five years in which the standard rate is paid.

The new VED system will be reviewed as necessary, to ensure that it continues to incentivise the cleanest cars.

The new rates and bands are set out in the table below.

VED bands and rates for cars first registered on or after 1 April 2017

CO_2 emissions (g/km)	First year rate	Standard rate*
0	£0	£0
1–50	£10	£140
51–75	£25	£140
76–90	£100	£140
91–100	£120	£140
101–110	£140	£140
110–130	£160	£140
131–150	£200	£140
151–170	£500	£140
171–190	£800	£140
191–225	£1200	£140
226–255	£1700	£140
Over 255	£2000	£140

** cars with a list price of over £40,000 when new pay a supplement of £310 per year on top of the standard rate, for five years.*

Avoidance, evasion and compliance

Tax avoidance and tax planning, evasion and compliance
The Conservative Manifesto pledged to raise an extra £5bn from clamping down on tax avoidance and evasion. The figures in the Budget Red Book suggest that the measures announced are anticipated to bring in more than twice that amount, in excess of £10bn.

Extra investment in HMRC
In his speech the Chancellor said he was going to be investing a further £750m in HMRC to tackle avoidance and evasion. He said: 'We're boosting HMRC's capacity with three quarters of a billion pounds of investment to go after tax fraud, offshore trusts and the businesses of the hidden economy, tripling the number of wealthy evaders they pursue for prosecution'.

In fact paragraph 1.171 of the Red Book says the government will invest an additional £800m in HMRC over this parliament to tackle non-compliance and tax evasion. But the actual tables in the Red Book and in the OBR's *Economic and fiscal outlook* book clearly show approximately £250m extra funding a year on average from 2016/17 to 2020/21, and a total of £1.285bn over that five-year period. At the moment we can only speculate as to how these various statements and figures can be reconciled.

Large business tax compliance
The government is going to invest additional amounts in large business compliance work to tackle evasion, avoidance and aggressive tax planning by large businesses.

The government will also consult on new measures to increase compliance and to increase tax transparency in relation to large business tax strategies. These will include the introduction of a 'special measures' regime to tackle businesses that persistently adopt highly aggressive behaviours including around tax planning, and a voluntary Code of Practice defining the standards HMRC expects large businesses to meet in their relationship with HMRC.

Wealthy individuals tax compliance
HMRC will get extra resources to identify and tackle tax evasion and other non-compliance by extending the existing Customer Relationship Model to individuals with net wealth between £10–20m, and to pursue more criminal investigations against wealthy individuals evading tax.

The government will also consult on enhancing the information reported to HMRC by wealthy individuals and trustees.

Non-compliance by SMEs, public bodies and affluent individuals
The government will invest around £300m in local compliance over five years from 2016 to tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals. This measure is anticipated to result in additional tax receipts of more than £2bn over the next five years which is the most significant single measure in terms of revenue raised.

Criminal investigations
Funding to HMRC is going to be increased by a total of over £60m by 2020/21 to allow HMRC to step up criminal investigations into serious and complex tax crime, focusing particularly on wealthy individuals and corporates. This is intended to raise £600m by the end of the parliament.

Tackling the hidden economy
The government is going to further extend HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. Legislation to this effect will be introduced in FB 2016, following a consultation on the detail. New HMRC investigators will be recruited from 2016 to make use of this data.

These latest proposals are in addition to the FA 2014 changes affecting employment intermediaries which are only now being implemented and on which we have just published a TAXGUIDE (3/15).

The government will also create a digital disclosure channel which will make it simple for taxpayers to disclose unpaid tax liabilities.

Financial intermediaries and the Common Reporting Standard
Legislation in FB 2015 will require financial intermediaries (including tax advisers) to notify their customers about the OECD Common Reporting Standard, the penalties for evasion and the opportunities to disclose.

Taxation of carried interest: investment fund managers
The government will introduce legislation, effective from 8 July 2015, to ensure that sums which accrue to investment fund managers by way of carried interest will be charged to the full rate of capital gains tax, with only limited deductions being permitted.

The government will also launch a consultation to better understand the activities of collective investment schemes and to determine under what circumstances performance returns should be taxed as a capital gain. It is not anticipated this will alter the tax treatment of carried interest. The Red Book anticipates that this will bring in additional income of £1.8bn over the next five years.

Marketed avoidance schemes: serial avoiders
The government will publish a consultation, ahead of introducing legislation in Finance Bill 2016, on serial avoiders who persistently enter into tax avoidance schemes which are defeated.

The proposal include a special reporting requirement and a surcharge on those whose latest tax return is inaccurate as a result of a further defeated avoidance scheme, restricting access to reliefs for the minority who have a record of trying to abuse them, and developing further measures to name serial avoiders.

The scope of the promoters of tax avoidance schemes (POTAS) regime will be widened by bringing in promoters whose schemes are regularly defeated.

Marketed avoidance schemes: GAAR penalty
The government will publish a consultation on the introduction of a general anti-abuse rule (GAAR) penalty and how to further strengthen the GAAR. This looks somewhat premature when the GAAR was only introduced in July 2013 and the first tax returns which would have covered a period when the GAAR was in place would only have been lodged by January this year.

Illicit tobacco imported from abroad
Of the extra £10bn that all these measures are anticipated to bring in about 20%, or more than £2bn, is going to come from tackling the illicit import of 'non taxed' tobacco. The Red Book notes that the government will expand its Fiscal Crime Liaison Officer network and the supporting UK intelligence staff in order to reduce the supply of illicit tobacco from Europe, enhance the government's overseas footprint and further develop international collaboration and partnerships.

Direct recovery of debts
The government's proposal last year to introduce direct recovery of debts (DRD) from taxpayers' bank accounts was fiercely resisted by ICAEW and others because we felt there were insufficient safeguards under the original proposals. Further safeguards were announced in November 2014, including a face-to-face meeting with the debtor before the power is used, a right of appeal to HMRC and, more importantly, a right of appeal to the County Court. Draft legislation was published, but we were still concerned that this legislation did not adequately incorporate all the safeguards.

The DRD regime will be included in the Summer Finance Bill 2015 and take effect from Royal Assent. The Red Book confirms that 'this measure will be subject to robust safeguards including a county court appeal process and a face-to-face visit to every debtor before they are considered for debt recovery through this measure'.

We will be looking closely at the draft legislation when it is published next week to ensure that the safeguards are clearly and fully set out.

Administration

Transformation of tax administration for individuals and small businesses
The government has undertaken to publish a roadmap, before the end of 2015, showing how it will transform and simplify tax administration for individuals and small businesses over this parliament.

We anticipate taking an active role as HMRC begins its discussions with stakeholders about the policy choices underpinning this roadmap.

Office of Tax Simplification
We are pleased to note that Finance Bill 2016 will put the OTS onto a statutory basis, establishing it as a permanent office of HM Treasury.

David Gauke MP, the Financial Secretary to HM Treasury, has written to the OTS about the changes and setting some new challenges. The letter gives updates on some previous OTS recommendations, including national insurance reforms, termination payments for employees and employee travel and subsistence.

The OTS has already been asked to undertake two reviews:

- the closer alignment of income tax and NICs; and
- the taxation of small companies focusing on the distortions between the personal and business tax systems. This will build on the OTS's earlier review of small business tax and will overlap with the review of IR35 announced in the Summer Budget as well as the changes to dividend tax.

Interest rates for judgment debts
The interest rules which apply in litigation cases are being simplified.

The rate of interest where tax-related debts are payable by HMRC under a court judgment or order will be set at a rate equal to the Bank of England base rate plus 2%.

The late payment interest rate for tax-related debts owed to HMRC under a court judgment or order will be set at 3%.

These changes will apply to new and pre-existing judgments and orders in respect of interest accruing on and after 8 July 2015