

Budget Commentary 2014

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Budget Commentary 2014

Budget Summary: 19.3.2014

Note: It must be remembered that these proposals are subject to amendment.

Taxation Rates

PERSONAL TAXATION	2014/15	2013/14
Personal allowance		
basic	£10,000	£9,440
personal allowance income limit	£100,000	£100,000
born between 6.4.1938 and 5.4.1948	£10,500	£10,500
born before 6.4.1938	£10,660	£10,660
age allowance income limit	£27,000	£26,100
minimum where income exceeds limit	£10,000	£9,440
Married couple's allowance (10% relief)		
either partner born before 6.4.1935	£8,165	£7,915
age allowance income limit	£27,000	£26,100
minimum where income exceeds limit	£3,140	£3,040
Blind person's allowance	£2,230	£2,160
Income tax rates		
Starting savings rate	10%	10%
on income up to	£2,880*	£2,790*
Basic rate	20%	20%
on taxable income up to	£31,865	£32,010
Higher rate	40%	40%
on taxable income over	£31,865	£32,010
Additional rate	45%	45%
on taxable income over	£150,000	£150,000
Lower rate on dividend income	10%	10%
Higher rate on dividend income	32.5%	32.5%
Additional rate on dividend income	37.5%	37.5%
Pension schemes allowances		
Annual allowance	£40,000	£50,000
Lifetime allowance	£1,250,000	£1,500,000
ISAs		
overall limit**	£11,880	£11,520
cash limit**	£5,940	£5,760
Junior ISA***	£3,840	£3,720

*Starting rate applies only to savings income. If taxable non-savings income is above this limit, the starting rate is not applicable.

Increases to £15,000 from 1 July 2014. *Increases to £4,000 from 1 July 2014.

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Company Taxation	FY2014	FY2013
Corporation tax rates		
All companies (except below)	21%	23%
Companies with small profits	20%	20%
- 20% rate limit	£300,000	£300,000
- marginal relief limit	£1,500,000	£1,500,000
- marginal relief fraction	1/400	3/400
- marginal rate	21.25%	23.75%

Capital Gains Tax	2013/14	2012/13
Rate		
- standard rate	18%	18%
- higher rate	28%	28%
- trustees and personal representatives	28%	28%
- entrepreneurs' relief rate	10%	10%
Annual exemption		
- individuals	£11,000	£10,900
- personal representatives	£11,000	£10,900
- trustees	£5,500*	£5,450*

*Exemption is apportioned if there are several trusts created by the same settlor, but with each trust entitled to a minimum exemption of £1,100 for 2014/15, £1,090 for 2013/14.

Inheritance Tax	Deaths after 5/4/2012
Threshold / Nil-rate band	£325,000
Death rate	40%
Lower death rate (where 10% or more given to charity)	36%
Chargeable lifetime transfers rate	20%

VAT 2014/15	
Standard rate	20%
Reduced rate	5%
Registration threshold after 31.3.2014 (previously £79,000 after 31.3.2013)	£81,000

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National Insurance	2014/15
(2013/14 in brackets where different)	
Class 1 contributions	
Not contracted-out	The employee contribution is 12% of earnings between £153 (£149) and £805 (£797) p.w. plus 2% of all earnings above £805 (£797) p.w. The employer contribution is 13.8% of all earnings in excess of the first £153 (£148) p.w. Between £111 (£109) and £153 (£149) p.w., no employee contributions are payable but a notional contribution is deemed to have been paid to protect contributory benefit entitlement. From 6 April 2014 most employers can claim employment allowance of up to £2,000 a year to offset against their liability for employer contributions.
Contracted-out	The 'not contracted-out' rates for employees in salary-related schemes are reduced on the band of earnings from £111 (£109) p.w. to £770 p.w. by 1.4%. For the employer, they are reduced on the same band of earnings by 3.4%.
Class 1A and 1B contributions	13.8%
Class 2 contributions	
Flat weekly rate	£2.75 (£2.70)
Exemption limit	£5,885 (£5,725)
Class 3 contributions	
Flat weekly rate	£13.90 (£13.55)
Class 4 contributions	9% on the band of profits between £7,956 (£7,755) and £41,865 (£41,450) plus 2% on all profits above £41,865 (£41,450).

Administration of Tax

Direct Recovery of Tax Debts

Measures will be included in Finance Act 2015 to empower HMRC to recover tax debts of £1,000 or more directly from the bank accounts of taxpayers who have the financial ability to pay and who have been contacted multiple times by HMRC in respect of the outstanding amounts. The power will be subject to rigorous safeguards.

Cap on Income Tax Reliefs

From 6 April 2013 a cap will operate on a number of reliefs that are set off against income. The most important of these are trade and property loss reliefs and qualifying loan interest relief. It will still be possible to carry forward unlimited losses against future trade profits. There are also exceptions for losses attributable to overlap relief and business premises renovation allowances. The cap will not apply to charitable reliefs. The cap is set at the greater of £50,000 or 25% of income (as adjusted).

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Personal Taxation

Income Tax Personal Allowance and Basic Rate Limit For 2015/16

For 2015/16, the personal allowance for those born after 5 April 1948 will be increased to £10,500 and the basic rate limit will be reduced to £31,785.

Transferable Tax Allowances for Married Couples and Civil Partners

From 6 April 2015 a spouse or civil partner who is not liable to income tax above the basic rate will be able to transfer up to £1,050 of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate. Married couples or civil partners entitled to claim the married couple's allowance will not be entitled to make a transfer.

Starting Rate of Tax for Savings

From 6 April 2015, the maximum amount of an eligible individual's savings income that can qualify for the starting rate of tax for savings will be increased to £5,000, and this starting rate will be reduced from 10% to nil.

Qualifying Loan Interest Relief

With effect for interest paid on or after 6 April 2014, income tax relief for interest paid on loans to invest in close UK companies will be extended to include investment in companies resident in an EEA state other than the UK which would be close if they were UK resident. The relief for investment in employee-controlled companies will also be extended to include companies resident in an EEA state other than the UK.

Tax-free Childcare

The Government previously announced a new scheme to be introduced from Autumn 2015 to allow working families to claim 20% of yearly childcare costs. The costs on which the support can be claimed have been increased to £10,000 a year for each child.

Glasgow Athletics Grand Prix

Competitors in the 2014 Glasgow Grand Prix, who are not resident in the UK, will be exempt from UK income tax on any income received as a result of their performance at the Grand Prix, or as a result of any activity carried out between 5 and 14 July 2014, where the main purpose is to support or promote the Grand Prix.

Scottish Rate of Income Tax (SRIT)

Finance Act 2014 will amend Scotland Act 2012 to alter the structure of the income tax legislation setting out how the SRIT is applied in calculating the overall rates of tax applicable to the non-savings income of Scottish taxpayers. The changes to introduce the SRIT are expected to take effect on 6 April 2016.

Employment Taxation

Company Car Tax Rates 2016/17

The following changes to company car taxation will apply for 2016/17:

- the appropriate percentage for each band of CO2 emissions will be increased by 2%, but there will be no change to the maximum appropriate percentage;
- for cars without CO2 emissions the appropriate percentage will be 16% for cars with 1,400cc or less and 27% for cars with 1,401 – 2,000cc;
- the 3% diesel supplement will not apply;
- for cars registered before 1 January 1998, the appropriate percentage will be 16% for cars with 1,400cc or less, 27% for cars with 1,401 – 2,000cc and 37% for cars with 2,001cc or more.

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Company Cars and Vans: Repeal of Relief from Potential Double Taxation

The relief from potential double taxation in ITEPA 2003, s 114(3) is to be repealed from 6 April 2014 as it is considered to constitute a threat to the Exchequer and also to be redundant given that there are other sections preventing double taxation. The subsection disapplies the benefit rules where the provision of a company car or van constitutes earnings from employment under any other provision.

Payments for Private Use of a Company Car or Van

Amendments, effective from 6 April 2014, will clarify that if a benefit is to be reduced by payments required by the employer as a contribution for private use of a car or van such payments must be paid within the year in which private use was undertaken.

Employment Intermediaries

Legislation will be introduced with effect from 6 April 2014 to prevent onshore employment intermediaries being used to avoid employment taxes and obligations by disguising employment as self-employment.

Legislation will be introduced in Finance Act 2014 to ensure that from 6 April 2014 the correct amount of tax and National Insurance contributions is paid when UK and UK Continental Shelf workers are employed by offshore companies or engaged by or through offshore employment intermediaries. The measure also introduces a record keeping and return requirement for intermediaries placing workers with end clients but not deducting income tax and NICs at source.

Share Incentive Plans and Save As You Earn (SAYE) Limits

With effect from 6 April 2014, the following Share Incentive Plan investment limits will increase:

- the maximum value of shares that can be awarded annually to an employee will increase from £3,000 to £3,600; and
- the maximum value of shares an employee can purchase annually will increase from £1,500 to £1,800 (subject to an overriding limit of 10% of an employee's salary for the year).

The maximum ratio of matching shares to partnership shares that can be awarded will remain at 2 to 1.

At the same time, the maximum monthly amount that an employee can contribute to SAYE savings arrangements will increase from £250 to £500.

Employee Share Schemes: Office of Tax Simplification Recommendations

Recommendations of the Office of Tax Simplification in relation to employee share schemes are to be implemented. These introduce self-certification and new 'purpose tests' for Share Incentive Plans, Save As You Earn Option Schemes and Company Share Option Plans, together with new online filing arrangements for employment-related securities. There will be new rules relating to HMRC compliance, penalty and assessment powers, plus new information requirements and appeal rights. There are also several minor technical modifications. The changes will come into effect from 6 April 2014.

Unapproved Employee Share Schemes: Office of Tax Simplification Recommendations

A number of simplifications will be introduced for unapproved share schemes:

- a closer alignment of the tax and National Insurance treatment of employment-related securities (ERS) in relation to internationally-mobile employees with rules applying to other types of employment income, and to allow corporation tax relief in a range of circumstances (to apply from 6 April 2015);
- a new income tax roll-over relief for exchanges of restricted, nil-paid or partly-paid ERS, together with a simplification of the tax treatment of nil-paid and partly-paid ERS and the discharge of notional loans (to apply from Royal Assent to Finance Act 2014);

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- an extension to the circumstances in which corporation tax relief is available for employee share acquisitions (to apply from Royal Assent);
- an extension to the deadline for an employee making good PAYE tax paid by an employer on a notional payment (to apply from 6 April 2014);
- a simplification of the valuation rules for listed company shares (to apply from Royal Assent).

The opportunity is also taken to correct an anomaly in relation to employer contributions to overseas pension schemes and to provide other minor and technical updates.

Tax Incentives for Employee Ownership Trusts

New incentives are introduced for indirect employee ownership of trading companies (or parent companies of a trading group):

- relief from capital gains tax for disposals of shares to a new kind of trust which benefits all employees (applying from 6 April 2014);
- an exemption from income tax for bonuses paid by qualifying indirectly employee-owned companies provided they are paid to all employees on equal terms and subject to a cap of £3,600 per employee, together with corresponding corporation tax relief (applying from 1 October 2014);
- exemption from inheritance tax for transfers of shares and other assets into such a trust (applying from 6 April 2014).

Tax Exemption for Employer Expenditure on Recommended Medical Treatment

From a date to be set out in a Treasury Order, legislation will exempt from income tax any benefit in kind or payment of earnings, up to an annual cap of £500 per employee, when an employer meets the cost of 'recommended' medical treatment. Treatment is recommended where it is provided in accordance with a recommendation from an occupational health service in order to help an employee return to work after a period of absence due to ill-health or injury. It is proposed to apply where the employee has been unfit for work for a minimum number of days. There will be a corresponding National Insurance contributions disregard introduced in regulations after Royal Assent to Finance Act 2014.

Artificial Use of Dual Contracts by Non-domiciles

Certain income which currently constitutes general earnings from an overseas employment, income from overseas employment-related securities or overseas income provided through third parties which is subject to the remittance basis will in future be taxed on the arising basis.

This will apply to income associated with an overseas employment where:

- the individual has both UK and overseas employment with the same or associated employers;
- the UK and overseas employments are 'related' to each other; and
- the foreign tax rate applying is less than 65% of the UK additional rate of tax (which is currently 45%).

This will not apply to income that falls within the three-year period for Overseas Workday Relief.

The measure will not apply to nominal directorships (owning or controlling less than 5% of ordinary share capital) nor to employments held for legal or regulatory reasons.

This measure will apply to income arising from 6 April 2014, but not if such income relates to duties performed before that date.

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National Insurance Contributions

Class 2 NICs

From April 2016, Class 2 NICs for the self-employed will be collected via self-assessment.

Class 3A NICs

This is a new class of voluntary NICs, which will enable those who reach State Pension age before 6 April 2016 to top up their Additional State Pension record. The scheme will be open from October 2015 for 18 months.

Partnerships

Limited Liability Partnerships (LLPs): Treatment of Salaried Members

New rules (the 'salaried member rules') taking effect on 6 April 2014 will change the treatment of a salaried member of an LLP from that of a partner to that of an employee for both income tax and corporation tax purposes. They will apply at any time when an individual (M) is a member of an LLP and:

- it is reasonable to expect that at least 80% of the total amount payable by the LLP in respect of M's performance of services for the LLP in M's capacity as a member will be 'disguised salary';
- the mutual rights and duties of the members, and of the LLP and its members, do not give M significant influence over the affairs of the LLP; and
- M's contribution to the LLP is less than 25% of the disguised salary which it is reasonable to expect will be payable by the LLP for M's performance of services during the tax year in M's capacity as a member.

Associated changes are being made to NICs legislation. An amount is 'disguised salary' (i) if it is fixed; or (ii) if it is variable, it is variable without reference to, or is in practice unaffected by, the amount of the LLP's profits or losses.

In determining whether the salaried member rules apply, any arrangements with a main purpose of circumventing the rules will be disregarded. The salaried member rules apply equally in the case of an individual who is not a member of an LLP if that individual performs services for the LLP under arrangements involving a non-individual member of the LLP and those arrangements have a main purpose of securing that the salaried member rules would not otherwise apply to the individual. The salaried member rules do not apply to an individual if the reason they would otherwise apply is a consequence of arrangements with a main purpose of circumventing the new mixed membership rules summarised below; this exception will come into effect on the date of Royal Assent to Finance Act 2014.

Where the salaried member rules apply, any expenditure incurred by the LLP in respect of the member's deemed employment is deductible in computing profits if it would be so deductible under general principles.

Partnerships with Mixed Membership

A mixed membership partnership is a partnership where the members include both individuals and non-individuals (most often companies). In relation to mixed membership partnerships (including any that are limited liability partnerships), new legislation will reallocate to an individual partner excess profits allocated to a non-individual partner in cases where:

- a non-individual partner has a share of the firm's profit;
- that share is excessive;
- an individual partner has the power to enjoy the non-individual's share or there are deferred profit arrangements in place; and
- it is reasonable to suppose that the whole or part of the non-individual's share is attributable to that power or those arrangements.

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There will also be provision to reallocate excess profits to an individual who is not a partner if it is reasonable to suppose that the individual would have been a partner but for the above rules.

The above will have effect from 6 April 2014 but will also affect periods of account beginning before and straddling that date. In addition, loss reliefs will be denied for a loss allocated to an individual partner where that individual is party to arrangements a main purpose of which is to secure that some or all of the loss is allocated to the individual, instead of to a non-individual, with a view to the individual obtaining loss relief. This will apply in relation to losses arising on or after 6 April 2014, with periods of account straddling that date being split into two notional periods for this purpose.

Disposals of Assets through Partnerships

New legislation will apply where as a result of an arrangement a person disposes of all or part of an asset or income stream by or through a partnership to another member and a main purpose of the disposal, or any of the steps by which it is effected, is to secure an income tax or corporation tax advantage. The legislation will impose on the person making the disposal a charge to tax on income. The chargeable amount is the consideration given for the asset or income stream, unless that consideration is much less than the value of the asset, in which case the charge will be on market value. The legislation will have effect in relation to arrangements entered into on and after 6 April 2014 for income tax and 1 April 2014 for corporation tax.

Partnerships Managing Alternative Investment Funds: Deferred Remuneration etc.

A mechanism will be introduced from 6 April 2014 for members of AIFM partnerships to allocate certain restricted profits to the partnership. These are profits that those members cannot immediately access because of requirements under the EU's Alternative Investment Fund Managers Directive to defer remuneration of key staff. The legislation will impose a charge to tax on these businesses at the additional rate of tax (45%) to be paid by the AIFM partnership. An AIFM partnership is a partnership or limited liability partnership that manages alternative investment funds. The AIFM partnership must make an election if these rules are to have effect; this must be made within 6 months after the end of the first period of account for which it is to have effect.

Capital Allowances

Annual Investment Allowance

The maximum amount of the annual investment allowance will be increased to £500,000 from 1 April 2014 for corporation tax and 6 April 2014 for income tax to 31 December 2015, after which it will return to £25,000.

Enterprise Zones: Enhanced Capital Allowances

100% first-year allowances are available for companies chargeable to corporation tax which invest in unused (not second-hand) plant or machinery for use primarily in designated assisted areas within certain enterprise zones. The period in which they can qualify for the allowances will be extended to 31 March 2020.

Business Premises Renovation Allowance

Business Premises Renovation Allowance (BPRA) provides relief for businesses that incur capital expenditure on bringing back into business use qualifying business premises in disadvantaged areas which have been unused for over a year. These provisions clarify the definition of expenditure eligible for relief as that incurred on the actual direct costs of construction and building work and certain specified activities. Additional associated but unspecified activities may still qualify, but relief on these is limited to 5% of the expenditure incurred on the building works.

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In addition:

- BPPA cannot be claimed if another form of State aid has been or will be received;
- the rule preventing expenditure incurred on buildings qualifying for relief before they have been unused for a year is clarified;
- where expenditure is paid in advance and tax relief immediately claimed, the works to which that expenditure relates must be completed within 36 months or the relief will be withdrawn; and
- the period in which balancing adjustments must be made if certain events occur will be reduced from 7 to 5 years.

These amendments have effect for income tax purposes, for expenditure incurred on or after 6 April 2014, and for corporation tax purposes, for expenditure incurred on or after 1 April 2014.

Mineral Extraction Allowances

New legislation will confirm that for the purposes of mineral extraction allowances, a mineral extraction trade consists of activity within the charge to UK tax. It will have effect on and after 1 April 2014 for businesses within the charge to corporation tax and 6 April 2014 for businesses within the charge to income tax.

Corporation Tax

Unification of Rates: Consequential Changes

In the 2013 Budget it was announced that there would be a single unified corporation tax rate of 20% with effect from 1 April 2015. As a result, the 'associated companies' provisions, which prevent a tax advantage arising where a single business is operated through a number of small companies, will only be necessary in certain limited circumstances. Consequently, those provisions are to be replaced with a 51% group test which will apply to:

- ring fence profits of oil and gas companies where there will continue to be more than one corporation tax rate;
- the patent box where companies with profits below limits of £1m or £3m can elect to use a simplified method in calculating profits subject to the 10% tax rate;
- capital allowances which are restricted for assets with a useful life of 25 years or more (long-life assets) where the expenditure exceeds a limit of £100,000; and
- quarterly instalment payments where regulations set an upper limit for profits above which a company must pay tax by instalments.

Corporate Loss Relief

The rules restricting the availability of relief for corporation tax trading losses when companies change ownership will be relaxed for any qualifying change of ownership on or after 1 April 2014 as follows:

- a holding company will be allowed to be inserted at the top of a group of companies;
- the test as to whether there has been a 'significant increase in capital' of a company with investment business will be amended so that the capital of the company after the change has to exceed the amount of capital before the change by both £1m and at least 25%.

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Avoidance Involving Losses

Existing anti-avoidance provisions which counter the use of capital losses in contrived arrangements to shelter income profits through the creation of a capital gain are to be amended. The changes are intended to confirm that the provisions can apply to arrangements under which chargeable gains or capital losses arise under legislation other than the Taxation of Chargeable Gains Act 1992. The changes will apply to disposals on or after 30 January 2014 and to arrangements entered into on or after that date under which a gain arises otherwise than on a disposal.

Film Tax Relief

From 1 April 2014, subject to State aid approval, the existing film tax relief rules are to be amended to remove the 'cliff-edge' between the two rates. Film tax relief will be available for surrenderable losses at a rate of 25% up to the first £20m of each production's qualifying core expenditure (to a maximum of 80% of the qualifying production core expenditure) and 20% thereafter (to a maximum of 80% of the qualifying production core expenditure), for all productions. The minimum UK spending requirement will be reduced from 25% to 10%.

Creative Industries Reliefs

Following the introduction of corporation tax reliefs for high-end television and video games in 2013, amendments are to be made in Finance Act 2014 to clarify that only those games or television programmes on which relief is claimed are to be treated as separate trades. Additionally, changes are to be made to the video games legislation to make it compliant with EU State aid approval. The changes to the video games provisions will take effect when State aid approval has been received, and the change to the television provisions will take effect from Royal Assent to the Finance Act.

A new corporation tax relief is to be introduced for theatrical productions and touring theatrical productions. The legislation will be introduced during the passage of the 2014 Finance Bill following consultation.

Research and Development (R&D) Tax Relief

From 1 April 2014 the rate of R&D payable tax credit for loss-making small and medium-sized enterprises (SMEs) will be increased from 11% to 14.5%. This will increase the rate of the cash credit payable to SMEs that conduct qualifying R&D activity but do not have corporation tax liabilities.

Modernising the Taxation of Corporate Debt and Derivative Contracts

Where a company ceases to be a member of a group on or after 1 April 2014 the 'de-grouping' provisions that apply when a company to which a loan relationship or derivative contract has been transferred will be amended to bring into account both credits and debits.

Worldwide Debt Cap

Finance Act 2014 will include two changes to the worldwide debt cap rules which limit the tax deduction for interest and other finance expenses for UK members of international groups of companies. The first change will ensure that a UK resident company which does not have ordinary share capital can be subject to the rules and will apply for accounting periods beginning on or after 5 December 2013. The second change will enable regulations to be made to include conditions to be met by companies making an election to transfer debt cap liabilities to another group company and will apply on or after the date of Royal Assent to Finance Act 2014.

Controlled Foreign Companies (CFCs): Profit Shifting

Finance Act 2014 will introduce legislation, effective from 5 December 2013, which prevents the non-trading finance profits of a CFC from being regarded as a qualifying loan relationship if they are connected with an arrangement the main purpose of which is to artificially divert non-trading profits from a UK company into a CFC.

A further change, also effective from 5 December 2013, tightens the provisions that prevent relief to a creditor relationship of a CFC when the third party debt of a non-UK resident group company is repaid and effectively replaced with new UK debt.

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Avoidance Schemes Involving the Transfer of Corporate Profits

Finance Act 2014 will introduce a measure blocking tax avoidance arrangements where profits are transferred between companies in the same group for tax avoidance purposes. It will not apply to any arrangement falling within CTA 2009, s 695A (derivative contracts). The new measure will apply to payments made on or after 19 March 2014 arising from arrangements entered into on any date.

Avoidance Using Total Return Swaps

Avoidance schemes where deductions are claimed for payments between companies in the same group under derivative contracts which are linked to company profits are to be blocked. This measure applies from 5 December 2013 to schemes entered into at any time and ensures that deductions are not allowed for corporation tax purposes where a payment is made under a derivative contract which is, in substance, a payment of profits. Certain commercial transactions will not be affected.

Exclusion of Research and Development Allowances from Loss Buying Rules

Anti-avoidance provisions which apply to prevent 'loss buying' where there is a change in the ownership of a company are to be amended with effect for changes of ownership occurring on or after 1 April 2014. The amendment will exclude expenditure which is crystallised as research and development capital allowances from the deductions which are restricted by the provisions.

Capital Gains Tax

Private Residence Relief Final Period Exemption

Where a person disposes of a property that he is not currently living in but which has been his main residence at any time, he is entitled to relief for the final period of ownership. Where contracts for the sale of the property are exchanged on or after 6 April 2014, the period of ownership for which this relief is available will be reduced in most cases from 36 months to 18 months.

The 36-month period will remain in force however where the property disposal is made by an individual who is, or whose spouse or civil partner is, a disabled person or a long-term resident in a care home, provided that neither holds an interest in any other dwelling-house.

Business Asset Roll-over Relief

Payment entitlements under the Single Payment Scheme – the principal agricultural subsidy scheme in the European Union – have been included in the classes of assets eligible for capital gains tax roll-over relief since 22 March 2005. These payment entitlements will cease in 2014 with new payment entitlements being allocated to farmers under the Basic Payment Scheme.

Legislation will be introduced in Finance Act 2014 with effect in relation to acquisitions and disposals of Basic Payment Scheme payment entitlements on and after 20 December 2013 to include payment entitlements under the Basic Payment Scheme within the classes of assets eligible for capital gains tax roll-over relief.

Roll-over Relief: Reinvestment in Intangible Fixed Assets

With effect from 19 March 2014, companies are prevented from claiming chargeable gains roll-over relief on the disposal of tangible assets where the proceeds are reinvested in an intangible fixed asset. The measure also adjusts the tax cost of the replacement intangible fixed asset for claims made on or after 1 April 2009 and before 19 March 2014, preventing double tax relief being given on any roll-over relief claims already made. This measure corrects an error in the drafting of the legislation.

Split Year Treatment

Legislation will be included in Finance Act 2014 to correct a defect in the split year residence rules to ensure that capital gains made by a user of the remittance basis in the overseas part of a split year are not charged to capital gains tax.

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Non-Residents Disposing of UK Residential Property

The scope of capital gains tax is to be extended to include disposals by non-UK residents of residential property in the UK. The new charge will apply with effect from April 2015.

Savings and Investments

ISAs, Junior ISAs and Child Trust Funds

From 1 July 2014, Individual Savings Accounts (ISAs) will become 'New ISAs' (NISAs). The annual subscription limit will be increased to £15,000. The current rule whereby only half the overall annual limit can go into a cash ISA will be abolished. Investors will be permitted to transfer their investments from a stocks and shares account to a cash account. The range of securities that can be invested in will be widened (and will include certain retail bonds with less than 5 years before maturity and Building Society Core Capital Deferred Shares). The flat rate charge, representing tax at the basic rate, on any interest arising on temporarily uninvested cash in a stocks and shares account will be removed.

The annual amount that can be invested in a Junior ISA or Child Trust Fund account is to be increased to £4,000 from 1 July 2014.

Venture Capital Trusts

With effect in relation to shares issued on or after 6 April 2014, income tax relief will not be available on a subscription for shares in a venture capital trust (VCT) where the investor sells shares in that same VCT and the sale is conditional upon the subscription, or the subscription is conditional upon the sale, or the subscription is made within 6 months of the sale. This will apply equally where one VCT is deemed to be a successor or predecessor of another following a merger or restructuring. Subscriptions where the monies subscribed represent reinvested dividends will not be affected.

New measures will be introduced to prevent VCTs from returning share capital to investors within 3 years after the end of the VCT's accounting period in which it issued the shares, and to ensure that the normal time limits for making assessments to recover tax do not prevent HMRC from withdrawing relief in any case where VCT shares are disposed of within 5 years of acquisition.

Current VCT legislation will also be amended so as to enable an individual to subscribe for and hold shares in a VCT via a nominee; this will have effect in relation to shares issued on or after the date of Royal Assent to Finance Act 2014.

Social Investment Relief

A new income tax relief is introduced for investments after 5 April 2014 by individuals in qualifying social enterprises. The relief will equal 30% of the amount invested, and will be deducted from the investor's income tax liability. The maximum amount qualifying for relief per tax year is £1m, and the investment must be held for at least 3 years. The relief will apply to subscriptions for shares in an enterprise and to certain types of loans made to an enterprise. It can be carried back to the preceding tax year. A number of eligibility conditions will apply.

Capital gains on social enterprise investments to which income tax relief applies will be exempt from capital gains tax provided the investments are held for 3 years. If a sum equal to the amount of a chargeable gain made on any asset after 5 April 2014 is invested in a social enterprise within a period of 4 years beginning 1 year before the gain accrues, the individual may claim for the gain to be treated as arising when the investment is disposed of and not at any earlier time. This is subject to conditions concerning, for example, the nature of the investment and the activity of the enterprise.

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Seed Enterprise Investment Scheme (SEIS)

SEIS tax relief was originally meant to be abolished from 6 April 2017. It will now be made permanent. SEIS capital gains tax reinvestment relief, whereby a gain on any asset is tax-free to the extent that it is matched with investments in eligible SEIS shares, will also be made permanent; it was due to expire on 5 April 2014. As was the case in 2013/14, only 50% of the acquisition cost of the SEIS shares can be set against gains in 2014/15 onwards.

Excluding Subsidised Activities from Qualifying for the Venture Capital Schemes

Legislation will be introduced with effect broadly from Royal Assent to Finance Act 2014 to prevent companies from benefiting from investment via the Enterprise Investment Scheme, Seed Enterprise Investment Scheme or Venture Capital Trust scheme when those companies also benefit from Department of Energy & Climate Change Renewable Obligations Certificates or Renewable Heat Incentive subsidies.

Offshore Authorised Investment Funds

With effect from 5 December 2013, authorised investment funds are treated as not resident in the UK if they are established in another State and treated as resident in that State for the purposes of any tax on income imposed under the law of that State.

Inheritance Tax

Simplifying IHT Charges on Trusts

From 6 April 2014, the filing and payments dates for inheritance tax relevant property trust charges will be aligned to fall due 6 months after the end of the month in which the chargeable event occurs. Further, income arising in such trusts which remains undistributed for more than 5 years will be treated as part of the trust capital when calculating the 10-year anniversary charge.

Liabilities and Foreign Currency Bank Accounts

Finance Act 2014 will amend the inheritance tax rules introduced last year dealing with treatment of liabilities so that foreign currency accounts in UK banks are treated in a similar way as excluded property for the purposes of restricting the deduction of a liability. This measure will apply to liabilities incurred at any time but only where the death has occurred on or after the date of Royal Assent.

Charities

Community Amateur Sports Clubs

Measures will be introduced to allow tax relief on qualifying gifts of money from companies to Community Amateur Sports Clubs (CASCs) made on or after 1 April 2014, subject to restrictions where arrangements between a company controlled by a CASC and a member of the CASC are found to be 'abusive'.

The eligibility conditions for CASCs will be revised by regulations which will cover maximum membership fees, payments to players and a new condition relating to the amount of social income a club can receive. For the purposes of the exemption from corporation tax, the limit on trading receipts a club can receive will increase from £30,000 to £50,000 and the limit for income from property from £20,000 to £30,000.

Budget Commentary 2014

Trusts

Trusts with a Vulnerable Beneficiary

On the death of a beneficiary of a qualifying vulnerable beneficiary trust there is a deemed disposal and re-acquisition at market value of the settled property by the trustees, but there is no charge to capital gains tax, provided the beneficiary had an entitlement to the income of the trust. Legislation will be introduced in Finance Act 2014 to remove the requirement that the beneficiary had to have an entitlement to the income of the trust. These changes will apply for deaths occurring on or after 5 December 2013. The effect of this change is to apply the same capital gains tax treatment to property within a vulnerable beneficiary trust where the beneficiary has no interest in possession in the trust property as is available where the beneficiary does have an interest in possession. Furthermore, from 6 April 2014, the range of qualifying vulnerable beneficiary trusts will be extended. The meaning of 'disabled person' is extended from 6 April 2014 to include those in receipt of the mobility component of disability living allowance at the higher rate, or the mobility component of personal independence payment at either the standard or enhanced rate.

Pensions

Lifetime Allowance: Individual Protection 2014

As a consequence of the reduction in the lifetime allowance from £1.5m to £1.25m from 6 April 2014, individual protection 2014 (IP14) is being introduced. This is an addition or alternative to fixed protection 2014 (FP14) introduced last year. Individuals may apply for both FP14 and IP14. Where someone has both, FP14 will take precedence but if this is lost the individual will revert to IP14. Individuals may apply for IP14 between 6 April 2014 and 5 April 2017. Those with IP14 will have a personalised lifetime allowance equal to the value of their pension savings on 5 April 2014, subject to an upper limit of £1.5m. They will be able to carry on actively saving in a registered pension scheme, but upon taking their benefits will be subject to the lifetime allowance charge on any excess savings over their personalised lifetime allowance.

Increasing Pension Flexibility

The following measures increase flexibility in relation to pension savings:

- an increase in the maximum drawdown pension from a capped drawdown pension fund from 120% to 150% of the basis amount (applying to drawdown pension years starting on or after 27 March 2014);
- a reduction of the minimum income threshold for flexible drawdown from £20,000 to £12,000 (for applications for flexible access made on or after 27 March 2014);
- allowing members over 60 with total pension savings of £30,000 or less to take the whole amount as one or more trivial commutation lump sum (for commutation periods starting on or after 27 March 2014);
- removal of the revaluation factor in calculating the portion of the commutation limit absorbed by previous benefit crystallisations;
- an increase from £18,000 to £30,000 in the limit for lump sums from small pots where an annuity is in payment (for payments made on or after 27 March 2014);
- an increase in the general small pots limit from £2,000 to £10,000 – this also applies in cases where transitional protection of lump sums in excess of 25% of total pension rights applies (for payments made on or after 27 March 2014); and
- an increase in the number of lump sums from small pots that can be taken to 3.

Budget Commentary 2014

Pension Liberation

Changes are made to the rules governing the registration and deregistration of pension schemes in order to introduce a 'fit and proper person' test in relation to scheme administrators and to deny registered status where a scheme has been established for purposes other than of providing pension benefits. There are accompanying changes to HMRC information powers and associated appeals and penalties.

Independent trustees appointed by the Pensions Regulator will not be liable in respect of tax liabilities relating to events before their appointment. This also applies to scheme administrators.

Changes relating to the surrender of rights to fund an authorised surplus payment to the sponsoring employer or in favour of dependants are aimed at a marketed avoidance scheme. Such surrenders may in future be treated as unauthorised payments.

These changes are operative from 20 March 2014, other than the 'fit and proper person' test and the changes relating to regulatory intervention, which are operative from 1 September 2014.

Anti-Avoidance

Amendment of Return to take Account of Relevant Judicial Ruling and Accelerated Payments of Tax in Follower Cases

Users of any avoidance scheme defeated by HMRC in a tribunal or court hearing in another party's litigation will be obliged to concede their position to reflect the tribunal's or court's decision. A 'Follower Notice' will be issued by HMRC requiring such users for whom there is an open enquiry or appeal to amend their tax return or agree to resolve their appeal in accordance with the court's decision. HMRC can also issue a 'Notice to Pay' to a taxpayer who has claimed a tax advantage by the use of arrangements on the same or similar grounds to those rejected by the courts. The taxpayer must then make payment upfront of the tax in dispute. If the taxpayer does not settle he risks a penalty. Penalties will also apply to late payment.

These measures will have effect from Royal Assent to Finance Act 2014.

Promoters of Tax Avoidance Schemes and Disclosure of Tax Avoidance Schemes (DOTAS)

New measures will give HMRC powers to issue conduct notices to promoters who breach certain defined 'threshold' conditions. Promoters who fail to comply with a conduct notice may be issued with a 'monitoring' notice, which can be appealed. Names of promoters subject to a monitoring notice may be published by HMRC, including details of how the conduct notice was breached, and the promoter will be required to notify its monitored status to clients. New information powers and penalties will apply to both monitored promoters, and intermediaries and clients of monitored promoters. Clients of monitored promoters will also be subject to certain obligations (with a penalty for non-compliance) and extended time limits for assessments. The measure also includes a new requirement under DOTAS for further information to be provided by a promoter when requested by HMRC.

These measures will have effect from Royal Assent to Finance Act 2014.

Accelerated Payments of Tax Associated with Schemes Covered by DOTAS or GAAR

Taxpayers who have sought tax advantages through tax avoidance schemes that fall within the Disclosure of Tax Avoidance Schemes (DOTAS) rules or are counteracted under the General Anti-Abuse Rule (GAAR) will be required to pay the disputed tax upfront. Penalties will apply to late payment.

This measure applies from Royal Assent to Finance Act 2014 to all cases where there is an open enquiry or open appeal on or after that day.

Budget Commentary 2014

Double Taxation Relief

With effect from 5 December 2013, two changes will be made to the double taxation rules, to prevent tax avoidance. New legislation will confirm that TIOPA 2010, s 42, which imposes a limit on the amount of credit for foreign tax against corporation tax, is to be applied separately to each non-trading credit from a loan relationship or an intangible fixed asset, so that credit for foreign tax arising on such a non-trading credit will be limited to the amount of corporation tax on that non-trading credit. TIOPA 2010, s 34 and s 112 will be amended to reduce the credit allowed or deduction given where a repayment is made by a foreign tax authority and there are arrangements in place which enable another person to receive the repayment of foreign tax.

Stamp and Property Taxes

Stamp Duty Land Tax Charities Relief

Following a recent court decision, legislation will be included in Finance Act 2014 to clarify how the SDLT charities relief applies where a charity purchases UK land jointly with another purchaser who is not a charity. Provided that the charity intends to hold its share of the land for charitable purposes, the relief available to the charity will be based on the lower of the proportion of the chargeable consideration paid by the charity, or any person connected with it, and the proportion of the chargeable interest in the land held by the charity. SDLT will be chargeable on the non-charity purchaser at the rate applicable to the total consideration paid for the property. The legislation will apply to transactions with an effective date on or after Royal Assent.

Taxation of High Value Residential Property

Finance Act 2014 will include legislation intended to ensure that companies, partnerships and collective investment schemes which own UK residential property valued at £500,000 or more, which is not used for a commercial purpose, will be required to pay an appropriate amount of tax. The threshold for the 15% rate of stamp duty land tax will be reduced from £2m to £500,000 for transactions where the effective date (normally the date of completion) is on or after 20 March 2014. Transitional provisions will ensure that in most cases the existing threshold will continue to apply in respect of contracts entered into before 20 March 2014 but completed on or after that date.

The annual tax on enveloped dwellings (ATED), introduced by Finance Act 2013, will be extended to include dwellings valued at more than £1m with effect from 1 April 2015, and to include dwellings valued at more than £500,000 with effect from 1 April 2016. In addition, Finance Act 2015 will provide that all companies, partnerships and collective investment schemes affected by the new ATED bands will also be subject to capital gains tax at a rate of 28% on the disposal of the properties held. This will take effect from the same dates (1 April 2015 and 1 April 2016) as the extension of the ATED bands.

Value Added Tax

Prompt Payment Discounts

The UK legislation on prompt payment discounts is to be amended to bring it in line with EU law. The effect of the change is that VAT will be due on the consideration actually received, rather than on the reduced amount, whether or not the discount is taken up.

The measure will take effect generally from 1 April 2015. It will, however, come into force with effect from 1 May 2014 for telecommunication and broadcasting services where there is no obligation to provide a VAT invoice. Other implementation dates may be applied in respect of specified supplies for revenue protection purposes.

Budget Commentary 2014

Place of Supply and Mini-One Stop Shop (MOSS)

From 1 January 2015 the member State where VAT is due on intra-EU supplies of broadcasting, telecommunications and e-services (BTE) to non-business customers will change from where the supplier belongs to where the customer belongs. MOSS will give suppliers the option to register in just one member State and account for VAT on supplies of BTE services to all their EU non-business customers on a single MOSS VAT return.

FUEL SCALE CHARGES FROM 1 MAY 2014

CO2 band g/km	12 month period	3 month period	1 month period
120 or less	627	156	52
125	939	234	78
130	1,004	251	83
135	1,064	266	88
140	1,129	282	94
145	1,190	297	99
150	1,255	313	104
155	1,315	328	109
160	1,381	345	115
165	1,441	360	120
170	1,506	376	125
175	1,567	391	130
180	1,632	408	136
185	1,692	423	141
190	1,757	439	146
195	1,818	454	151
200	1,883	470	156
205	1,943	485	161
210	2,008	502	167
215	2,069	517	172
220	2,134	533	177
255 or more	2,194	548	182

Budget Commentary 2014

Environmental Taxes

Air Passenger Duty (APD): Banding Reform

The number of APD destination bands is to be reduced, with effect from 1 April 2015, to 2; Band A (distances up to 2,000 miles from London) and Band B (distances over 2,000 miles from London). The reduced rate will be half the standard rate in each band, and the higher rate will be 3 times the standard rate in each band.

Customs and Excise Duties

Modernising Customs Civil Penalties

A penalty is to be introduced for travellers entering the UK from outside the EU who have failed to declare goods in excess of their allowance where there is no evidence of dishonest behaviour.

The penalty is expected to come into force with effect from late summer 2014.

Tobacco Duty

The Chancellor has announced that the duty on all tobacco products will continue to increase by a minimum of 2% above Retail Prices Index inflation each year until the end of the next Parliament. The increased rates take effect from 6pm on 19 March 2014.

Alcohol Duty

From 24 March 2014, alcohol duty on a typical pint of beer will be reduced by 1p per pint. Duties on spirits and other drinks exceeding 22% alcohol by volume, and most cider duties, will be frozen. The duty escalator for wine, made-wine and strong sparkling cider will end.

Miscellaneous

Removal of Extended Time Limit Restriction for EU Cases

Finance Act 2007, s 107 provides that the limitation period for the recovery of direct tax paid by mistake of law is 6 years from the date of payment where the action was brought before 8 September 2003, unless the claimant was subject to a final court judgment before 6 December 2006. Following the Supreme Court's ruling that the legislation could not apply to actions to recover tax charged contrary to EU law, this provision is to be disapplied in the case of such actions. The change will be fully retrospective.

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Paper from well managed forests