Budget Commentary 2015

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Taxation Rates

Personal Taxation	2015/16	2014/15
Personal allowance		
basic	£10,600	£10,000
personal allowance income limit	£100,000	£100,000
born between 6.4.1938 and 5.4.1948	£10,600	£10,500
born before 6.4.1938	£10,660	£10,660
age allowance income limit*	£27,700	£27,000
minimum where income exceeds limit	£10,600	£10,000
Married couple's allowance (10% relief)		
either partner born before 6.4.1935	£8,355	£8,165
age allowance income limit	£27,700	£27,000
minimum where income exceeds limit	£3,220	£3,140
Blind person's allowance	£2,290	£2,230
Income tax rates		
Starting savings rate**	0%	10%
on income up to	£5,000	£2,880
Basic rate	20%	20%
on taxable income up to	£31,785	£31,865
Higher rate	40%	40%
on taxable income over	£31,786	£31,866
Additional rate	45%	50%
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		
Standard annual allowance	£40,000	£40,000
Standard lifetime allowance	£1,250,000	£1,250,000
ISA subscription limits		
Adult ISA	£15,240	£15,000
Junior ISA	£4,080	£4,000

*For 2015/16 the age allowance income limit for personal allowances applies only to those born before 6.4.1938.

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

Company Taxation	FY2015	FY2014
Corporation tax rates		
All companies (except below)	20%	21%
Companies with small profits	N/A	20%
- 20% rate limit	N/A	£300,000
- marginal relief limit	N/A	£1,500,000
- marginal relief fraction	N/A	1/400
- marginal rate	N/A	21.25%

Capital Gains Tax	2015/16	2014/15
Rate		
- standard rate	18%	18%
- higher rate	28%	28%
- trustees and personal representatives	28%	28%
- entrepreneurs' relief rate	10%	10%
Annual exemption		
- individuals	£11,100	£11,000
- personal representatives	£11,100	£11,000
- trustees	£5,550*	£5,500*

*Exemption is apportioned if there are several trusts created by the same settlor, but with each trust entitled to a minimum exemption of £1,110 for 2015/16, £1,100 for 2014/15.

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	2015/16
Standard rate	20%
Reduced rate	5%
Registration threshold after 31.3.2015	£82,000 (previously £81,000 after 31.3.2014)

National Insurance	2015/16
(2014/15 in brackets where different)	
Class 1 contributions	
Not contracted-out	The employee contribution is 12% of earnings between £155 (£153) and £815 (£805) p.w. plus 2% of all earnings above £815 (£805) p.w. Between £112 (£111) and £155 (£153) p.w., no employee contributions are payable but a notional contribution is deemed to have been paid to protect contributory benefit entitlement. The employer contribution is 13.8% of all earnings in excess of the first £156 (£153) p.w. For 2015/16, the employer contribution is reduced to 0% of earnings between £156 and £815 p.w. if the employee is under 21. Most employers can claim employment allowance of up to £2,000 a year 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 £112 (£111) 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	£2.80 (£2.75)
Exemption limit	£5,965 (£5,885)
Class 3 contributions	
Flat weekly rate	£14.10 (£13.90)
Class 4 contributions	9% on the band of profits between £8,061 (£7,956) and £42,385 (£41,865) plus 2% on all profits above £42,385 (£41,865).

Administration of Tax

Digital Tax Accounts

The Government will abolish the tax return for millions of individuals and small business through the introduction of digital tax accounts. A roadmap setting out the policy and administrative changes will be published later this year. In addition, the Government will consult on a new payment process to support the use of digital tax accounts that allow tax and National Insurance contributions to be collected outside of PAYE and self-assessment. This will be legislated for in the next Parliament.

Direct Recovery of Debts due to HMRC from Debtors' Bank and Building Society Accounts

HMRC will be able to collect payment of tax and duties directly from credit balances in debtors' bank and building society accounts, including ISAs, without first having to apply to the courts. HMRC will only take action against debtors who owe over £1,000 of tax or tax credits. They will always leave a minimum aggregate of £5,000 across debtors' accounts, and will only put a hold on funds up to the value of the debt. Secondary legislation to be published shortly will set out details of the process and safeguards for taxpayers.

The Government intends to legislate this measure in a future Finance Bill.

HMRC Tax Enquiries – Closure Rules

The Government has consulted on a proposal to introduce a new power, enabling HMRC to refer matters to the tax tribunal with a view to achieving early resolution of one or more aspects of a tax enquiry, whilst leaving other aspects of the tax enquiry open. The Government is currently considering the consultation responses.

UK's Automatic Exchange of Information Agreements

In compliance with the UK's obligations to improve international tax compliance, regulations will be introduced to create due diligence and reporting obligations for UK financial institutions. With effect from 1 January 2016, the obligations will require financial institutions to:

- identify accounts maintained for account holders who are tax resident in jurisdictions with which the UK has entered into an agreement to exchange to help tackle tax evasion; and
- collect and report information to HMRC.

The regulations also revoke and replace the current implementing regulations for the UK's exchange of information agreement with the USA (FATCA). These new regulations will have effect 21 days from the date that they are laid.

Personal Taxation

Basic Personal Allowance and Transferable Allowance for 2015/16

The personal allowance for those born after 5 April 1938 will be £10,600 for 2015/16. As a corollary, the transferable allowance for married couples and civil partners (10% of the personal allowance) will be £1,060. The higher rate threshold (i.e. the aggregate of the personal allowance and the basic rate limit) will be £42,385.

Personal Allowance and Basic Rate Limit for 2016/17 and 2017/18

The personal allowance will be £10,800 and £11,000 for 2016/17 and 2017/18 respectively. As a consequence there will no longer be a separate age-related allowance for 2016/17 onwards. The basic rate limit will be £31,900 for 2016/17 and £32,300 for 2017/18. The combined effect is that the higher rate threshold will be £42,700 in 2016/17 and £43,300 in 2017/18.

Charge for using Remittance Basis

An individual not domiciled in the UK who chooses to be taxed on the remittance basis on overseas income and chargeable gains must pay a special additional tax charge. This is currently £30,000 if the individual has been UK resident in at least 7 of the 9 preceding tax years or £50,000 if he has been UK resident in at least 12 of the 14 preceding years. For 2015/16 onwards the £50,000 charge is to increase to £60,000. The £30,000 charge will remain unchanged. The additional charge will be increased to a new level of £90,000 if the individual has been UK resident in at least 17 of the 20 preceding tax years.

Exemption from Income Tax for the Bereavement Support Payment

With effect from a date to be announced, the bereavement support payment (BSP) will replace the current bereavement allowance, bereavement payment and widowed parent's allowance for bereaved people who lose their spouse or civil partner. Once in payment, BSP will be exempt from income tax.

Miscellaneous Loss Relief for Income Tax

Anti-avoidance legislation will deny a person miscellaneous loss relief for income tax purposes where a loss arises as a result of tax avoidance arrangements. The legislation will also deny miscellaneous loss relief against miscellaneous income that arises as a result of tax avoidance arrangements. This is effective for losses and income arising on and after 3 December 2014.

In addition, for 2015/16 onwards, the offset of a miscellaneous loss will be limited to miscellaneous income that is chargeable to income tax under, or by virtue of, the same provision as that under which the loss would have been chargeable had it been profits or other income instead of a loss.

Bad Debt Relief on Peer-to-peer Lending

Individuals who make loans through peer-to-peer (P2P) platforms will be able to offset bad debts arising against the interest they receive from P2P loans when calculating their taxable income. These changes will have effect for loans made from 6 April 2015, but the legislation will be in a future Finance Bill.

Employment Taxation

Abolition of the £8,500 Threshold for Benefits in Kind

The £8,500 earnings threshold that determines whether employees pay income tax on all of their benefits in kind and expenses, and whether employers pay Class 1A National Insurance contributions (NICs), is to be abolished for 2016/17 onwards.

Currently, an employee in so-called lower-paid employment (i.e. whose earnings for the tax year are less than £8,500) pays tax only on certain employee benefits, e.g. living accommodation, vouchers and credit-tokens. The abolition of the threshold will mean all employees will be taxed on their benefits and expenses in the same way. The employer's NICs treatment will follow the income tax treatment.

New exemptions will be introduced to cover benefits for ministers of religion earning less than £8,500 and for employees who are carers; the latter will cover board and lodging on a reasonable scale that is provided in the home of the person being cared for.

Statutory Exemption for Trivial Benefits in Kind

A statutory exemption is to be introduced for 2015/16 onwards that will allow employers to identify and treat certain low value benefits provided to employees or former employees as trivial. These benefits will then be exempt from income tax and Class 1A National Insurance contributions and will not need to be reported to HMRC. A benefit will be trivial if it meets all the following conditions:

- the benefit is not cash or a cash voucher;
- the cost of providing it does not exceed £50;
- the benefit is not provided under salary sacrifice arrangements or any other contractual obligation; and
- it is not provided in recognition of particular services performed, or to be performed, by the employee.

An annual cap of £300 will be introduced for office holders of close companies (broadly those controlled by 5 or fewer people) and employees who are family members of those office holders. Those affected by this cap will be able to receive a maximum of £300 worth of exempt trivial benefits each year.

Employee Expenses: Dispensations

The current system whereby an employer can apply to HMRC for a dispensation to pay expenses free of tax in certain circumstances will be scrapped for 2016/17 onwards. Instead, expenses provided to employees will automatically be exempt in any case where the employee would have been eligible for a deduction had he incurred and paid the equivalent expense himself. The exemption will also allow the employee to be paid a scale rate rather than be reimbursed the actual expense he has incurred. This can either be a rate set by HMRC or a rate that the employer has agreed with HMRC. The exemption will also apply to benefits in kind provided by employers in respect of expenses incurred by their employees It will not apply to expenses/benefits provided as part of a salary sacrifice arrangement or in conjunction with other arrangements that seek to replace salary with expenses. Similar rules will apply for NIC purposes.

Collection of Tax on Benefits and Expenses through Voluntary Payrolling

Legislation is to be introduced to allow HMRC to make changes to the PAYE Regulations to provide for voluntary payrolling of certain benefits in kind. The intention is that employers will be able to opt to payroll benefits for cars, car fuel, medical insurance and gym membership for 2016/17 onwards. Where employers do so, they will not have to make a return on Form P11D for these benefits. Instead, they will report the value of the benefits through Real Time Information, and that value will count as PAYE income liable to deduction using the PAYE Tax Tables. The amended Regulations will determine the value to be placed on the benefit for this purpose.

Van Benefit Charge for Zero Emission Vans

The van benefit charge for zero emission vans will increase from £nil, beginning in 2015/16. The van benefit charge for such vans will be 20% of the van benefit charge for vans which emit CO_2 in 2015/16, 40% in 2016/17, 60% in 2017/18, 80% in 2018/19 and 90% in 2019/20. From 2020/21, the van benefit charge for zero emission vans will be the same as the van benefit charge for vans which emit CO_2.

Company Car Tax Rates and Bands for 2017/18 and 2018/19

Rates and bands for 2017/18

For cars with CO2 emissions there will be a 9% band for emissions of 0g–50g CO2 per km, a 13% band for emissions of 51g–75g CO2 per km, a 17% band for other low emission cars (76g–94g CO2 per km); and a 1% increase for each rise in emissions of 5g CO2 per kg from 95g CO2 (18%) to the existing maximum of 37%.

For cars without a CO2 emissions figure the appropriate percentage for a cylinder capacity of up to 1,400cc will be 18%; for 1,401–2,000cc it will be 29%; and for 2,000cc plus it will remain at 37%.

For cars first registered before 1 January 1998 the appropriate percentage for capacity up to 1,400cc will be 18%; for 1,401–2,000cc it will be 29%; and for more than 2,000cc it will remain at 37%.

Rates and bands for 2018/19

For cars with CO2 emissions there will be a 13% band for emissions of 0g–50g CO2 per km, a 16% band for emissions of 51g–75g CO2 per km, a 19% band for emissions of 76g–94g CO2 per km; and a 1% increase for each rise of 5g CO2 per km from 95g CO2 (20%) to the existing maximum of 37%.

For cars without a CO2 emissions figure, the appropriate percentage for a cylinder capacity of up to 1,400cc will be 20%; for 1,401–2,000cc it will be 31%; and for more than 2,000cc it will remain at 37%.

For cars first registered before 1 January 1998 the appropriate percentage for capacity of up to 1,400cc will be 20%; for 1,401–2,000 cc it will be 31%; and for more than 2,000cc it will remain at 37%.

Employment Intermediaries

The Government is concerned at the growing use of overarching contracts of employment that allow some temporary workers and their employers to benefit from tax relief for home-to-work travel expenses, relief not generally available to other workers. The rules will be changed to restrict travel and subsistence relief for workers engaged through an employment intermediary, such as an umbrella company or a personal service company, and under the supervision, direction and control of the end-user. This will take effect from 6 April 2016 following consultation on the detail.

Exemption from Income Tax and National Insurance Contributions (NICs): Lump Sums provided under Armed Forces Early Departure Scheme

Lump sum payments made to qualifying armed forces personnel under the existing Early Departure Payment (EDP) 2005 scheme are exempt from income tax and are disregarded for NICs purposes. The scheme will be replaced by the EDP 2015 scheme on 1 April 2015. Legislation will be introduced in Finance Bill 2015 to ensure that the tax and NICs treatment of lump sum payments under the new scheme is the same as those under the existing scheme.

National Insurance Contributions

NICs for the Self-Employed

Class 2 contributions will be abolished in the next Parliament. Class 4 contributions will be reformed to introduce a new contributory benefit test. The Government intends to consult on the proposals later in 2015.

Business Tax

Farmers' Averaging

The period over which self-employed farmers can average their profits for income tax purposes is to be increased from 2 to 5 years with effect from 6 April 2016.

Simplified Expenses: Partnerships

The government will amend the simplified expenses regime introduced in FA 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.

Tax Relief for Businesses Contributing to a Partnership Funding Flood Defence Scheme

Finance Bill 2015 will introduce legislation to allow a specific income tax or corporation tax deduction from business profits or property business profits for contributions made on or after 1 January 2015 to partnership funding schemes for flood defence projects (known as Flood and Coastal Erosion Risk Management (FCERM) projects). No deduction will be allowed if the contributor, or a person connected with him, receives, or is entitled to receive, a disqualifying benefit.

Capital Allowances

Extension of Enhanced Capital Allowances for Zero-Emission Goods Vehicles to 2018

Legislation will be introduced in Finance Bill 2015 to extend the availability of 100% enhanced capital allowances (ECAs) for zero-emission goods vehicles to 31 March 2018 for corporation tax purposes and to 5 April 2018 for income tax purposes. In addition a rule will be introduced preventing claims to the ECA being made if another form of State aid has been, or will be, received, in order to bring the relief into line with other State aids.

Capital Allowances: Anti-Avoidance Rules for Plant and Machinery

With effect from 26 February 2015 a further restriction will apply to the amount of qualifying expenditure on which capital allowances may be claimed on an item of plant and machinery as a result of a connected party transaction, a sale and leaseback, a transfer and long funding leaseback, or a transfer and subsequent hire-purchase. The new restriction will apply in certain circumstances where the person disposing of the asset does not bring a disposal value into account. When the restriction applies the person acquiring the asset will be treated, for the purposes of plant and machinery allowances, as having no qualifying expenditure.

Corporation Tax

Diverted Profits Tax

The diverted profits tax will apply to diverted profits arising on or after 1 April 2015, with apportionment rules for accounting periods that straddle that date. The tax does not apply where, broadly, the parties to the relevant transactions are small and medium sized enterprises. It is a tax that is aimed at large multinational groups of companies and is intended to deter the implementation of aggressive tax planning which seeks to divert profits away from the UK, in order to minimise the group's overall corporation tax bill.

The diverted profits tax effectively operates by applying a 25% tax charge on diverted profits relating to UK activity and applies to companies that:

- design their activities to avoid creating a taxable presence (a permanent establishment) in the UK; or
- create a tax advantage by using transactions or entities that lack economic substance. Note this rule also applies where a non-UK resident company ('the foreign company') trades through a UK permanent establishment.

The initial onus to notify liability falls on the relevant company.

Film Tax Relief

Subject to State aid clearance, the Government will increase the rate of film tax relief to 25% for all qualifying expenditure. This will apply from 1 April 2015 or, if later, the date of approval by the European Commission.

High-end Television Tax Relief

With effect for qualifying expenditure incurred on and after 1 April 2015, subject to State aid clearance, the minimum UK expenditure requirement for television tax relief will be reduced from 25% to 10% for companies within the charge to corporation tax that are directly involved in the production of high-end television or animation. The cultural test will be modernised.

Children's Television Tax Relief

The existing television tax reliefs for animation and high-end TV are extended to children's television programmes, including children's game shows and competitions. Companies within the charge to corporation tax that are directly involved in the production of children's television programmes will be able to claim a deduction from their profits at the rate of 25% on qualifying expenditure incurred on eligible programmes on and after 1 April 2015. Where that additional deduction results in a loss, the company may surrender the loss for a payable tax credit. Both the additional deduction and the payable credit are calculated on the basis of a maximum of 80% of the total UK core expenditure by the qualifying company. The additional deduction is 100% of qualifying core expenditure and the payable tax credit is 25% of losses surrendered.

Children's programming will not be subject to the £1m per programme hour threshold or the 30 minute slot length that apply to high-end TV programmes.

Orchestra Tax Relief

Legislation will be introduced in a future Finance Bill for a new relief for orchestras at a rate of 25% on qualifying expenditure from 1 April 2016.

Accelerated Payments and Group Relief

The Government will introduce legislation to ensure that the accelerated payments legislation works effectively where avoidance arrangements give rise to losses surrendered as group relief. It will be applicable to all cases involving group relief where there is an open enquiry or open appeal on or after the day of Royal Assent to Finance Act 2015. Where a company makes a return asserting a tax advantage from chosen arrangements, and then surrenders all or part of that advantage as group relief, the legislation will allow HMRC to issue an accelerated payment notice to the effect that the asserted advantage may not be surrendered while the dispute is in progress.

Modernisation of Corporate Debt and Derivative Contracts

A series of wide-ranging changes have been announced to update, simplify and rationalise the legislation on corporate debt and derivative contracts.

The main changes will be:

- The relationship between accountancy and tax will be clarified and strengthened. In particular, the requirement that amounts brought into account for tax must 'fairly represent' the profits, gains and losses arising will be removed.
- The calculation of taxable amounts will be amended to bring them into line with the usual approach to the computation of profits. Taxation will be based only on amounts recognised as items of accounting profit or loss, rather than on amounts recognised anywhere in accounts – in reserves or equity, for example. A transitional rule will ensure that this change is broadly tax neutral.
- Taxable amounts that would otherwise arise where arrangements are made to restructure the debts of a company in financial distress with a view to ensuring its continued solvency will be excluded. This will cover situations where debt is released, or where the terms are modified, supplementing and extending the existing rule that exempts credits arising in debtor companies when creditors exchange debt investment for an equity stake.
- A new regime-wide anti-avoidance rule will counter arrangements entered into with a main purpose of obtaining a tax advantage by way of the loan relationships or derivative contracts rules. As a consequence, a number of existing specific anti-avoidance rules will be repealed.

The first two changes will apply for accounting periods commencing on or after 1 January 2016. The latter two apply, respectively, to releases and modifications on or after 1 January 2015 and arrangements entered into on or after 1 April 2015. The Government has announced that these changes will be legislated for in a future Finance Bill.

Research and Development

Legislation will be introduced to restrict qualifying expenditure for research and development (R&D) tax credits so that the cost of consumable items incorporated in products that are sold in the normal course of a company's business are not eligible for R&D relief, with effect from 1 April 2015. Qualifying expenditure on consumable items will be limited to the cost of only those items fully used up or expended by the R&D activity itself which do not go on to be sold as part of a commercial product. This restriction will not apply where the product of the R&D is transferred as waste, or where it is transferred but no consideration is given.

In addition, from 1 April 2015, the rate of the above the line credit for large companies will increase from 10% to 11% and the rate of the relief for the SME scheme will increase from 225% to 230%.

Consortium Relief

Legislation will be introduced to repeal all requirements relating to the location of a 'link company' for consortium claims to group relief. This will apply to all claims to group relief for accounting periods beginning on and after 10 December 2014. Prior to this amendment the link company had to be in the UK or EEA. This measure makes the tax system simpler by removing differences in treatment of link companies based in the UK and other jurisdictions.

Goodwill Transfers on Incorporation

Corporation tax relief will be restricted where a company acquires internally-generated goodwill and customer-related intangible assets from related individuals on the incorporation of a business on or after 3 December 2014, unless the transfer is made pursuant to an unconditional obligation entered into before that date. Currently companies are given corporation tax relief on internally-generated goodwill even when there is continuing economic ownership. This change will ensure that businesses that do not incorporate are not at a disadvantage compared to those which do.

Companies already receiving relief for goodwill recognised on incorporation will not be affected.

Corporate Loss Refresh Prevention

From 18 March 2015 there are restrictions to prevent companies converting brought forward trading losses, non-trading loan relationship deficits and management expenses into in-year deductions. Where a company enters into an arrangement, the main purpose of which is to utilise the brought forward losses, it will be unable to use the brought forward losses against profits created as a result of the arrangement.

Deduction at Source from Interest Paid on Private Placements

A UK company's duty to deduct income tax from certain payments of yearly interest will not apply to a payment of interest on qualifying private placements and the condition relating to the minimum term of the security will be removed. The primary legislation for this measure will have effect on or after the date of Royal Assent to Finance Act 2015 and regulations will set out detailed conditions of private placements that qualify for the exemption. These regulations may allow the exemption to be targeted at particular types of company, and may contain safeguards to ensure the exemption is not abused.

Country-by-country Reporting

Legislation will be introduced in Finance Bill 2015 that gives the UK the power to implement the OECD model for country-by-country reporting. The new rules will require multi-national enterprises (MNEs) with a parent company in the UK to make an annual country-by-country report to HMRC showing, for each tax jurisdiction in which they do business:

- the amount of revenue, profit before income tax and income tax paid and accrued; and
- their total employment, capital, retained earnings and tangible assets.

Regulations giving effect to the scope and detail of the reporting obligation will be made at a later date.

Late Paid Interest

As part of the review of the legislation on corporate debt announced at Budget 2013, the Government will repeal rules concerning loans made to UK companies by a connected company in a non-qualifying territory.

Banks

Bank Levy Rate Increase

Legislation in Finance Bill 2015 will increase the rate of the bank levy to 0.21% from 1 April 2015. A proportionate increase to 0.105% will be made to the half rate from the same date.

Capital Gains Tax

Non-UK Residents and UK Residential Property

Capital gains tax will be charged on gains accruing to non-UK resident persons on disposals of UK residential property made on or after 6 April 2015. This will affect:

- non-UK resident individuals;
- non-UK resident trusts;
- personal representatives of a deceased person who was non-UK resident; and
- non-UK resident companies controlled by five or fewer persons, except where the company itself, or at least one of the controlling persons, is a 'qualifying institutional investor'.

It will also affect some UK resident individuals disposing of properties overseas or who spend part of a tax year abroad.

Tax will be due for payment within 30 days of the property being conveyed, unless the person has a current self-assessment record with HMRC, when payment will be at the normal due date for the tax year in which the disposal is made.

In addition, private residence relief (PRR) will be restricted where a property is located in a jurisdiction in which a taxpayer is not resident. In these circumstances, the property will only be capable of being regarded as the person's main residence for PRR purposes for a tax year where the person meets a 90-day test for time spent in the property over the year.

Entrepreneurs' Relief on Deferred Gains

Finance Act 2015 will allow gains that are eligible for entrepreneurs' relief (ER), but which are instead deferred into investments that qualify for the Enterprise Investment Scheme (EIS) or Social Investment Tax Relief (SITR), to remain eligible for ER when the gain is realised. This will benefit qualifying gains on disposals that would be eligible for ER but are deferred into EIS or SITR on or after 3 December 2014.

Entrepreneurs' Relief for Disposals of Goodwill

Legislation in Finance Bill 2015 will prevent entrepreneurs' relief from being available on disposals of goodwill on or after 3 December 2014 to a close limited company to which the seller is related. The relief may still be claimed by partners in a firm who do not hold or acquire any stake in the successor company.

Restricting Entrepreneurs' Relief on Associated Disposals

The rules relating to entrepreneurs' relief on associated disposals are to be amended. For disposals on or after 18 March 2015, in order to qualify for the relief on a disposal of a privately-owned asset, the claimant must reduce his participation in the business by also disposing of a minimum 5% of the shares of the company carrying on the business, or (where the business is carried on in partnership) of a minimum 5% share in the assets of the partnership carrying on the business.

Entrepreneurs' Relief, Joint Ventures and Partnerships

Legislation is to be introduced to ensure that those who benefit from entrepreneurs' relief have a 5% directly-held shareholding in a genuine trading company. For disposals on or after 18 March 2015, the definitions of a 'trading company' and 'the holding company of a trading group' do not take account of activities carried on by joint venture companies which a company is invested in, or of partnerships of which a company is a member. Therefore a company would need to have a significant trade of its own in order to be considered as a trading company.

Exemption for Certain Wasting Assets

Legislation will be introduced to make it clear that the capital gains tax wasting asset exemption applies only if the person selling the asset has used it as plant in their own business as opposed to its being used as plant in another person's business. This change will have effect for gains accruing on and after 1 April 2015 for corporation tax purposes and 6 April 2015 for CGT purposes.

Threshold amount for ATED-related Capital Gains Tax

Legislation will be introduced in Finance Bill 2015 to reduce the threshold amount for consideration received on a disposal of residential property, above which an Annual Tax on Enveloped Dwellings (ATED)-related gain may accrue. The threshold will fall from £2m to £1m for disposals on or after 6 April 2015, and then to £500,000 for disposals on or after 6 April 2016.

Savings and Investments

Personal Savings Allowance

It is proposed that a new Personal Savings Allowance be introduced from 6 April 2016. For a basic rate taxpayer, this will exempt from income tax the first £1,000 of savings income, such as bank and building society interest. For a higher rate taxpayer, only the first £500 will be exempted. The Personal Savings Allowance will not be available to additional rate taxpayers. At the same time, the deduction of basic rate tax at source from interest paid by banks and building societies will be abolished for all savers.

Individual Savings Accounts (ISAs)

It is announced that regulations will be introduced in Autumn 2015 to enable a cash ISA investor to withdraw money from his ISA and pay it back in again during the same tax year without the second transaction counting towards his ISA subscription limit for that year. Regulations will also be introduced to extend the list of qualifying investments for ISAs and Child Trust Funds.

Help to Buy ISAs

This proposed scheme for first-time home buyers will provide a bonus to each person who has saved into a Help to Buy Individual Savings Account. The bonus will be paid at the time the savings are used to purchase a home. For every £200 saved, the Government will provide a £50 bonus up to a maximum of £3,000 on £12,000 of savings. Accounts are expected to be available through banks and building societies from Autumn 2015. Savers will be able to make an initial deposit of £1,000 and a monthly saving of up to £200. The bonus will be available on home purchases of up to £450,000 in London and up to £250,000 elsewhere in the UK.

Special Purpose Share Schemes

Companies sometimes use special purpose share schemes (often called ‘B share schemes’) to offer shareholders the option to receive, instead of a dividend, a similar amount via an issue of new shares. The shares issued are subsequently purchased by the company or are sold to a pre-arranged third party. Under legislation to be introduced, any amount thus received by a shareholder after 5 April 2015 will be charged to income tax by treating it as a distribution, i.e. a dividend, made to the shareholder by the company in the tax year in which it is received. It will qualify for a dividend tax credit to the same extent that an actual distribution by the company to the shareholder would have qualified.

The above will apply whenever a company has given a shareholder the option to receive, instead of a dividend, something that would not be subject to income tax, and the shareholder has taken that option. If at any time a tax other than income tax (e.g. capital gains tax) is charged in relation to the receipt, then in order to avoid a double charge to tax, the recipient may make a claim for consequential adjustments to be made in respect of the other tax.

Social Investment Tax Relief – Enlarging the Scheme

Subject to EU State aid clearance, the maximum amount that can be invested through Social Investment Tax Relief will be increased, and the range of qualifying social enterprises broadened to include certain small horticulture and agriculture projects that will no longer qualify for subsidy as a result of the forthcoming Common Agricultural Policy reforms. The range of eligible social impact bonds (SIBs) will also be widened to include certain spot purchased and sub-contracted SIBs.

There will be a consultation on allowing investments to be made indirectly, through a social investment form of a venture capital trust scheme, a ‘Social VCT’.

Social Venture Capital Trusts

The Government will legislate for Social Venture Capital Trusts (VCTs) in a future Finance Bill. The rate of income tax relief for investment in Social VCTs will be set at 30%, subject to State aid clearance. Investors will pay no tax on dividends received from a Social VCT or capital gains tax on disposals of shares in a Social VCT. Social VCTs will have the same excluded activities as the Social Investment Tax Relief Scheme.

Changes to Venture Capital Schemes for Companies and Community Organisations Benefiting from Energy Subsidies

From 6 April 2015, companies and community organisations will cease to be eligible for the Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) Scheme where their activities consist wholly or substantially of the subsidised generation or export of electricity, or the subsidised generation of heat or production of gas or fuel, and:

- the activities are carried out by community groups; or
- where anaerobic digestion or hydroelectric power is involved; or
- the company has entered into a Contract for Difference under the Energy Act 2013.

For Social Investment Tax Relief (SITR), activities that are subsidised by way of Feed-in Tariffs will cease to be excluded activities following State aid clearance of the scheme. As a transitional measure, the provisions excluding community energy organisations from EIS, SEIS and VCT will take effect six months after approval for the extension of SITR.

SEIS, EIS and VCT changes

It is intended that the Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Venture Capital Trust Scheme will be amended, subject to State aid approval, so that:

- companies must be less than 12 years old when receiving their first EIS or VCT investment, unless that investment will lead to a substantial change in activity;
- a cap for all schemes will be introduced of £15m, increasing to £20m for knowledge-intensive companies; and
- there will be an increase in the employee limit for knowledge-intensive companies from 249 to 499.

With effect from 6 April 2015, the requirement that 70% of SEIS money must be spent before EIS or VCT funding can be raised will be removed.

Inheritance Tax

Relevant Property Trusts

Following the Government's consultation on proposals for changes to the inheritance tax regime for relevant property trusts, a number of measures are to be included in a future Finance Bill:

- In calculating the rate of inheritance tax for the purposes of the ten-year charge and the exit charge, the requirement to include certain property that is not relevant property is removed for charges arising on or after 6 April 2015.
- A new rule is introduced, subject to transitional provisions, for ten-year anniversary charges, exit charges and charges on 18/25 trusts arising on or after 6 April 2015. Where property of more than £5,000 is added to two or more relevant property settlements on the same day (and after the commencement of those settlements), then, in calculating the rate of tax for any of those settlements, the value of the property so added to the other settlements, together with the value of property added to those settlements at the date of their commencement, must be brought into account in calculating the rate of tax.
- The requirement that a claim for conditional exemption must be made and the property designated as heritage property before the ten-year charge is removed so that, for ten-year charges that would otherwise arise on or after the date of Royal Assent to the Finance Act in which the legislation is included, the claim for designation can be made within the two years following the date of the ten-year anniversary.
- The rules applying to settlements made before 22 March 2006 that give an interest in possession to the settlor or their spouse or civil partner (or surviving spouse or civil partner) are amended. Where, on or after the day after the date of Royal Assent to the Finance Act in which the legislation is included, one party to the couple succeeds to the interest in possession of the other, the settled property will then come within the relevant property trusts regime unless the successor's interest is an immediate post-death interest, a disabled person's interest or a transitional serial interest.
- For deaths on or after 10 December 2014, where property is left in a relevant property trust and an appointment is made of that property to the spouse or civil partner of the testator, that appointment is read back into the will and exemption from inheritance tax can apply even where the appointment is made in the three months following death.

Exemption for Emergency Service Personnel and Humanitarian Aid Workers

Effective for deaths on or after 19 March 2014, IHT will not be charged on the estates of emergency service personnel and humanitarian aid workers whose death has been caused directly or hastened by injury or illness while responding to emergency circumstances. The Government has clarified that the exemption applies to serving and former police officers and service personnel targeted because of their status.

Extending Exemption for Medals and Other Awards

The exclusion from inheritance tax that applies to medals and other decorations that are awarded for valour and gallantry is extended to all decorations and medals awarded by the Crown or by another country or territory outside the UK to the armed forces, emergency service personnel and to individuals in recognition of their achievements and service in public life. The extension is effective in relation to transfers of value made or treated as made on or after 3 December 2014.

Interest Changes to Support the New Digital Service

Legislation will be introduced in a future Finance Bill to provide for a new inheritance tax online service. Draft regulations to facilitate the use of electronic communications will be published shortly after the Budget. It was announced at Autumn Statement that future regulations would also update the instalment interest provisions relating to certain financial institutions and companies, and clarify the period from when interest is charged. The amendments will come into force on an appointed day to be specified in regulations. This is expected to be at the same time as the new online service becomes available.

Charities

Gift Aid Intermediaries

A non-charity intermediary will be able to submit a gift aid declaration on behalf of a donor, and the recipient charity able to claim gift aid on the basis of such a declaration. Primary legislation will be effective from Royal Assent to Finance Act 2015 with further details governing the declarations introduced in later regulations.

Gift Aid Small Donations Scheme

From 6 April 2016 the maximum annual donation amount that can be claimed by a charity under the Gift Aid Small Donations Scheme will be increased to £8,000, thus enabling the charity to claim a Gift Aid style top-up payment from HMRC of up to £2,000.

Status of Certain Bodies for Tax Purposes

The Commonwealth War Graves Commission (CWGC) and the Imperial War Graves Endowment Fund (which provides investment income for the CWGC) will be treated as charities for tax purposes from the date of Royal Assent to Finance Act 2015.

Pensions

Reduction in Lifetime Allowance

It is intended to introduce legislation in the next Parliament to reduce the pension lifetime allowance from 6 April 2016 from £1.25m to £1m, accompanied by fixed and individual protection arrangements. From 2018 the allowance will rise in line with the consumer prices index.

Annuity Flexibility

It is intended to introduce legislation in a future Finance Bill, to be effective from April 2016, to allow those already in receipt of an annuity to sell to a third party and take the proceeds directly or draw them down over a number of years. Income tax would be at the individual's marginal rate.

Taxation of Inherited Annuities

From 6 April 2015, beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax-free where no payments have been made to the beneficiary before 6 April 2015. The tax rules will also be changed to allow joint life annuities to be paid to any beneficiary. Where the individual was over 75, the beneficiary will pay their marginal rate of income tax.

Anti-avoidance

Disclosure of Tax Avoidance Schemes Regime Changes

The disclosure of tax avoidance schemes (DOTAS) regime is amended to:

- ensure disclosure is made by persons resident in the UK where a promoter not resident in the UK fails to disclose;
- change the information that must be provided to HMRC;
- enable HMRC to publish information about promoters and disclosed schemes; and
- establish a taskforce to enforce the strengthened regime.

Changes to primary legislation included in the Finance Bill come into force on the date of Royal Assent, and further amendments will be made through secondary legislation and will come into force at a later date. The changes will be extended to schemes avoiding National Insurance contributions.

Promoters of Tax Avoidance Schemes

The following changes will be made in a future Finance Bill to the legislation that affects high-risk promoters of avoidance schemes:

- HMRC will be able to issue conduct notices to a broader range of connected persons;
- the time limit for issuing notices to promoters who have failed to disclose avoidance schemes to HMRC under DOTAS is amended;
- a new threshold condition will be introduced for failing to comply with NICs disclosure requirements; and
- the threshold conditions will take account of decisions by independent bodies in matters relating to professional misconduct.

Serial Avoiders

Legislation will be included in a future Finance Bill to introduce tougher measures for those who persistently enter into tax avoidance schemes which fail. These will include a special reporting requirement and a surcharge on any such serial avoider whose latest tax return is inaccurate as a result of a further failed scheme. The Government will look to restrict access to reliefs for serial avoiders and to name and shame them. Legislation will be introduced in due course to widen the scope of the current disclosure regime by including promoters whose schemes regularly fail.

GAAR Penalties

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

Penalties for Offshore Non-compliance

The penalty for failure to notify chargeability to income tax or capital gains tax, the late filing penalty for self-assessment tax returns and the penalty for careless or deliberate errors in documents is currently in each case increased where the failure involves an offshore matter. This offshore penalty regime is to be strengthened and extended with effect from 1 April 2016 so that it will:

- apply additionally to inheritance tax;
- cover cases where the proceeds of domestic non-compliance are situated or held outside the UK; and
- have four (increased from three) levels of penalty, with the lowest level applying to countries that adopt automatic exchange of information.

On and after the date of Royal Assent to Finance Act 2015 there will be a new and additional penalty where:

- a person is liable to one of the penalties mentioned above;
- that penalty is for a deliberate failure;
- assets are moved from a specified country to a non-specified country; and
- a main purpose of the movement is to prevent or delay the discovery by HMRC of the potential loss of revenue giving rise to the said penalty.

Countries will be specified for this purpose if they have committed to exchanging information.

Disclosure Facilities

The following have been announced in relation to current disclosure facilities:

- the disclosure period of the Liechtenstein Disclosure Facility will be shortened, with the end date being changed from April 2016 to December 2015; and
- the disclosure period of the Crown Dependencies Disclosure Facility will also be shortened, with the end date being changed from September 2016 to December 2015.

A new time-limited disclosure facility will be introduced that will run after the existing facilities close, with tougher terms than existing facilities, including penalties of at least 30% and no guarantee around criminal investigation.Stamp and

Property Taxes

Stamp Duty Land Tax: Extension of Multiple Dwellings Relief

The SDLT relief for transactions involving interests in more than one dwelling is to be extended to include purchases from certain shared ownership bodies of superior leasehold interests in property subject to shared ownership leases where the transaction is part of a lease and leaseback arrangement. The change will apply to transactions with an effective date on or after the date of Royal Assent to Finance Act 2015.

Stamp Duty Land Tax: Alternative Property Finance

A change is to be made to the SDLT alternative property finance reliefs which apply where a property is purchased using a method of financing which does not involve the payment of interest. The reliefs will be extended to apply to all purchases which are financed using a home purchase plan provided by an authorised provider. The change will apply to transactions with an effective date on or after the date of Royal Assent to Finance Act 2015.

Annual Tax on Enveloped Dwellings (ATED)

The 2015/16 ATED annual charges will be as follows:

Property value	Annual charge in 2015/16
More than £1m but not more than £2m	£7,000
More than £2m but not more than £5m	£23,350
More than £5m but not more than £10m	£54,450
More than £10m but not more than £20m	£109,050
More than £20m	£218,200

Reducing Administrative Burden of ATED

Legislation will be introduced in Finance Bill 2015 to reduce the administrative burden on businesses which hold properties eligible for a relief from ATED and for which there is no tax liability. For chargeable periods beginning on or after 1 April 2015 such businesses will be able to submit a relief declaration return.

A relief declaration return can only relate to one type of ATED relief, but subject to this it can be made in respect of one or more single-dwelling interests, which do not need to be identified. For the 2015/16 year only, relief declaration returns must be filed by 1 October 2015. For subsequent years the normal filing date of 30 April will apply.

Value Added Tax

VAT Registration Thresholds

With effect from 1 April 2015, the VAT registration threshold will be increased from £81,000 to £82,000. The deregistration threshold will be increased from £79,000 to £80,000. The registration and deregistration thresholds for acquisitions from other EU member states will be increased from £81,000 to £82,000.

VAT Deductions Relating to Foreign Branches

Following the CJEU decision in Credit Lyonnais amendments to the VAT Regulations will mean that:

- calculations of recoverable input tax using the partial exemption standard method must exclude supplies made by establishments outside the UK;
- calculations of recoverable input tax using a partial exemption special method must exclude supplies made by establishments outside the UK;
- the use-based calculation for 'out-of-country' supplies is limited to supplies made from establishments within the UK.

The changes will have effect from the first day of a business's longer period which commences on or after 1 August 2015.

Power to Make Refunds to Named Bodies

Government departments are permitted to obtain refunds of VAT which they incur in relation to non-business activities. However, this does not extend to non-departmental public bodies and similar arm's-length bodies.

A future Finance Act will provide that the Treasury may, by order, name any such bodies as 'specified bodies', with the result that they will be able to recover the VAT which they incur on non-business activities. The aim of the measure is to prevent VAT from being a disincentive to cost-sharing arrangements between such bodies, which currently give rise to irrecoverable VAT.

Any hope of a windfall by a specified body will, however, be short lived; since the recipient will be government-funded, the extent of the funding will be adjusted downwards to take account of the VAT which is now recoverable.

Oil and Gas

Oil and Gas Companies

A package of measures has been announced to reform the oil and gas fiscal regime as follows:

- from 1 January 2015, the rate of the supplementary charge payable in respect of profits from oil and gas production in the UK or on the UK Continental Shelf is reduced to 20%;
- for chargeable periods ending after 31 December 2015 the rate of petroleum revenue tax payable in respect of profits from oil and gas production is reduced to 35%;
- for qualifying pre-commencement expenditure incurred in accounting periods ending on or after 5 December 2013, the ring-fence expenditure supplement is extended from six to ten accounting periods and the extended ring fence expenditure supplement is removed;
- new allowances will be introduced which will remove an amount equal to 62.5% of investment/capital expenditure incurred by a company from its adjusted ring-fence profits which are subject to the supplementary charge.

Miscellaneous

Investment Managers: Disguised Fee Income

For 2015/16 onwards, where an individual provides investment management services for a collective investment scheme through an arrangement involving partnerships, then any sum received for those services (the ‘disguised fee’) will be treated as profits of a trade, unless already charged to income tax. This will have effect in relation to all disguised fees arising on or after 6 April 2015, whenever the arrangement is entered into. Sums will not be caught if they represent a return on investments by the managers or a return which varies by reference to profits on funds. An individual thus charged will be able to claim a consequential adjustment if at any time tax is charged under another tax provision in respect of the same fee. The consequential adjustment cannot exceed the lesser of the two charges.

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