THE BUDGET 2014

Christopher Young Limited

SPECIALIST ACCOUNTANTS • BUSINESS ADVISERS • TAX CONSULTANTS

FOREWORD

This booklet is intended to provide a useful summary of the very latest proposed changes to our tax system. Some details have of course already been announced in the Autumn Statement last December. Therefore as well as containing Budget "news" the contents of this booklet consolidates the sort of information which needs to be constantly referred to whenever performing tax calculations. A summary of tax rates and allowances for 2014-2015 is included for reference.

For the first time this year I have published a copy of this booklet on my website at www.christopheryoung.co.uk so that a copy can easily be referred to at any time during the year.

Following the Budget speech which tends to focus on key issues which receive extensive press coverage, there is considerably more detail which warrants close scrutiny. A Finance Bill will then be presented to Parliament for debate. Once the full details are published I will be reviewing all clients' tax affairs to see whether any action is needed in order to minimise tax liabilities.

It is becoming increasingly difficult to keep up with all of the changes that are made to tax legislation every year and indeed, interpretation of that legislation and evolving case law. As specialists we are able to concentrate our knowledge and resources on the detail to ensure that you gain from this to the fullest possible extent. Rather than solely reading and applying tax rules, there is considerable scope to engage in pro active tax planning without the need to challenge the tax system framework and this is work that I enjoy doing for our clients.

The aim of this practice is to provide a personal level of service to clients and to maintain a high level of technical excellence normally associated with national firms of accountants. I hope you will find that this booklet demonstrates our objectives with regard to tax matters.

Chris Young
Chartered Tax Adviser
March 2014

George Osborne presented his Budget on Wednesday 19 March 2014.

In his speech the Chancellor set the scene for the announcements stating that 'If you're a maker, a doer or a saver: this Budget is for you.'

Towards the end of last year the Government issued the majority of the clauses, in draft, of Finance Bill 2014 together with updates on consultations. The publication of the draft Finance Bill clauses is now an established way in which tax policy is developed, communicated and legislated.

The Budget updates some of these previous announcements and also proposes further measures. Some of these changes apply from April 2014 and some take effect at a later date.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments. If you have any questions please do not hesitate to contact us for advice.

Contents

Main Budget tax proposals

- The starting rate band for savings will be increased from April 2015 and the current 10% tax rate reduced to nil.
- Individual Savings Accounts are to be simplified by merging the cash and stocks ISAs together with a significant increase in the investment limit from 1 July 2014.
- Radical changes are to be made to the pensions regime including removing the restrictions on access to pension pots so there will no longer be a requirement to buy an annuity.
- The Annual Investment Allowance is to be doubled to £500,000 until 31 December 2015.
- An increase will be made in the R&D tax credit available to loss making SMEs to 14.5%.
- Those using tax avoidance schemes may be required to pay tax upfront.

The Budget proposals may be subject to amendment in a Finance Act. You should contact us before taking any action as a result of the contents of this summary.

Personal Tax

The personal allowance for 2014/15

For those born after 5 April 1948 the personal allowance will be increased from £9,440 to £10,000.

The reduction in the personal allowance for those with 'adjusted net income' over £100,000 will continue. The reduction is £1 for every £2 of income above £100,000. So for this year there is no allowance when adjusted net income exceeds £118,880. For 2014/15 the allowance ceases when adjusted net income exceeds £120,000.

Comment

The increase in the personal allowance gives more importance to planning before 6 April 2014 where adjusted net income is expected to exceed £100,000. Broadly, adjusted net income is taxable income from all sources, reduced by specific reliefs such as Gift Aid donations and pension contributions.

Tax bands and rates for 2014/15

The basic rate of tax is currently 20%. The band of income taxable at this rate is being reduced from £32,010 to £31,865 so that the threshold at which the 40% band applies will rise from £41,450 to £41,865 for those who are entitled to the full basic personal allowance.

The additional rate of tax of 45% is payable on taxable income above £150,000.

Dividend income is taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. Where income exceeds £150,000, dividends are taxed at 37.5%.

The personal allowance and tax bands 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. The threshold at which the 40% band applies will rise from £41,865 to £42,285.

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 from £2,880, and this starting rate will be reduced from 10% to nil. The 10% rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

Comment

This will increase the number of savers who are not required to pay tax on savings income, such as bank or building society interest. If a saver's total taxable income will be below the total of their personal allowance plus the £5,000 starting rate limit then they can register to receive their interest gross using a form R85.

Transferable tax allowance for some

From April 2015 married couples and civil partners may be eligible for a new transferable tax allowance.

The transferable tax allowance will enable spouses and civil partners to transfer a fixed amount of their personal allowance to their spouse. The transferable allowance is £1,050 for 2015/16 being 10% of the personal allowance.

The option to transfer will be available to couples where neither pays tax at the higher or additional rate. If eligible, one spouse will be able to transfer £1,050 of their personal allowance to the other spouse. The transferor's personal allowance will be reduced by £1,050. It will mean that the transferee will be able to earn £1,050 more before they start paying income tax.

The claim will be made online and entitlement will be from the 2015/16 tax year. Couples will be entitled to the full benefit in their first year of marriage.

Comment

For those couples where one person does not use all of their personal allowance the benefit will be worth up to £210.

New Tax-Free Childcare scheme

In Budget 2013, the Government announced new tax incentives for childcare. Following consultation on the design and operation of the scheme, the Government has announced improvements.

The relief will be 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child. The original proposal had a cap of 20% of £6,000 per child.

The scheme will be launched in autumn 2015. All children under 12 within the first year of the scheme will be eligible. Under the original proposal only children under five would have been eligible in the first year of the scheme.

To qualify for Tax-Free Childcare all parents in the household must:

- meet a minimum income level based on working eight hours per week at the National Minimum Wage (around £50 a week at current rates)
- each earn less than £150,000 a year, and
- not already be receiving support through Tax Credits or Universal Credit.

The current system of employer supported childcare will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. Employer supported childcare will continue to be open to new joiners until the new scheme is available.

It is proposed that parents register with the Government and open an online account. The scheme will be delivered by HMRC in partnership with National Savings and Investments, the scheme's account provider. The Government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

Comment

Self-employed parents will be able to get support with childcare costs in the Tax-Free Childcare scheme, unlike the current employer supported childcare scheme. To support newly self-employed parents, the Government is introducing a 'start-up' period. During this period a newly self-employed parent will not have to earn the minimum income level.

Venture Capital Trusts (VCTs)

Where an individual subscribes for shares in a VCT, income tax relief at 30% of the subscription price is available. The Government has been concerned that particular forms of share buy-backs and reinvestment arrangements offered by VCTs were not in keeping with the intention of the legislation.

The Government will introduce legislation to:

- prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares
- restrict an individuals' entitlement to VCT income tax relief where investments are conditionally linked in any way to a VCT share buy-back, or have been made within six months of a disposal of shares in the same VCT
- ensure that HMRC can withdraw tax relief in all cases if VCT shares are disposed of within five years of acquisition.

These changes will take effect from 6 April 2014.

In addition, from the date of Royal Assent, investors will be able to subscribe for shares in a VCT via a nominee.

Seed Enterprise Investment Scheme (SEIS)

SEIS was introduced in 2012 as a way of encouraging equity investment in small companies. This relief was originally introduced for a period of five years and has now been made permanent in respect of both the income and capital gains tax reliefs applicable.

Individual Savings Accounts (ISAs)

From 6 April 2014 the overall ISA savings limit will be increased from £11,520 to £11,880 of which £5,940 can be invested in cash. From 1 July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA) and all existing ISAs will become NISAs.

NISAs

From 1 July 2014 the overall annual subscription limit for these accounts will be increased to £15,000 for 2014/15. Special rules apply if investments are made before 1 July 2014. Investments for 2014/15 cannot exceed £15,000 in total.

Savers will also be able to subscribe this full amount to a cash account (currently only 50% of the overall ISA limit can be saved in cash). Under the NISA, investors will also have new rights to transfer their investments from a stocks and shares to a cash account.

There are also changes to the rules on the investments that can be held in a NISA, so that a wider range of securities to include certain retail bonds with less than five years before maturity can be invested. In addition, Core Capital Deferred Shares issued by building societies will become eligible to be held in a NISA, Junior ISA or Child Trust Fund (CTF).

Comment

These measures are part of a broader package of changes to support savers. In particular they will increase the choice and flexibility available to savers in tax advantaged products.

Junior ISA and CTF

The annual subscription limit for Junior ISA and CTF accounts will increase from £3,720 to £3,840 from 6 April 2014. From 1 July 2014 the amount that can be subscribed to a child's Junior ISA or CTF for 2014/15 will also be increased to £4,000.

The Government has decided that a transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. It is expected that the first transfers will be possible by April 2015.

Social investment tax relief

The Government will introduce a new tax relief of 30% for individuals investing in equity or certain debt investments in social enterprises with effect from 6 April 2014. Organisations which are charities, community interest companies (CICs) or community benefit societies will be eligible.

The tax relief available to an individual has a similar design to investments by individuals in an Enterprise Investment Scheme company. Draft guidance on the reliefs is expected to be published later this month.

Comment

CICs are limited companies that provide benefits to the community and the legal form has only been available since 2005. The reason behind the development of CICs was the lack of legal structures for non-charitable social enterprises. Community benefit societies are incorporated industrial and provident societies where profits are returned to the community for its benefit.

The Government wants to make the UK one of the easiest places in the world to invest in social enterprises.

Pension changes

The Chancellor has announced a range of significant measures to bring greater flexibility to individuals who want to access funds in defined contribution pension schemes. Some changes to the current restrictive rules will come into effect from 27 March 2014 whilst further measures will follow in April 2015 after a period of consultation.

Pensions - immediate measures

The immediate measures come into effect from 27 March and cover four broad areas.

Capped drawdown. An individual aged 55 or over can opt for a drawdown pension which allows them to extract amounts from the pension fund which is treated as income for the relevant year. The maximum amount of drawdown is fixed to ensure that the fund is not cleared too quickly. The cap is based on 120% of a notional annuity rate set by the Government Actuary. The cap will be increased to 150%.

Flexible drawdown. Where an individual aged 55 or over can demonstrate that they have pension income (including the state pension) of £20,000 per annum or more they can ignore the drawdown cap and can take whatever amount they wish. Tax will be payable at their marginal rate. The income limit is to be reduced to £12,000 per annum.

Trivial commutation. At present an individual aged 60 or over who has total pensions savings of £18,000 or below can withdraw this as a lump sum. The limit will be increased to £30,000.

Small pots. The Government will increase the amount for small individual pension pots that can be taken as a lump sum regardless of total pension wealth from £2,000 to £10,000. They will also increase the number of small pension pots that can be taken as lump sums from two to three.

Pensions - changes to come

The Government plans to bring even greater flexibility into the pension system from April 2015. In effect an individual will be able to choose what they want to do with their defined contribution pension fund.

- If they want to draw out all of the fund on retirement they will be able to do so. The tax free element will be 25% of the sum and the balance will be taxed as income in that year.
- If they wish to buy an annuity they will be able to do so.
- If they wish to opt for a drawdown arrangement they will be able to do this without any restriction either in the form of a cap or a minimum income limit.

These changes will be subject to a consultation.

Two other important changes will also be made:

- pension providers and pension trustees will be required to provide free and impartial advice to all individuals approaching retirement so that they can make an informed choice of the options available to them
- the minimum retirement age for pension schemes will rise to 57 years in 2028 when the state pension age rises to 67 years.

Comment

The Government has indicated that individuals approaching retirement should be trusted to make their own decisions as to what to do with their pension funds and not be restricted by legal requirements. The greater range of options will mean that getting the right advice at the point of retirement will be even more important.

Pension liberation

The Government is concerned about schemes which are intended to encourage people to access their pension funds before they reach retirement and use the funds for other purposes. A range of measures are being introduced to combat these schemes. The measures, generally take effect from 20 March 2014.

With effect from 1 September 2014 a further measure will allow HMRC to refuse to register pension schemes where they believe that the scheme administrator is not fit and proper and the scheme has been established for purposes other than providing pension benefits.

Business Tax

Corporation tax rates

The main rate of corporation tax will be 21% from 1 April 2014. The current rate is 23%. From 1 April 2015 the main rate of corporation tax will be reduced to 20% and unified with the small profits rate.

The small profits rate will therefore remain at 20% until then.

Annual Investment Allowance (AIA)

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business up to an annual limit and is available to most businesses. Where businesses spend more than the annual limit, any additional qualifying expenditure generally attracts an annual writing down allowance of only 18% or 8% depending on the type of asset.

The maximum amount of the AIA was increased to £250,000 from £25,000 for the period from 1 January 2013 to 31 December 2014. The amount of the AIA is further increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. The AIA will return to £25,000 after this date.

Comment

The increased AIA will mean that up to 99.8% of businesses could receive 100% upfront relief on their qualifying investment in plant and machinery. For example a single company with a 12 month accounting period to 31 December 2014 could obtain overall relief for the period of £437,500 (£250,000 x 3/12 plus £500,000 x 9/12). There is a restriction of £250,000 for expenditure incurred in that part of the accounting period which falls before 1 April 2014.

Members of Limited Liability Partnerships (LLPs)

Since their introduction in 2000, LLPs have become increasingly popular as a vehicle for carrying on a wide variety of businesses. The LLP is a unique entity as it combines limited liability for its members with the tax treatment of a traditional partnership. Individual members are currently deemed to be self-employed for income tax purposes and are taxed as such on their respective profit shares.

It is proposed to reclassify some members of an LLP from self-employment to employees of the LLP. As a consequence employer's National Insurance Contributions will be due and PAYE will need to be applied to the 'remuneration' of the member from the LLP.

A member is potentially a salaried member if 'Condition A' is satisfied. However if caught by Condition A there are two further conditions which, if either apply, will result in the member not being treated as a salaried member.

The main part of Condition A is a test of whether it is reasonable to expect that at least 80% of the total amount payable by the LLP to the member will be 'disguised salary'.

Amounts which vary by reference to the overall amount of profits of the LLP are not disguised salary. A disguised salary would include for example a salary or a guaranteed profit share. Whether a bonus based on personal performance is disguised salary will depend on the precise circumstance. For example, a bonus based only on the performance of the individual is not a profit share. A performance bonus calculated by reference to the LLP's profits is not disguised salary.

However, a member is not caught if either of the following apply:

- the individual has a significant influence in the running of the business as a whole, or
- the individual has invested capital in the LLP that is at least 25% of their expected income from the LLP.

The new regime will come into force on 6 April 2014. The tests will need to be applied at that date for existing members. For the capital invested rule, the measurement of capital will include amounts the member has undertaken to contribute by 5 July 2014.

Comment

Many professional firms are now LLPs. The potential risk is that some junior members with a significant fixed element to their profit share may be treated for tax purposes as employees unless their contractual arrangements with the LLP are modified.

Those LLPs potentially affected may wish to consider increasing member capital contributions to allow the capital invested rule to be satisfied. Undertakings made by members by 6 April 2014 (and actually contributed by 5 July 2014) will be taken into account.

Employment intermediaries and 'false self-employment'

The Government considers that employment intermediaries are increasingly being used to disguise employment as self-employment. The largest business sector affected will be the construction industry. However, there are other sectors such as the driving, catering and security industries where there is evidence of existing permanent employees being taken out of direct employment and being moved into false self-employment arrangements involving intermediaries.

The central proposal is to make a change to the agency legislation. If the agency legislation applies, payments received by a worker are treated as being in consequence of an employment between the intermediary (agency) and worker. This means that the intermediary must deduct PAYE and NIC.

Currently the agency legislation only applies to workers providing their services under the terms of an agency contract. This is defined as:

'A contract made between the worker and the agency under the terms of which the worker is obliged to personally provide services to the client.'

This has led intermediaries to set up contracts which allow the worker to send someone else to do their job and thus it is argued that the worker is not obliged to personally provide services.

The Government proposes removing the obligation for the worker to provide their services personally. Instead the proposal is that the agency legislation will apply where the worker is:

- subject to (or to the right of) control, supervision or direction as to the manner in which the duties are carried out
- providing their services personally
- remunerated as a consequence of providing their services
- receiving remuneration not already taxed as employment income.

The legislation will be amended with effect from 6 April 2014.

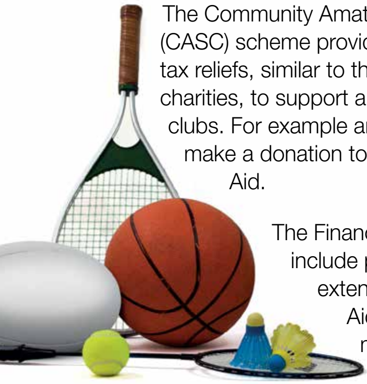
It is proposed that the legislation will be supported by record keeping and statutory returns requirements. The intermediary will need to submit a quarterly electronic return containing details of any workers it has placed for whom it is not deducting PAYE and NIC. The aim of this requirement is to allow HMRC to identify possible cases of non-compliance with the new agency legislation.

The record keeping and returns requirements will come into force from 6 April 2015.

Comment

The use of intermediaries to facilitate false self-employment started in the construction industry as a way to reduce the risk to contractors of incorrectly engaging workers on a self-employed basis. The Government considers that around 200,000 workers in the construction sector are engaged through intermediaries.

Community Amateur Sports Club (CASC)



The Community Amateur Sports Club (CASC) scheme provides a number of tax reliefs, similar to those available to charities, to support amateur sports clubs. For example an individual can make a donation to a CASC as Gift Aid.

The Finance Bill 2014 will include provisions to extend corporate Gift Aid to donations of money made by companies to CASCs. This will allow companies to claim tax relief on qualifying donations they make on or after 1 April 2014.

Comment

The corporate Gift Aid provisions will not only encourage companies to make donations to clubs which are registered as CASCs but will also encourage clubs with high levels of commercial trading to potentially benefit from CASC status. A club with significant trading receipts may well not qualify for CASC status because of the trading receipts. It could however set up a trading subsidiary and donate the profits to the club. The donation received by the club will not be treated as trading receipts and thus the club could apply for CASC status. The new Gift Aid relief will eliminate the corporation tax charge on the profits of the company.

Research and Development (R&D) relief

R&D relief gives additional tax relief to companies for expenditure incurred on R&D projects that seek to achieve an advance in science or technology. For an SME company which incurs losses when conducting R&D activity a tax credit can be claimed by way of a cash sum paid by HMRC. From 1 April 2014 the rate of the R&D payable tax credit will be increased from 11% to 14.5%.

Business Premises Renovation Allowance (BPRA)

BPRA provides for 100% tax relief on expenditure in bringing business premises in disadvantaged areas back into business use. Following a review of BPRA, the Government will make changes to clarify the type of expenditure which qualifies and other modifications to make it more certain in its application. The changes are to take effect from April 2014.

Enterprise Zones and capital allowances

Subject to certain conditions being met, 100% enhanced capital allowances are available for expenditure incurred by companies on qualifying plant or machinery for use primarily in designated sites within Enterprise Zones. The qualifying period was due to expire on 31 March 2017 and is proposed to be extended to 31 March 2020.

Mineral Extraction Allowance

Mineral exploration and access expenditure attracts an annual 25% capital allowance relief (100% for oil and gas) whereas the acquisition of a mineral asset only attracts 10% relief annually. Expenditure on successful planning permission costs is to be treated as mineral exploration and access rather than as expenditure on acquiring a mineral asset. This applies to expenditure incurred from the date of Royal Assent.

Employment Taxes

Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. From 6 April 2014, the bands used to work out the taxable benefit remain the same but the percentage applied by each band goes up by 1%. There is an overriding maximum charge of 35% of the list price of the car. From 6 April 2015, the percentage applied by each band goes up by a further 2% and the maximum charge is increased to 37%.

Comment

These increases have the perverse effect of discouraging retention of the same car. New cars will often have lower CO_2 emissions than the equivalent model purchased by the employer, say three years ago. Particular attention should be paid to the benefit increase from 6 April 2015.

Exemption threshold for employment-related loans

Where an employer provides an employee with a cheap or interest free loan they have to report notional interest on the loan at 4% per annum on the form P11D. Where the balance of the loan is no more than £5,000 throughout the tax year no benefit is reportable.

The exemption applies if the total balance, at any point in the tax year, does not exceed the limit of £5,000 and includes the total of low cost or interest free loans, or notional loans arising from the provision of employment-related securities.

From 6 April 2014 where the total outstanding balances on all such loans do not exceed £10,000 at any time in the tax year, there will not be a tax charge and employers will no longer be required to report the benefit to HMRC.

Comment

This change reflects the increase in the cost of commuting for an employee and allows the employer to provide finance for the purchase of season tickets for rail fares.

National Insurance - £2,000 employment allowance

The Government has introduced an allowance of up to £2,000 per year for many employers to be offset against their employer Class 1 National Insurance Contributions (NIC) liability from 6 April 2014. The legislation is contained in the National Insurance Contributions Act 2014.

There will be some exceptions for employer Class 1 liabilities including liabilities arising from:

- a person who is employed (wholly or partly) for purposes connected with the employer's personal, family or household affairs
- the carrying out of functions either wholly or mainly of a public nature (unless charitable status applies), for example NHS services and General Practitioner services
- employer contributions deemed to arise under IR35 for personal service companies.

There are also rules to limit the employment allowance to a total of £2,000 where there are 'connected' employers. For example, two companies are connected with each other if one company controls the other company.

The allowance is limited to the employer Class 1 NIC liability if that is less than £2,000.

The allowance will be claimed as part of the normal payroll process. The employer's payment of PAYE and NIC will be reduced each month to the extent it includes an employer Class 1 NIC liability until the £2,000 limit has been reached.

Employer NIC for the under 21s

From April 2015 the Government will abolish employer NIC for those under the age of 21. This exemption will not apply to those earning more than the Upper Earnings Limit, which is £42,285 per annum for 2015/16. Employer NIC will be liable as normal beyond this limit.

Employee ownership

Following a consultation the Government will introduce three new tax reliefs to encourage and promote indirect employee ownership. The reliefs are as follows:

- From 6 April 2014 disposals of shares that result in a controlling interest in a company being held by an employee ownership trust will be relieved from CGT.
- Transfers of shares and other assets to employee ownership trusts will also be exempt from inheritance tax providing certain conditions are met.
- From 1 October 2014 bonus payments made to employees of indirectly employee owned companies which are controlled by an employee ownership trust will be exempt from income tax up to a cap of £3,600 per annum.

Real Time Information (RTI) late filing penalties

RTI requires employers operating PAYE to report information on employees' pay and deductions in 'real time' to HMRC. Under RTI employers are obliged to tell HMRC about payments they make to their employees, on or before the date payments are made. Employers continue to pay over to HMRC the sums deducted from their employees under the PAYE system either monthly, quarterly or annually.

HMRC are introducing automatic in-year penalties for RTI to encourage compliance with the information and payment obligations.

In essence late filing penalties will apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme. It is proposed that monthly penalties of between £100 and £400 will apply to micro, small, medium and large employers.

Each scheme will be subject to only one late filing penalty each month regardless of the number of returns submitted late in the month. There will be one unpenalised default each year with all subsequent defaults attracting a penalty.

This regime will start in October 2014.

Another change is more imminent. For tax years 2014/15 onwards, HMRC will charge daily interest on all unpaid amounts from the due and payable date to the date of payment, and will raise the charge when payment in full has been made.

Capital Taxes

CGT rates

The current rates of CGT are 18% to the extent that any income tax basic rate band is available and 28% thereafter. The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual.

CGT annual exemption

The CGT annual exemption is £10,900 for 2013/14 and will be increased to £11,000 for 2014/15.

CGT - Private Residence Relief

A gain arising on a property which has been an individual's private residence throughout their period of ownership is exempt from CGT. There are deemed period of occupation rules which may help to provide an exemption from CGT even if the individual was not living in the property at the time. This may mean the individual is accruing private residence relief on another property at the same time.

The final period exemption applies to a property that has been an individual's private residence at some time even though they may not be living in the property at the time of disposal.

For disposals on or after 6 April 2014 the final period exemption will be reduced from 36 months to 18 months. There may be exceptions for disabled individuals and long term residents in care homes.

CGT - non-residents and UK residential property

From April 2015 a CGT charge will be introduced on future gains made by non-residents disposing of UK residential property. A consultation on how best to introduce this will be published shortly.

Business roll-over relief

Roll-over relief allows CGT to be deferred on gains made on certain qualifying assets where the proceeds are used to purchase other qualifying assets within a specified period of time. With effect from 20 December 2013 a payment entitlement under the new EU Basic Payment Scheme for farmers will become a qualifying asset.

IHT nil rate band

The IHT nil rate band remains frozen at £325,000 until 5 April 2018.

IHT exemption for emergency service personnel

The Government will consult on extending the existing IHT exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services.

Changes to the trust IHT regime

Certain trusts, known as 'relevant property trusts', provide a mechanism to allow assets to be held outside of an individual's estate for the purpose of calculating a 40% IHT liability on the death of an individual. The downside is that there are three potential points of IHT charge on relevant property trusts:

- a transfer of assets into the trust is a chargeable transfer in both lifetime and on death
- a charge has to be calculated on the value of the assets in the trust on each ten-year anniversary of the creation of the trust
- an exit charge arises when assets are effectively transferred out of the trust.

The calculation of the latter two charges is currently a complex process which can take a significant amount of time to compute for very little tax yield. HMRC therefore wants to simplify the process and will consult on proposals to take effect in 2015.

Two changes will however be introduced in Finance Bill 2014:

- simplification of filing and payment dates for IHT relevant property trust charges
- income arising in such trusts which remains undistributed for more than five years may be treated as part of the trust capital when calculating the ten-year anniversary charge.

Comment

Part of the price of the tax simplification proposals will be that some planning techniques where an individual creates more than one relevant property trust will no longer work. For example, a nil rate band that may be currently available for each trust may, in future, need to be split between the trusts resulting in higher IHT charges.

IHT anti-avoidance

In 2013 measures were introduced to restrict the use of liabilities to reduce IHT liability where loans were used to purchase assets which are excluded property for IHT purposes. A common situation which was blocked was the use of loans to purchase assets outside the UK which were held by a non-domiciled individual. A loophole has been spotted where a non-domiciled individual holds a foreign currency account in a UK bank. Such an asset is not chargeable to IHT but is not excluded property. That loophole will now be blocked by treating such an account as if it were excluded property.

Residential property held through a company

A range of measures exist to discourage the holding of residential property in the UK via companies and other non-natural persons. Specifically where the property has a value of at least £2 million:

- stamp duty land tax (SDLT) is payable at 15% on acquisition
- an annual tax on dwellings (ATED) applies at a fixed amount depending on value, and
- CGT at 28% is payable on a proportion of gains.

For SDLT the value limit is being reduced to £500,000 for acquisitions on or after 20 March 2014.

The Government will introduce two new bands for ATED. Residential properties worth over £1 million and up to £2 million will be brought into the charge with effect from 1 April 2015. Properties worth over £500,000 and up to £1 million will be brought into the charge with effect from 1 April 2016.

The related CGT charge on disposals of properties liable to ATED will be extended to residential properties worth over £1 million with effect from 6 April 2015 and for residential properties worth over £500,000 from 6 April 2016.

Comment

The Government is determined to drive out the use of so-called ‘envelopes’ for the ownership of residential property in the UK. The major group affected will be non-domiciled individuals who have historically used overseas companies to hold UK residential property.

Other Matters

VAT prompt payment discounts

Legislation will be introduced in Finance Bill 2014 to amend the UK VAT legislation on prompt payment discounts so that it is aligned with EU legislation.

Under the current rules, suppliers account for VAT on the discounted price offered for prompt payment, even when that discount is not taken up. This amendment will ensure that VAT is accounted for on the full actual consideration paid for goods and services where prompt payment discounts are offered.

The measure will have effect for supplies made from 1 April 2015 although the measure will apply from 1 May 2014 for telecommunication and broadcasting supplies. The earlier date may also apply to other specified supplies.

VAT reverse charge for gas and electricity

A reverse charge for wholesale supplies of gas and electricity will be introduced which means customers will be liable to account for VAT rather than the supplier. The measure does not apply to domestic supplies or to businesses not registered, or liable to be registered for VAT.

The Government will informally consult on the timing with those affected, with a view to laying the necessary secondary legislation at the earliest opportunity thereafter. The measure has been announced to remove the opportunity for fraudsters to charge VAT and then go missing before the VAT has been paid over to HMRC.

Requirement for users of failed avoidance schemes

It is proposed to give HMRC the power to give notice to taxpayers who have used avoidance schemes, which are defeated in another party's litigation, that taxpayers should amend their returns or settle their disputes with HMRC accordingly. Taxpayers who decide not to settle their case will risk a penalty.

This change will take effect from Royal Assent.

Accelerated payments in tax avoidance cases

Following consultation, further legislation will be introduced in Finance Bill 2014 to extend accelerated payment of tax to users of schemes disclosed under the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and to taxpayers involved in schemes subject to counteraction under the General Anti-Abuse Rule (GAAR), so that the amount in dispute is held by HMRC whilst the dispute is resolved.

These changes will take effect from Royal Assent.

Rates and Allowances 2014/15

INCOME TAX RATES

2014/15		2013/14	
Band £	Rate %	Band £	Rate %
0 - 2,880	10*	0 - 2,790	10*
0 - 31,865	20**	0 - 32,010	20**
31,866 - 150,000	40♦	32,011 - 150,000	40♦
Over 150,000	45●	Over 150,000	45●

*Only applicable to dividends and savings income. The 10% rate is not available if taxable non-savings income exceeds £2,880 (£2,790).
**Except dividends (10%).
♦ Except dividends (32.5%).
● Except dividends (37.5%).
Other income taxed first, then savings income and finally dividends.

INCOME TAX RELIEFS

		2014/15 £	2013/14 £
Personal allowance	- born after 5 April 1948	10,000	9,440
	- born after 5 April 1938 and before 6 April 1948*	10,500	10,500
	- born before 6 April 1938*	10,660	10,660

(Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.)

		2014/15 £	2013/14 £
Married couple's allowance (relief at 10%)*		8,165	7,915
(Either partner 75 or over and born before 6 April 1935.)			
	- min. amount	3,140	3,040
*Age allowance income limit		27,000	26,100

(Reduce age allowance by £1 for every £2 of adjusted net income over £27,000 (£26,100).)

	2014/15 £	2013/14 £
Blind person's allowance	2,230	2,160

TAX CREDITS

	2014/15 £	2013/14 £
Working Tax Credit		
Basic element		
- max.	1,940	1,920
Childcare element		
70% of eligible costs up to £175 per week (£300 if two or more children).		
Child Tax Credit (CTC)		
Child element		
per child - max.	2,750	2,720
Family element	545	545

Reductions in maximum rates

41% of income above £6,420* p.a.

*If only CTC is claimed, the threshold is £16,010 (£15,910) p.a. The family element of CTC tapers immediately after the child element at a rate of 41%.

PENSION PREMIUMS

2014/15

- Tax relief available for personal contributions: higher of £3,600 (gross) or 100% of relevant earnings.
- Any contributions in excess of £40,000 (previously £50,000), whether personal or by the employer, may be subject to income tax on the individual.
- Where the £40,000 limit is not fully used it may be possible to carry the unused amount forward for three years.
- Employers will obtain tax relief on employer contributions if they are paid and made 'wholly and exclusively'. Tax relief for large contributions may be spread over several years.

INDIVIDUAL SAVINGS ACCOUNTS

	2014/15 From 6.4.14 to 30.6.14	2014/15 From 1.7.14 to 5.4.15
Overall investment limit	£11,880	£15,000*
Comprising - cash up to	£5,940 max.	N/A
- balance in stocks and shares	£11,880 max.	N/A

*Special rules apply if investments are made before 1.7.14. Investments for 2014/15 cannot exceed £15,000 in total.

CAR, VAN AND FUEL BENEFITS

2014/15

CO_2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed
up to 94	11
95	12
100	13
105	14
110	15
115	16
120	17
125	18
130	19
135	20
140	21
145	22
150	23
155	24
160	25
165	26
170	27
175	28
180	29
185	30
190	31
195	32
200	33
205	34
210 and above	35

Company cars

- For diesel cars add a 3% supplement but maximum still 35%.
- A 0% rate applies to cars which cannot emit CO_2 when driven.
- A 5% rate applies to cars with emissions which do not exceed 75gm/km when driven. The diesel supplement can apply to 75gm/km cars.
- For cars registered before 1 January 1998 the charge is based on engine size.
- The list price includes accessories and is not subject to an upper limit.
- The list price is reduced for capital contributions made by the employee up to £5,000.
- Special rules may apply to cars provided for disabled employees.

Car fuel benefit 2014/15

£21,700 x 'appropriate percentage'*

*Percentage used to calculate the taxable benefit of the car for which the fuel is provided.

The charge does not apply to certain environmentally friendly cars.

The charge is proportionately reduced if provision of private fuel ceases part way through the year. The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle 2014/15

Van benefit £3,090 Fuel benefit £581

The charges do not apply to vans which cannot emit CO_2 when driven or if a 'restricted private use condition' is met throughout the year.

MILEAGE ALLOWANCE PAYMENTS

2014/15 and 2013/14

Cars and vans	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

CAPITAL GAINS TAX

Individuals	2014/15 £	2013/14 £
Exemption	11,000	10,900
Standard rate	18%	18%
Higher rate*	28%	28%
Trusts		
Exemption	5,500	5,450
Rate	28%	28%

*For higher and additional rate taxpayers.

Entrepreneurs' Relief

The first £10m of qualifying gains are charged at 10%. Gains in excess of the limit are charged at the rates detailed above.

CORPORATION TAX

	Year to 31.3.15 Profits band £	Rate %	Year to 31.3.14 Profits band £	Rate %
Small profits rate	0 - 300,000	20*	0 - 300,000	20*
Marginal (small profits) rate	300,001 - 1,500,000	21.25*	300,001 - 1,500,000	23.75*
Main rate	Over 1,500,000	21*	Over 1,500,000	23*
Standard fraction		1/400*		3/400*

The profits limits are reduced for accounting periods of less than 12 months and for a company with associated companies.
*Different rates apply for ring-fenced (broadly oil industry) profit.

INHERITANCE TAX

Death rate %	Lifetime rate %	Chargeable transfers 2014/15 and 2013/14 £'000
Nil	Nil	0 - 325*
40	20	Over 325*

*Potentially increased for surviving spouses or civil partners who die on or after 9 October 2007.

Reliefs

Annual exemption	£3,000	Marriage	- parent	£5,000
Small gifts	£250		- grandparent	£2,500
			- bride/groom	£2,500
			- other	£1,000

Reduced charge on gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

STAMP DUTY AND STAMP DUTY LAND TAX

Land and buildings (on full consideration paid)

Rate	Residential property: Disadvantaged areas* £	Residential property: Other £	Non-residential £
0%	0 - 150,000*	0 - 125,000	0 - 150,000
1%	150,001* - 250,000	125,001 - 250,000	150,001 - 250,000
3%	250,001 - 500,000	250,001 - 500,000	250,001 - 500,000
4%	500,001 - 1,000,000	500,001 - 1,000,000	Over 500,000
5%	1,000,001 - 2,000,000	1,000,001 - 2,000,000	-
7%	Over 2,000,000	Over 2,000,000	-

* The rules for disadvantaged areas were withdrawn for transactions with an effective date on or after 6 April 2013.

Shares and securities - rate 0.5%.

NATIONAL INSURANCE

2014/15 Class 1 (employed) contracted in rates

Employee: Earnings per week	%	Employer: Earnings per week	%
Up to £153	Nil*	Up to £153	Nil
£153.01 - £805	12	Over £153	13.8
Over £805	2		

*Entitlement to contribution-based benefits retained for earnings between £111 and £153 per week.

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.75 small earnings exception £5,885 p.a.
Class 3 (voluntary)	flat rate per week £13.90
Class 4 (self-employed)	9% on profits between £7,956 and £41,865 plus 2% on profits over £41,865

MAIN SOCIAL SECURITY BENEFITS

Weekly benefit		**2014/15**	**2013/14**
Basic retirement pension	- single person	£113.10	£110.15
	- married couple	£180.90	£176.15

Statutory pay rates - average weekly earnings £111 (£109) or over

	2014/15	2013/14
Statutory Sick Pay	£87.55	£86.70
Statutory Maternity Pay		
First six weeks	90% of weekly earnings	
Next 33 weeks	£138.18*	£136.78*
Statutory Paternity Pay - two weeks	£138.18*	£136.78*
Statutory Adoption Pay - 39 weeks	£138.18*	£136.78*

*Or 90% of weekly earnings if lower.

Additional Paternity Pay and Leave may be available for a child due or adoptions matched on or after 3 April 2011.

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Annual Registration Limit - from 1.4.14 (1.4.13 - 31.3.14 £79,000)	£81,000
Annual Deregistration Limit - from 1.4.14 (1.4.13 - 31.3.14 £77,000)	£79,000

CAPITAL ALLOWANCES

Plant and machinery - Annual Investment Allowance (AIA)
The AIA gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £250,000 p.a. for expenditure incurred on or after 1 January 2013 (£500,000 for expenditure incurred on or after 6 April 2014 (1 April 2014 for companies)). Special rules apply to accounting periods straddling these dates.

Any costs over the AIA fall into the normal capital allowance pools below. The AIA may need to be shared between certain businesses under common ownership.

Other plant and machinery allowances
The annual rate of allowance is 18%. An 8% rate applies to expenditure incurred on integral features and on long life assets.

A 100% first year allowance may be available on certain energy efficient plant and cars, including expenditure incurred on new and unused zero emission goods vehicles.

Cars
For expenditure incurred on cars, costs are generally allocated to one of the two plant and machinery pools. For expenditure incurred on or after 6 April 2013 (1 April 2013 for companies) cars with CO_2 emissions not exceeding 130gm/km (previously 160gm/km) receive an 18% allowance p.a. Cars with CO_2 emissions over 130gm/km (160gm/km) receive an 8% allowance p.a.

SELF ASSESSMENT: KEY DATES 2014/15

31 July 2014 - Second payment on account for 2013/14.

5 October 2014 - Deadline for notifying HMRC of new sources of income (including the Child Benefit charge) if no tax return has been issued for 2013/14.

31 October 2014 - Deadline for submission of 2013/14 non-electronic returns.

31 January 2015 - Deadline for filing electronic tax returns for 2013/14. Balancing payment due for 2013/14. First payment on account due for 2014/15.

Burgess Hill Office:

1a The Martlets
Burgess Hill
West Sussex
RH15 9NN

T: 01444-253100
F: 01444-253101

Hove Office:

126 Woodland Avenue
Hove
East Sussex
BN3 6BN

T: 01273-500150
F: 01273-249858

E: post@christopheryoung.co.uk

W: www.christopheryoung.co.uk