DIXON WILSON
CHARTERED ACCOUNTANTS

2013 Budget Update

30 March 2013

Note: This update was written on 30 March 2013. It is based on the government's proposals at that point in time which don't necessarily represent the final legislation. For that reason, no action should be taken based on this update without taking further advice.

INTRODUCTION

A significant number of tax changes and consultations have been announced and undertaken during the first term of the coalition government. Against this backdrop, the changes announced by the Chancellor on 20 March were relatively modest, both in number and scope. Nevertheless, there were a number of noteworthy announcements. These are set out below, along with a reminder of several previously announced changes that will take effect from April this year.

INCOME TAX AND CAPITAL GAINS TAX

INCOME TAX PERSONAL ALLOWANCES

The personal allowance for 2013/14 will be £9,440 and the basic rate limit will be £32,010.

For 2014/15 the personal allowance for people born after 5 April 1948 will be increased to £10,000; it will increase in line with inflation from 2015-16. The basic rate limit will be reduced to £31,865.

EMPLOYMENT BENEFITS

The exemption threshold for employer provided beneficial loans will increase from the current threshold of £5,000 to £10,000 for 2014-15 onwards. There is no tax charge as long as the total outstanding balances on such loans do not exceed the threshold at any time during the tax year.

Two new percentage bands for company car benefits are introduced. The taxable benefit in kind is 5% of the list price for cars with CO2 emissions of 0-50g/km, and 9% with CO2 emissions of 51- 75g/km.

From 2014-15 the benefit charge for company vans; and fuel benefit charge for company vans and company cars will increase in line with inflation.

PENSIONS

As announced in the Autumn Statement in December 2012, the government are reducing the annual allowance to £40,000 (from £50,000) and the standard lifetime allowance from £1.25m (from £1.5m). The changes will apply for 2014/15 onwards. An individual protection regime will be introduced in Finance Bill 2014 to avoid retrospective tax charges arising as a result of these changes.

STATUTORY RESIDENCE TEST

After two years of consultation, the final statutory residence test has been finalised and will have affect from 6 April 2013.

NON-NATURAL PERSONS AND RESIDENTIAL PROPERTY

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

The original proposals announced in the 2012 Budget have been watered down by the introduction of a number of reliefs for non-natural persons who are holding high value residential property for genuine business purposes. However, those who own UK homes through corporate structures will still need to consider whether this remains appropriate in light of the annual charge coming into force on 1 April 2013.

15% STAMP DUTY LAND TAX (SDLT)

The reliefs which will apply to properties potentially subject to the ATED will also be introduced for the purposes of the higher rate of SDLT from the date of Royal Assent of the 2013 Finance Act.

EXTENSION OF CGT TO NON-NATURAL PERSONS DISPOSING OF HIGH VALUE RESIDENTIAL PROPERTY

The main change to these proposals is that non-UK resident trustees are no longer subject to the CGT charge on high value UK residential property. This is a welcome amendment and the inclusion of a rebasing on 5 April 2013 also removes a potential "cliff edge", allowing those holding property through such structure time to consider their options in full.

INHERITANCE TAX

NON-UK DOMICILED SPOUSES

The government has confirmed its intentions to raise the cap on gifts to non-UK domiciled spouses to £325,000 (from £55,000). This cap will rise in line with the nil rate band.

Those couples with more substantial assets can, however, go one step further from 6 April 2013 as it will be possible for the non-UK domiciled spouse to elect to be treated as UK domiciled for inheritance tax purposes only.

BUSINESS TAXATION

CORPORATION TAX RATES

The previously announced reduction in the main rate of corporation tax to 23% takes effect from 1 April this year. However, the Chancellor has decided to double the 1% cut previously announced for next year so that from 1 April 2014, the main rate will drop to 21%. The Chancellor also announced that from 1 April 2015, the main rate will reduce to 20%, and will therefore eliminate, the small companies rate.

Exit charge deferral

Draft legislation published in December last year will be amended and introduced in Finance Bill 2013. The legislation enables companies to defer payment of corporation tax exit charges which arise on migration to another EU or EEA Member State. UK permanent establishments of companies resident elsewhere in the EU or EEA can also benefit from the deferral. Payment will be made in equal annual instalments, over either six years or the useful economic life of the assets on which the exit charge arises. Applications for deferral can be made for exit charges arising on or after 11 March 2012.

R & D CREDITS

As previously announced, 'above the line' credits will be available to larger companies for qualifying expenditure incurred on or after 1 April this year. The credit will be paid at a rate of 10%.

CAPITAL ALLOWANCES

100 per cent allowances currently available on certain low-emission cars will now be available until March 2018 (previously March 2015).

PAYROLL PROCESSING

Real Time Information ("RTI") payroll processing becomes compulsory for almost all employees (see our earlier update 'Payroll processing – Real Time Information') from 6 April this year. Earlier this month, HMRC announced a relaxation for businesses with fewer than fifty employees; they will have until 5 October to implement RTI, but in the meantime must submit returns by the fifth of each month.

NATIONAL INSURANCE

The Chancellor announced a Class 1 National Insurance allowance of £2,000 per annum for all businesses and charities with effect from April 2014. The government will draft legislation later in the year; it will be interesting to see how they propose to apply the allowance to those whose employees perform both business and private duties. The allowance will be offset against the employer's Class 1 secondary contributions and claimed through the normal RTI payroll process.

TAX SIMPLIFICATION FOR SMALL BUSINESSES

As previously announced, certain small unincorporated businesses will, from April this year, be able to calculate taxable profits on a modified cash basis that will not distinguish between capital and revenue expenditure.

VALUE ADDED TAX

REGISTRATION THRESHOLDS

The registration and deregistration thresholds will increase from £77,000 and £75,000 to £79,000 and £77,000 respectively from 1 April 2013.

PLACE OF SUPPLY RULES

Finance Bill 2014 will implement a European-wide change to the way in which business to consumer suppliers of telecom, broadcasting and electronically-supplied services are taxed. These services are currently taxed in the Member State in which the supplier is established. From 1 January 2015, these will be taxed in the state in which the consumer is located. To minimise administrative burden, an IT system will be introduced which will allow businesses to register in the UK only and account for VAT in other Member States via a single return. Similar systems will be introduced throughout the EU.

STAMP DUTY

From April 2014, stamp duty and stamp duty reserve tax will be abolished on share transactions in UK companies quoted on small company growth markets, such as AIM and ISDX Growth Markets.

ANTI-AVOIDANCE MEASURES

GENERAL ANTI-ABUSE RULE (GAAR)

The government has confirmed it is committed to tackling artificial and abusive tax avoidance schemes, with the introduction of the GAAR which comes into effect in April 2013. The objective is to counteract tax advantages arising from abusive tax avoidance schemes, to ensure that tax planning is legitimate and considered acceptable.

DEDUCTIBILITY OF DEBTS FOR IHT

Anti avoidance legislation is to be introduced in Finance Bill 2013 to counter schemes and arrangements which exploit the current provisions which allow a deduction against the value of assets liable to inheritance tax. There are several areas which are being addressed and the new rules also appear likely to apply to some trustees who have borrowing in place that mitigate their exposure to inheritance tax.

NEW TAX AGREEMENTS

New agreements with the Isle of Man, Guernsey and Jersey governments have been introduced to clamp down on offshore tax evasion. This consists of increased transparency of information for UK taxpayers in these three jurisdictions, and a disclosure facility to allow non-compliant individuals to come forward and disclose their previous tax affairs before the automatic exchange of information.

CLOSE COMPANY LOANS TO PARTICIPATORS

The government is closing three loopholes used by close companies to avoid the tax charge on loans to their participators.

CONSULTATIONS AND REVIEWS

PARTNERSHIPS

The government has announced that, as a plan to reduce avoidance through partnerships, it will consult on measures to both remove the presumption of self-employment for LLP partners, to tackle the disguising of employment relationships through LLPs; and to counter the manipulation of profit / loss allocations to secure tax advantages.

NICS – PROCESS SIMPLIFICATION FOR SELF-EMPLOYED

The government is to consult on options to simplify the administrative process for the self-employed by using self-assessment to collect Class 2 NICs alongside income tax and Class 4 NICs.

OFFSHORE EMPLOYMENT INTERMEDIARIES

As a result of the review announced in the Autumn Statement 2012, the government is to consult on strengthening obligations to ensure that offshore employment intermediaries pay the correct income tax and NICs.

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