DIXON WILSON
CHARTERED ACCOUNTANTS

Autumn Statement 2013

3 December 2013

Note: This update was written on 3 December 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

Against an improving economic backdrop, the Chancellor announced a raft of new tax measures in his Autumn Statement which will affect both individuals and businesses, some with immediate effect. Anti-avoidance measures, draft legislation for inclusion in the 2014 Finance Bill together with updates to ongoing tax consultations were all announced. We have summarised below the main announcements which are likely to affect our clients. Further detail will emerge in the run up to April 2014.

Following a recent consultation into the taxation of partnerships, draft legislation has now been published with new rules for 'mixed partnerships' (which have a mixture of corporate and individual partners). The new rules will reallocate profits/losses for tax purposes to negate a tax advantage, for example where a corporate partner may enjoy lower tax on profits than an individual, and where an individual may benefit from the reallocated profits (as a shareholder of a corporate partner, for example).

Capital gains tax is to apply to UK residential properties for non-UK resident individuals from April 2015. A consultation period will be announced as to how the new rules will work and is likely to include consideration of transitional provisions and it is expected that there will be lobbying for the new rules to incorporate a rebasing so that only future gains are caught by this new tax.

Capital gains tax relief on the disposal of principal private residences is to be restricted from April 2014. Currently the final 36 months of ownership automatically qualifies for relief as long as the property has previously been occupied as an individual's main home. This relief was originally envisaged to help individuals who had moved home but were in the process of selling their old home. This period will be reduced to 18 months.

The personal allowance for income tax will rise to £10,000 from April 2014. A 'transferable' personal allowance of £1,000 will be introduced between married couples who are basic rate tax payers from April 2015.

As previously announced and with effect from 25 October 2013, HMRC are amending an aspect of the transfer pricing legislation in relation to the restriction of compensating adjustments. Compensating adjustments were intended to provide equality of tax treatment between individuals and corporates. HMRC consider that such adjustments have been used to gain an income tax advantage by individuals. Private equity funds and professional partnerships will primarily be affected by the changes.

Assistance for UK businesses, including a reduction in employer's national insurance for employees under the age of 21 from April 2015, and a limit on future increases in business rates.

Additional and improved tax reliefs for employee ownership of companies with effect from April 2014 (including capital gains tax relief on shares, inheritance tax relief on trust ownership of shares and income tax relief on bonuses from October 2014). From April 2014, new powers will be introduced for HMRC to collect tax liabilities up front where a taxpayer has entered into a tax avoidance scheme which has already been defeated in the courts, or to impose new penalties if a taxpayer attempts litigation on such a scheme unsuccessfully. These measures are to undermine any potential cash flow benefits for taxpayers of entering such schemes.

A clampdown on employment arrangements with intermediaries used to disguise an employment as self-employment, along with the intention to attack 'dual contract' arrangements for non-UK domiciled individuals (where UK and non-UK employments are split) from April 2014.

Income tax relief for interest paid on loans to invest in trading companies – the relief is extended to cover loans to companies within the European Economic Area.

Worldwide debt capitalisation – the rules on interest deductibility become more stringent immediately. The measure prevents corporate groups avoiding the current rules by establishing companies without ordinary share capital.

Controlled Foreign Company rules are to change with immediate effect to limit the allocation of profits within a group to low tax jurisdictions.

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