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Budget 2013: A Summary

The Chancellor, George Osborne, has delivered his fourth Budget since the coalition government came to power. He opened his speech by saying "this is a Budget for people who aspire to work hard and get on. It's a Budget for people who realise there are no easy answers to problems built-up over many years."

To help fund these changes, there will be new measures introduced to combat aggressive tax avoidance and abusive tax planning, including pursuing those who have undeclared money offshore, to bring in more than £1 billion in unpaid taxes.

Pensions

Pensions Tax Relief

As announced in the Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to reduce the annual allowance to £40,000 and to reduce the standard lifetime allowance to £1.25 million for the 2014-15 tax year onwards. Following consultation, draft legislation for the restriction to the lifetime allowance has been revised to include various minor adjustments and several consequential changes in connection with previous protection regimes.

Pensions Tax Relief – Individual Protection

Legislation will also introduce a transitional protection regime (fixed protection 2014) for individuals with UK tax relieved pension rights of more than £1.25 million or who think they may have rights in excess of £1.25 million by the time they take their pension benefits. Individuals will need to notify HMRC by 5th April 2014 if they want to rely on fixed protection 2014. Individuals with fixed protection 2014 will be entitled to a personal lifetime allowance of the greater of £1.5 million and the standard lifetime allowance. The conditions for maintaining fixed protection 2014 will be that no further contributions are made to defined contribution pension arrangements after 5th April 2014 and that individuals in defined benefit schemes must not accrue further benefits above a 'relevant percentage' from this date.

Members of non-UK pension schemes will also be able to apply for fixed protection 2014 subject to their not having a pension input amount in the non-UK pension scheme in any tax year from 2014-15.

Amendments will be made to ensure that:

- Individuals with existing A-day primary or enhanced protection but who do not have lump sum protection will retain a right to a lump sum of 25% of £1.5 million; and

- Individuals with primary protection will not have an increased lifetime allowance available when the lifetime allowance is reduced. Where they have taken benefits before 6th April 2014 these will be revalued when further benefits are taken on or after 6th April 2014 as if references to the standard lifetime allowance were to £1.5 million.

In addition to fixed protection 2014, an individual protection regime will be introduced in Finance Bill 2014.

Pensions Drawdown Policy (effective from 26th March 2013)

As announced in the Autumn Statement 2012, legislation will be introduced in Finance Bill 213 to increase the capped drawdown limit for pensioners of all ages with these arrangements from 100% to 120% of the value of an equivalent annuity. Following consultation, the legislation has been revised to remove the rule requiring the maximum drawdown pension to be recalculated after a pensioner with transitional protection from the Finance Act 2011 rules transfers to another scheme, so ensuring that transfers do not affect the capped drawdown limit.

These changes will take effect from 26th March 2013.

Pensions: Abolition of Contracting Out

As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to bring tax legislation into line with Department for Work and Pensions legislation which abolished contracting out through a defined contribution pension scheme from 6th April 2012. Following consultation, the legislation has been revised to clarify the types of payment that would be considered a 'member's contribution' for the purposes of a short service refund lump sum.

Personal Taxes, Tax Credits and Child Benefits

Income Tax Personal Allowances for 2014-15

The personal allowance for people born after 5th April 1948 will be increased to £10,000 in 2014-15 (£9,440 in 2013-14) Once it has reached £10,000, it will then increase in line with inflation (based on the CPI) from 2015-16. The higher rate threshold will be increased by 1% to £41,865 in 2014-15 (£41,450 in 2013-14). Therefore, the basic rate limit will be set at £31,865 in 2014-15 (£32,010 in 2013-14).

New Childcare Scheme from Autumn 2015

The government has announced a new scheme for tax-free childcare for working families which will be worth up to £1,200 per child, saving the typical working family with two children under the age of 12 up to £2,400 per year. This will be phased in from autumn 2015, when it will be initially available to all children under 5 before being extended gradually to include children up to the age of 12.

To be eligible, both parents will have to be working and earning less than £150,000 each per year, and they must not already be receiving support through tax credits and, later, Universal Credit. They will receive 20% (the basic rate of tax) of their yearly childcare costs up to £6,000 per child.

The existing workplace childcare vouchers scheme will be closed to new claimants from 2015 and phased out. Parents already claiming vouchers will be able to continue to do so, or switch to the new system, whereas new parents will only have access to the new scheme.

Exemption Threshold for Employer Provided Beneficial Loans

The threshold for employment –related taxable cheap loans to be treated as earnings in the hands of the employee (i.e. benefit in kind) will increase from the current threshold of £5,000 to £10,000 for 2014-15 and subsequent tax years. As long as the total outstanding balances on all such loans do not exceed the threshold at any time in a tax year, there will be no tax charge.

Collection of Debts through PAYE Tax Codes

Later this year, the government will consult on improving its collection of tax debts through the PAYE coding system, to make the process fairer and more equitable. This will include increasing the size of debts that can be recovered through coding out from those with higher incomes.

Seed Enterprise Investment Scheme - Reinvestment Relief and Income Tax Relief

Legislation will be introduced in Finance Bill 2013 to extend Capital Gains Tax (CGT) relief for reinvesting gains in SEIS shares to gains accruing in 2013-14. When those gains are reinvested during 2013-14 or 2014-15 the relief will apply to half the qualifying reinvested amount.

Legislation will also be introduced to prevent a company from being disqualified from SEIS where it was established by a corporate formation agent before sale to its ultimate owners. This will apply in respect of shares issued on or after 6th April 2013.

Company Car Tax and Car and Van Fuel Benefit Charge

Legislation will be in Finance Bill 2013 to introduce two new appropriate percentage bands for company cars emitting 0-50g of carbon dioxide per kilometre (with appropriate percentage set at 5%) and 51-75g CO^2 per km (with the appropriate percentage set at 9%).

The rate of fuel benefit charge for company cars, fuel benefit charge for company vans, and the benefit charge for company vans will increase in line with inflation (RPI) for 2014-15 (based on the September 2013 figure).

Corporate and Business Taxes

National Insurance: £2,000 employment allowance

The government will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 secondary National Insurance liability from April 2014. The allowance will be claimed as part of the normal payroll process through Real Time Information (RTI).

Corporation Tax Rate Reduction

Legislation will be introduced in Finance Bill 2013 to reduce the main rate of corporation tax for non ring fence profits to:

- 21% for the financial year commencing 1st April 2014; and
- 20% for the financial year commencing 1st April 2015.

Finance Bill 2013 also sets the small profit rate at 20% for the financial year commencing 1st April 2013. Finance Bill 2013 will also set the marginal rate fraction and rate for ring fenced profits.

Annual Tax of Enveloped Dwellings

As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 for an annual tax to be payable by certain non-natural persons that own interests in dwellings valued at more than £2 million. Following consultation on draft legislation, changes have been made to introduce additional reliefs, modify conditions for some of the reliefs, and the requirements to make returns if companies cease to be eligible for relief or become liable to an increased charge. The changes also introduce rules for alternative finance arrangements; provide exemptions for charities and certain others; and add rules for claims, appeals, information powers and penalties. The tax will come into effect on 1st April 2013.

CGT: Extension to Certain Non-Natural Persons Disposing of UK Residential Property Valued at over £2 million

Legislation will be in Finance Bill 2013 to introduce a CGT charge payable by certain non-natural persons when they dispose of interests in high value residential property in the UK on or after 6th April 2013. Broadly, the new tax charge will be payable by these non-natural persons, wherever they are resident, if they were liable to the new annual tax on enveloped dwellings on the property in question. CGT will normally be payable only on gains attributable to periods of ownership after 5th April 2013. However, it will be possible to elect for gains or allowable losses to be computed for CGT purposes by reference to the entire period of ownership. The tax will be charged at 28%.

Tax Simplification for Small Businesses

As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to allow two simpler income tax schemes for small unincorporated businesses. Following consultation, the legislation has been revised to:

- Keep the cash basis optional but limit the circumstances under which a business can leave it; and
- Provide for an adjustment on a just and reasonable basis were an individual takes business goods for their own use and not require businesses to align reporting with the tax year.

NICs: Process Simplification for the Self-Employed

The government will 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. Following consultation, the government will decide whether to make changes to the way NICs are collected and plans for legislative change, if required, will follow.

Corporation Tax Deductions for Employee Share Acquisitions

Legislation will be introduced in Finance Bill 2013 to clarify the rules that determine the availability of corporation tax deductions in connection with share options or awards granted to employees. The legislation will have effect from 20th March 2013 in relation to company accounting periods ending on or after that date.

Review of Partnerships

The Office of Tax Simplification will carry out a review of the ways to simplify the taxation of partnerships. The OTS will carry out an initial scoping exercise to identify which areas are most complex for taxpayers and will provide more details in due course.

Capital Allowances: Low Emission Vehicles

Legislation will be introduced in Finance Bill 2015 to extend the 100% allowance for expenditure incurred on cars with low carbon dioxide emissions and electrically propelled cars for an additional three years to 31st March 2018.

Indirect Taxes including VAT

Fuel Duty

The fuel duty increase that was due to take effect on 1st September 2013 will be cancelled. Legislation will be introduced in Finance Bill 2013 to reflect the cancellation of the 1st January 2013 fuel duty increases and to amend fuel duty rates to reflect the current effective rates of duty.

Tobacco Duty

The duty rates for all tobacco products will be increased by 2% above the rate of inflation (based on RPI) from 6pm on 20th March 2013.

Alcohol Duty

The duty rates for spirits, wine and made-wine, cider and perry will increase by 2% above the rate of inflation (based on RPI) with effect from 25th March 2013. This will add 2p to the price of a litre of cider, 10p to the price of a bottle of wine and 38p to the price of a bottle of spirits.

The duty rates on beer will decrease by 6% for low strength beer and 2% for the standard rate of beer duty, reducing the price of average strength beer by 1 penny.

VAT: Registration and Deregistration Thresholds

The VAT registration and deregistration thresholds will be increased in line with inflation so that with effect from 1st April 2013:

- The taxable turnover threshold which determines whether a person must be registered for VAT will increase from £77,000 to £79,000;
- The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £75,000 to £77,000; and
- The registration and deregistration threshold for relevant acquisitions from other EU Member States will be increased from £77,000 to £79,000.

VAT: Changes to the Place of Supply Rules

Legislation will be introduced in Finance Bill 2014 to tax intra-EU business to consumer supplies of telecommunications, broadcasting and e-services in the Member State in which the consumer is located. These services are currently taxed in the Member State in which the business is established. The changes will take effect from 1st January 2015 and implement already agreed EU legislation, ensuring that these services are taxed fairly in the Member State of consumption.

To save the need for businesses affected by these changes to register for VAT in other Member States, a Mini One Stop Shop will also be introduced from 1st January 215. This is an IT system that will give businesses the option of registering in just the UK and accounting for VAT due in other Member States using a single return.

All Other Taxes

Inheritance Tax: Limiting the Deduction for Liabilities 2006

Legislation will be introduced in Finance Bill 2013 to amend the inheritance tax provisions which allow a deduction from the value of an estate for liabilities owed by the deceased on death. The changes are being introduced in response to avoidance schemes and arrangements which exploit the current rules that allow a deduction regardless of whether or not the liabilities are paid after death, or how the borrowed funds have been used.

Some arrangements involve contrived debts which are subsequently not repaid so there is non real reduction in the value of the estate; others involve loans used to acquire assets which are not chargeable to IHT, or which qualify for relief so that the value of the estate is doubly reduced.

The measure will amend the IHT provisions which allow a deduction for liabilities owed by the deceased on death from the value of their estate. In some circumstances, the changes will bring in new conditions for the deduction to be allowance, or will restrict the deduction, so that the tax advantage resulting from the schemes or arrangements does nor arise.

For most estates, the liabilities owed by the deceased in the normal course of events, where the debt has been repaid after death, will continue to be deducted as they are now.

The measure will have effect for deaths and chargeable transfers on or after the date that Finance Bill 2013 receives Royal Assent.

Inheritance Nil Rate Band (NRB) & Elderly Care Costs

Contrary to information given in the Autumn Statement, the inheritance tax nil rate band threshold will now remain at £325,000 until 2017/18. This has been amended from £329,000 as part of the proposals to cap elderly care costs at £72,000 from April 2016. As part of these same proposals the means test limit for Long-Term Care will rise from £23,000 to £118,000.

The Inheritance Tax exemption for a UK domiciled spouse making a transfer to their non domiciled spouse/civil partner is to be increased from £55,000 to £325,000 and for future years will be set at an amount equal to the nil rate band. This is a lifetime limit. The measure will also allow these non domiciled individuals to make an election to be treated as UK domiciled and therefore benefit from the unlimited spouse’s exemption.

Stamp Duty Reserve Tax – Abolition of Schedule 19

Legislation will be introduced in Finance Bill 2014 to abolish the stamp duty reserve tax charge on unit trusts and open-ended investment companies in schedule 19 to the Finance Act 1999.

Stamp Duty on Junior Shares

The government will bring forward legislation in Finance Bill 2014 taking effect from April 2014, that abolishes stamp duty and Stamp Duty Reserve Tax on share transactions in UK companies quoted on small Company Growth Markets.

Amendments to Offshore Funds (Tax) Regulations 2009

The Regulations will be clarified to ensure that any potential tax charge upon disposal cannot be avoided by merger or reorganisation of the fund concerned.

A consultation paper is to be issued which will look at the rules around total reported income, the potential distortion of reportable income for a reporting period using several "computation periods" and the incorporation of new subscriptions against distributions.

Evasion and Avoidance

Levelling the Tax Playing Field – Compliance Progress Report March 2013

The report has been issued, highlighting the successes HMRC has had in tackling avoidance, evasion, criminal attack and debt since 2010.

No Safe Havens – HMRC Offshore Evasion Strategy

HMRC has published its offshore evasion strategy 'No safe havens'. This strategy sets out a coherent and coordinated framework for HMRC's approach tackling offshore evasion.

Loss Buying: 'Targeted Loss Buying' Rules

Legislation will be introduced in Finance Bill 2013 to prevent 'loss buying', where companies pass the potential to gain access to corporation tax relief to unconnected third parties.

Loss Buying: 'Loss Loophole Closure' Rules

Legislation will also be introduced to address arrangements which seek to circumvent the longstanding loss buying rules in Part 14 of the Corporation Tax Act 2010. In particular the rules will cover reliefs, deductions, allowances, and expenses for which it is possible to dictate or predict in advance the timing of their 'crystallisation' since, where timing can be dictated or predicted, ownership or part ownership changes can take place in advance of the crystallisation of the loss enabling the current anti-'loss buying' rules in Part 14 of the Corporation Tax Act 2010 to be bypassed.

The government therefore proposes, in certain circumstances, to bring the tax treatment on unrealised losses, involved in a transfer between unconnected parties, more closely into line with the longstanding treatment of realised losses. The proposed changes will introduce three separate rules to combat 'loss buying' which, when triggered, will not remove the ability to relieve relevant losses but merely stop their set-off against other profits (including by way of group relief).

Close Company Loans to Participators

Legislation will be introduced in Finance Bill 2013 to close three loopholes used to attempt to avoid the tax charge on close company loans to their participators. The changes will:

- Charge close companies on loans they make via intermediaries to their participators;
- Charge close companies on other payments they make via intermediaries to their participators; and,
- Update the repayment rules with an anti-avoidance provision.

These changes will have effect for loans, payments, repayments and repayment arrangements made on or after 20th March 2013.

Corporation Tax Deductions for Employee Share Acquisitions

Legislation will be introduced in Finance Bill 2013 to clarify the rules that determine the availability of corporation tax deductions in connection with share options or awards granted to employees.

Stamp Duty Land Tax (SDLT) Avoidance

Legislation will be introduced in Finance Bill 2013 to put beyond doubt that certain SDLT avoidance schemes that abuse the transfer of rights rules do not work.

General Anti-Abuse Rule (GAAR)

Legislation will be introduced in Finance Bill 2013 for a GAAR to counteract tax advantages arising from abusive tax avoidance schemes. The GAAR will apply to income tax, corporation tax (and amounts treated as corporation tax), CGT, inheritance tax, SDLT, the annual tax on enveloped dwellings and petroleum revenue tax.

Tax Agreements with Isle of Man, Jersey and Guernsey

The UK has agreed a comprehensive package of measures with the Isle of Man, Guernsey and Jersey governments, to clamp down on those who choose to hide their money offshore. This demonstrates the commitment of all parties to tackle tax evasion. The package consists of:

- Agreement to automatically exchange a wide range of financial information on UK taxpayers with accounts in the Isle of Man, Guernsey and Jersey which will significantly enhance HMRC's ability to crack down on those who do not declare their offshore affairs;
- A disclosure facility to allow people to come forward to disclose their previous tax affairs in advance of the information being automatically.

Partnerships

The misuse of the of the partnership rules has been a feature of many avoidance schemes closed down in recent years. The government announced in Autumn Statement 2012 that it would consider whether partnerships should be reviewed, as part of the rolling examination of high risk areas of the tax code. The government has now announced that it will consult on measures to:

- Remove the presumption of self-employment for limited liability partnerships (LLP) partners to tackle the disguising of employment relations through LLPs; and,
- Counter the manipulation of profit/loss allocations (by both LLPs and other partnerships) to secure tax advantages.

A consultation document will be published with the proposals to address both issues in the spring with legislation to be introduced in Finance Bill 2014.

High-risk Promoters

The government will consult this summer on a package of information powers, penalties and other measures for tackling the behaviour of high-risk promoters of tax-avoidance schemes, with a view to bringing forward legislation in Finance Bill 2014.

Offshore Employment Intermediaries

The government will consult on strengthening obligations to ensure the correct income tax and NICS are paid by offshore employment intermediaries, with a view to legislating in Finance Bill 2014. This is a result of the review announced in Autumn Statement 2012.

Employer Shareholder Status

Individuals taking up the new ‘employee shareholder’ employment status can do so from 1st September 2013 with regards to shares of between £2,000 and £50,000 received from their employer from that date. Capital gains made by these individuals on these shares will not be exempt from Capital Gains Tax (CGT). Additionally, the first £2,000 of shares received will not be subject to income tax or National Insurance Contributions.