# AUTUMN STATEMENT

## Tolley®Library

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# Autumn Statement 2013

*Produced by* Tolley

## Announcements taking effect immediately

- *Partnerships*. From 6 April 2014, excess profits allocated to a non-individual partner can be reallocated to an individual partner if the non-individual's share is excessive and the individual partner may benefit from those profits. Alongside this rule, from 5 December 2013 certain Income Tax and Capital Gains Tax reliefs are denied for a loss allocated to an individual partner where the individual is party to arrangements, the main purpose of which is to secure that some or all of the loss is allocated to the individual, with a view to the individual obtaining relief.

- *Transfer pricing*. As previously announced, legislation will be introduced with effect from 25 October 2013 to prevent abuse of the rules relating to compensating adjustments.

- *Double tax relief*. From 5 December 2013, amendments will be made to the double tax relief rules to ensure that relief for foreign tax is only given where income has been doubly taxed. From 5 December 2013, credit for foreign tax arising on a non-trading credit is limited to the amount of Corporation Tax on that non-trading credit. Furthermore, any credit allowed or deduction given in the UK is restricted where a repayment is made by a foreign tax authority and there are arrangements in place which enable another person to receive the repayment of foreign tax.

- *CFCs*. The full or partial exemption from the CFC regime for certain qualifying loans to fund other group companies will be amended. For arrangements entered into on or after 5 December 2013, the exemption will not apply where the loan arises as a result of any arrangement which has a main purpose of transferring profits out of the UK from a loan made by a UK company connected with the CFC.

- *Corporate debt cap*. Legislation will be introduced in Finance Act 2014, effective for accounting periods starting on or after 5 December 2013, to improve the effectiveness of the worldwide debt cap rules. The changes will:

  - amend the grouping rules to ensure that a UK tax-resident company that does not have ordinary share capital such as a company limited by guarantee can be a relevant group company;

  - amend the definition of a 75% subsidiary to ensure that indirect ownership of a company can be traced through intermediate entities without ordinary share capital; and

  - put beyond doubt that the ultimate parent of a worldwide group may be regarded as beneficially entitled to 75% of the profits or assets of a UK group company for the purposes of the debt cap grouping rules, notwithstanding any intermediate entities in the ownership chain that do not have ordinary share capital.

- *Oil and gas regime*. New allowance: For capital expenditure incurred on or after 5 December 2013, a new onshore allowance is available to reduce the amount of adjusted ring-fence profits subject to the supplementary charge. The allowance will remove an amount equal to 75% of capital expenditure incurred by a company in relation to an onshore site. Extension of allowance: The ring-fence expenditure supplement will be extended from 6 to 10 accounting periods for all onshore ring-fence oil and gas losses and qualifying pre-commencement expenditure incurred on or after 5 December 2013.

- *Avoidance using total return swaps*. Avoidance schemes where deductions are claimed for payments between companies in the same group under derivative contracts which are linked to company profits are to be blocked. This measure applies from 5 December 2013 to schemes entered into at any time and ensures that deductions are not allowed for Corporation Tax purposes where a payment is made under a derivative contract which is, in substance, a payment of profits.

- *Banks*. Legislation will be introduced in Finance Act 2014 to ensure that HMRC publishes an annual report on the operation of the Code of Practice on Taxation for Banks. The first annual report will be for the period 5 December 2013 to 31 March 2015.

**Business tax**

- *Bank levy*. From 1 January 2014, the bank levy rate will be increased to 0.156% and changes will be made to the detailed design of the regime (effective largely from January 2015) that will have the effect of widening the tax base.

- *Creative sectors*. Film Tax relief: Subject to receiving State Aid approval, Film Tax relief will be available from April 2014 at 25% on the first £20m of qualifying production expenditure (and 20% thereafter) for small and large budget films. The minimum UK expenditure requirement will be reduced to 10% and the cultural test is to be modernised. Theatre tax relief: The Government will consult on the introduction, in April 2015, of a limited tax relief for commercial theatre productions and a targeted tax relief for theatres investing in new works or touring productions to regional theatres.

- *Corporate Gift Aid*. From April 2014, donations by companies of gifts of money to community amateur sports clubs (CASCs) will be eligible for corporate Gift Aid.

- *Corporate loss relief*. The rules restricting the availability of relief for Corporation Tax trading losses when companies change ownership will be relaxed as follows:
    - a holding company will be allowed to be inserted at the top of a group of companies; and

    - the test as to whether there has been a `significant increase in capital' of a company with investment business will be amended so that the capital of the company after the change has to exceed the amount of capital before the change by both £1m and 25%.

- *Business premises renovation allowance*. From April 2014, legislation will be introduced to simply this scheme, make it more certain in its application and reduce the risk of exploitation.

- *Real Estate Investment Trusts (REITS)*. From 1 April 2014, REITS will be included within the definition of `institutional investor' for tax purposes.

**Personal tax**

- *Personal allowance*. It is confirmed that the personal allowance will increase to £10,000 from 6 April 2014. The basic rate limit for 2014/15 will be £31,865. From 6 April 2015, a spouse or civil partner will be able to transfer £1,000 of their personal allowance to their partner, provided that neither is liable to Income Tax above the basic rate.

- *ISAs*. For 2014/15, the maximum annual subscription to an Individual Savings Account (ISA) is increased to £11,880, of which £5,940 can be invested in a Cash ISA. The maximum for a Junior ISA or Child Trust Fund account will be £3,840.

- *Share option schemes*. The maximum that employees can save towards the purchase of shares in an SAYE share option scheme from 6 April 2014 is doubled to £500 per month. The limit on the value of free shares that companies can award to employees under a Share Incentive Plan (SIP) will increase from £3,000 to £3,600 per year. The maximum that can be deducted from an employee's salary to purchase partnership shares in a SIP is to be increased from £1,500 to £1,800 per year (subject to the overriding maximum of 10% of salary).

- *Tax relief for social organisation investments*. From April 2014, there will be a new tax relief for individuals investing in social organisations. The relief will be available for equity investments (and certain debt investments) in charities, community interest companies and community benefit societies. Certain investments in social impact bonds will also be eligible for relief.

- *Income Tax relief*. From April 2014, Income Tax relief for interest paid on loans to invest in close companies and employee-controlled companies will be extended to investments in such companies resident throughout the European Economic Area (EEA).

- *Company cars*. Company car legislation will be amended from 6 April 2014 to ensure that payments for private use of a company car or van are taken into account only if made in the tax year in question and to ensure that where an employer leases a car to an employee, the benefit is taxed as a car benefit rather than as employment earnings generally.

- *Indirectly employee-owned companies*. From October 2014, bonus payments made to employees of indirectly employee-owned companies controlled by an employee ownership trust will be exempt from Income Tax up to a maximum of £3,600 per year.

- *Interest on loans taken out to purchase life annuities*. Following consultation, the Government has decided not to legislate to withdraw relief for interest on loans taken out to purchase life annuities by people aged 65 or over before 1999.

- *Investments in venture capital trusts*. Changes are to be made to the relief for investments in venture capital trusts (VCTs). With effect from April 2014, investments linked to a VCT share buy-back or which have been made within six months of a disposal of shares in the same VCT, will not qualify for relief. The VCT rules are also to be amended to allow investors to subscribe for VCT shares via nominees. There will be further consultation on potential changes to address the use of converted share premium accounts to return capital to investors where that return does not reflect profits on the VCT's investments.

**Capital gains**

- *Annual exempt amount*. The annual exempt amount for 2014/15 will be £11,000. The Government has also announced that the exempt amount for 2015/16 and subsequent tax years will be £11,100.

- *Disposals of residential property*. The scope of Capital Gains Tax is to be extended to include disposals by non-UK residents of residential property in the UK. Currently, CGT broadly only applies to individuals, personal representatives and trustees who are resident in the UK. The new charge will apply with effect from April 2015. A consultation on how best to introduce the charge will be carried out early in 2014.

- *Private residence relief*. The private residence relief rules are to be amended so that the final period of ownership which qualifies for exemption even where the property is no longer used as the individual's private residence is reduced from three years to 18 months. The change will apply with effect from 6 April 2014.

- *Disposal of shares*. With effect from April 2014, a disposal of shares that results in a controlling interest in a company being held by an employee ownership trust will be relieved from CGT.

**Inheritance Tax and charities**

- *IHT online*. HMRC will be introducing a new Inheritance Tax online service, probably in 2016, which will enable people to proceed with their application for probate and submit Inheritance Tax accounts online.

- *Charities joint registration*. HMRC will develop a new IT system to allow organisations wanting to register with the Charity Commission for England & Wales and seeking charity tax status with HMRC to submit their applications through a single online portal. Planned to be introduced in 2015 through to 2016, it will later be extended to enable charities in Scotland and Northern Ireland to register with their charity regulators at the same time as they apply to HMRC.

- *IHT trust simplification*. Following consultation, legislation in Finance Act 2014 will simplify filing and payment dates for IHT relevant property trust charges, and treat income arising in such trusts which remains undistributed for more than 5 years as part of the trust capital when calculating the 10-year anniversary charge. The Government will consult on proposals to split the IHT nil rate band available to trusts with a view to delivering this change alongside simplification of the trust calculations in 2015.

- *Vulnerable beneficiaries*. The Government will extend from 2014/15 the range of trusts that qualify for special Income Tax, CGT and IHT treatment. The Government will consult further on ways to reform the tax treatment of trusts established to safeguard property for the benefit of vulnerable people.

**National Insurance**

- *National Insurance Contribution rates.* The percentage rates of National Insurance Contributions (NICs) remain unchanged for 2014/15 but there are changes to the thresholds and limits. The weekly rates for Class 2 and Class 3 NICs are increased. The Class 1 and Class 4 upper limits will continue to be aligned with the point at which higher rate tax becomes payable, i.e. £41,865.

- *Class 3A National Insurance Contributions for enhanced state pension*. From October 2015, a new class of voluntary National Insurance Contributions (Class 3A) will be introduced for a limited time to give current pensioners and those who reach State Pension age before the introduction of the new single tier pension from 6 April 2016 an opportunity to boost their Additional State Pension.

- *Abolition of employer National Insurance Contributions for under 21s*. From April 2015, employer National Insurance Contributions for under-21 year-olds earning less than £813 per week will be abolished.

**Indirect taxes**

- *VAT*. The Government is to consult to clarify the circumstances in which VAT registered businesses will be able to submit returns other than by electronic means. This follows a number of tribunal cases concerning this issue.

- *Alcoholic liquor duty*. Measures are to be introduced to combat the illicit trade in alcohol products. These include a registration scheme for alcohol wholesalers (from 2016), and (from 2014) a requirement that alcohol traders take reasonable steps to establish the bona fides of their trading partners. In addition, the sale of alcohol below the cost of duty and VAT will be banned in England and Wales with effect from spring 2014.

- *Fuel duty*. The increase in road fuel duty of approx. 1.6p per litre, which was due to take place on 1 September 2014, is to be cancelled. The differential between the main rate of fuel duty and the rate for road fuel gases (such as compressed natural gas, liquid natural gas and biomethane) will be maintained at current levels until March 2024. In addition, there will be an increase in resources for HMRC's Road Fuel Testing Units, which seek to ensure that only duty paid fuel is used in road vehicles.

- *Vehicle excise duty*. With effect from 1 October 2014, motorists will be able to pay their vehicle excise duty by direct debit yearly, twice yearly or monthly. (A 5% surcharge will apply other than to annual payments.) The paper disc will no longer be issued.

- *Aggregates levy*. With effect from 1 April 2014, exemptions, exclusions and reliefs from AL will be suspended pending the European Commission's investigation into state aid. They will be reinstated if the investigation permits.

- *Climate change levy*. An exemption from CCL is to be introduced for mixed-use fuel used in certain gasification processes.

**General anti-avoidance**

- *Charity tax reliefs*. Legislation will be introduced in 2014 to prevent a charity from being entitled to charity tax reliefs if a main purpose of establishing the charity is tax avoidance.

- *Tax avoidance schemes*. A new disclosure and penalty regime for high-risk promoters of tax avoidance schemes is to be introduced. Users of any avoidance scheme defeated by HMRC in a tribunal or court hearing in another party's litigation will be obliged to concede their position to reflect the tribunal's or court's decision. They will do so by amending their tax return. A tax-geared penalty will be charged if taxpayers refuse to amend their return and it is subsequently determined that the avoidance scheme they used failed on the same point of law. Taxpayers will be able to appeal against the penalty. In future, taxpayers will be required to pay the tax in dispute in a tax avoidance enquiry where HMRC issue an 'avoidance follower penalty notice'. This will take effect from Royal Assent to Finance Act 2014 which will be in July 2014. It is to prevent taxpayers entering into avoidance schemes primarily for a cash flow benefit.

- *Disguising of employment as self-employment*. Existing legislation will be strengthened from April 2014 to prevent employment intermediaries being used to disguise employment as self-employment.

- *Money hidden offshore*. HMRC will consult on a range of enhanced proposals to penalise those who hide money offshore.

- *Non-UK domiciled individuals*. Legislation will be introduced to prevent non-UK domiciled individuals from avoiding tax by creating an artificial division of the duties of a single employment between dual contracts in the UK and overseas. From April 2014, UK tax will be levied on the full amount of the employment income if a comparable level of overseas tax is not payable on the overseas income.