BUDGET 2013/14

Free in depth, practical guidance on the budget for Personal Tax

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Budget 2013 — overview for individuals

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This is a summary of the most important personal tax changes in Budget 2013. For more on the Budget, see the Budget 2013 report and the Overview of tax legislation and rates 2013 published by HM Treasury and HMRC.

For details of the new tax-free childcare scheme which was announced the day before the Budget, see the Budget 2013 — new 'tax-free' childcare scheme from 2015 news item.

Please note that this news item does not refer to Finance Bill 2013 provisions which have already been announced and remain unchanged or substantially unchanged, rather it concentrates on today's developments.

Rates and allowances

Income tax and national insurance

The major changes to the rates and allowances for the 2013/14 tax year are as follows:

- the additional rate is reduced from 50% to 45% (the dividend additional rate is reduced from 42.5% to 37.5%)
- the basic rate band limit is reduced from £34,370 to £32,010, which means that the level at which higher rate tax kicks is reduced to £41,450 (down from £42,475 in 2012/13)
- the personal allowance for those born after 5 April 1948 is increased to £9,440

As announced in Budget 2012, from 6 April 2013 age-related allowances are frozen at 2012/13 levels. and will only be available to those born on or before 5 April 1948

In relation to the 2014/15 tax year, the major news is that the personal allowance for those born after 5 April 1948 will be £10,000. This was a key aim for the Coalition Government and it has been achieved ahead of the 2015 deadline. The 2014/15 basic rate band limit will be £31,865, which means the higher rate tax kicks at £41,865, a slight increase from the 2013/14 tax year.
All these measures are discussed further in the Budget 2013 — personal tax rates and allowancesnews item.

Other taxes

In summary:

- capital gains tax exempt amount will increase to £10,900 for 2012/13 (in line with the consumer prices index) and the rates of tax will remain the same
- inheritance tax nil rate band remains £325,000 until at least 6 April 2018 (the freeze to the nil rate band is extended for a further three years as a result of Budget 2013)

Also, stamp duty is to be abolished on shares quoted on 'growth markets' such as the Alternative Investment Market (AIM) and ISDX Growth Market. This is to be legislated in Finance Bill 2014, although the proposed operative date is not provided.
Overview of tax legislation and rates 2013, para 2.28

Tax efficient investments

Seed enterprise investment scheme

The seed enterprise investment scheme (SEIS) has seen two changes which are both useful for businesses looking to seek investment using this relief. These are:

- the extension of the capital gains tax (CGT) re-investment relief to 2013/14, and
- amendments to make off-the-shelf companies eligible for relief

Overview of tax legislation and rates 2013, paras 1.6–1.7

There are changes to the CGT re-investment relief which previously applied in 2012/13. In 2012/13, the **entire gain** was exempted if the proceeds were re-invested in a qualifying company in the 2012/13 tax year. For gains realised in 2013/14, **only a proportion** will be exempted from charge. The chargeable gain will be an amount that is equal to half the matched re-invested gain. Also, the relief will be available if the re-investment is made in 2013/14 or 2014/15.
TIIN: SEIS CGT re-investment relief

Social enterprises investment tax relief

There is to be consultation in the summer of 2013 on the introduction of 'tax relief' to encourage private investment in social enterprises. It is intended that this relief will help social enterprises access the cash they need. It appears that the plan is to introduce the relief from April 2014 as it is to be legislated in Finance Bill 2014. It is not known whether this will be an income tax relief, in the same way as the venture capital schemes tax reliefs (eg SEIS).
Budget 2013 report, para 1.135

Pensions

As announced in the Autumn Statement 2012, from 2014/15 the annual allowance is to be reduced from £50,000 per year to £40,000 per year and the lifetime allowance will drop from £1.5m to £1.25m. See the Autumn Statement 2012 — personal tax overview news item for more details.

Individuals who have or expect to have pension pots in excess of £1.25m at retirement (and who do not already have lifetime allowance protection) will be able to use the 'fixed protection 2014' regime to protect their pension savings. Individuals who register for the fixed protection 2014 will be entitled to a lifetime allowance which will be the greater of:

- £1.5m
- the standard lifetime allowance

Overview of tax legislation and rates 2013, para 2.10

As was the case in previous lifetime allowance protection regimes, the individual will not be able to contribute to any defined contribution pension scheme from 6 April 2014 and any benefit accrual in a defined benefit scheme must be limited to a 'relevant percentage'.
TIIN: Reducing the pensions tax annual and lifetime allowances

Anyone intending to register for fixed protection 2014 will need to follow the automatic enrolmentconsultation carefully. Currently, all employees must be enrolled in the employer pension scheme and then they must opt-out. The Department of Work and Pensions proposes that those with lifetime allowance protection be exempted from the automatic enrolment.

Employee issues

Employee shareholders

Proposals in the Growth and Infrastructure Bill currently before Parliament create a new class of employee now labelled an 'employee shareholder' (previously known as an 'employee owner'). This applies to individuals employed by companies. To become an employee shareholder:

- both the employer and the employee must agree that the individual employee is to become an employee shareholder
- the employing company must issue fully-paid shares worth at least £2,000 to the employee in consideration of that agreement (the shares may either be in the employing company or its parent company), and
- the employee must give no other consideration for those shares beside entering into the agreement

If an individual does become an employee shareholder, his rights under the Employment Rights Act 1996 are reduced.

In the Budget, the Chancellor confirmed that Finance Bill 2013 will include measures to reduce possible tax liabilities on the shares given as consideration for the agreement to be an employee shareholder. Finance Bill 2013 will include provisions to treat the employee as if he had paid £2,000 for the shares, so there will be no income tax charge on the first £2,000 worth of such shares. Regulations will also be made to ensure the same treatment for national insurance purposes. Normal income tax and national insurance rules apply to any shares above that level. The Finance Bill will also include an exemption from capital gains tax on the first £50,000 gain made by the employee on the eventual disposal of all the shares he received as consideration for the agreement.
TIIN: Employee shareholder status: capital gains tax exemption and income tax/NICs treatment

However, in the evening, after the Budget, the House of Lords **blocked** the employee shareholder clauses in the Growth and Infrastructure Bill so the above Budget proposals are now in limbo.

Company cars

The Budget contained provisions relating to the taxation of company cars for the tax years 2015/16 to 2019/20.

For 2015/16, the appropriate percentage for cars with emissions:
- between 0 and 50g/km will be 5%
- between 51 and 75g/km will be 7%
- above 75g/km will increase by 2% compared with 2014/15 up to a maximum of 37%

The Table 1 — appropriate percentages for petrol-driven company cars has been updated to include the changes for 2015/16 and 2016/17 only as the rates for later years may change at a later date. For full details of the later provisions, see the TIIN: Company car tax rates and the full table of rates in the Overview of Tax Legislation and Rates 2013.

Employment-related loans

When an employer provides an employee with an interest-free (or low interest loan) it may give rise to a tax charge as a benefit under ITEPA 2003, s 175. The current law states that if the total of all employment-related interest-free or low interest loans outstanding in the tax year does not exceed £5,000, no tax charge arises. From 6 April 2014, this £5,000 exemption will be doubled to £10,000.
TIIN: Exemption threshold for employment-related loans

This measure will be particularly of use to employees in the South East whose public transport annual season tickets are over £5,000.

For more information on employment-related loans, see the Interest-free and low interest loans guidance note.

Company vans and car or van fuel benefits

The rate of the benefit charge for company vans and for fuel provided for company cars or vans will be increased in line with inflation in autumn 2013, based on the retail price index figure for September 2013.
Overview of tax legislation and rates 2013, para 1.18

Business owners

Limiting inheritance tax deductions for liabilities

Inheritance tax is charged on the net value of an estate after deduction of liabilities. A liability must be deducted from the asset on which it is secured. The Budget introduced provisions to counter avoidance schemes which have been developed to take advantage of this basic rule. The new measures cover circumstances where deductions are considered to be artificial and are discussed in the Budget 2013 — IHT, trusts and estates overview news item (subscription sensitive).

The most important provision as far as business owners are concerned is that there will be no deduction against the taxable estate for any liability which has been incurred to acquire property on which a relief such as BPR or APR is due. The liability must be deducted from the value of the assets qualifying for relief, which means, of course, that no tax will be saved as the assets are already relieved.
TIIN: Inheritance tax: limiting the deduction for liabilities

As business owners often obtain finance for the business by mortgaging their home, this will potentially have a significant impact on their liability to inheritance tax. The current legislation allows a debt secured on a property to reduce the value of that property, meaning that the business loan reduces the value of the taxable estate. The new provisions will alter the present favourable position by requiring the loan to be deducted from the BPR qualifying business assets.

Review of the taxation of partnerships

The Office of Tax Simplification (OTS) is to undertake a review the taxation of partnerships in 2013. It appears that, as with other projects undertaken by the OTS, there will be an interim report which

identifies areas of complexity and asks for comment and then a final report which contains the findings and recommendations.
Overview of tax legislation and rates 2013, para 2.6

Pensioners

Single tier pension

The single tier pension is to be brought forward to April 2016. It is unclear whether the other state pension reforms recommended in the White Paper will be introduced at the same time (ie the increase in the qualifying years from 30 to 35, the need for a minimum number of qualifying years before becoming entitled to the state pension and the removal of the ability to inherit or derive rights to the state pension from a spouse / civil partner). See the State pension guidance note for more information.

The single-tier pension will necessitate the closure of the state second pension (S2P) which is based on the national insurance contribution record. Therefore the biggest beneficiaries of these changes will be women, the low paid and the self-employed.
Budget 2013 report, para 1.188

Elderly care

The Chancellor confirmed the Government's intention to implement the Dilnot Commission proposals for funding the costs of care in old age. It will introduce a cap of £72,000 on reasonable care costs, and extend the means test from April 2016. Currently, those with savings in excess of £23,000 are required to contribute to their care costs but this level of preserved assets is due to increase to £118,000.
Budget report, 1.194

Anti-avoidance

Tax avoidance using partnerships

The Chancellor announced in the Autumn Statement 2012 that HMRC would be pursuing 'abusive' partnership arrangements. Following Budget 2013, the Government will consult on measures to:

- remove the presumption of self-employment for limited liability partnership (LLP) partners — to tackle the disguising of employment relationships through LLPs
- counter the manipulation of profit / loss allocations by partnerships including a company, trust or similar vehicle in order to secure tax advantages

Overview of tax legislation and rates 2013, para 2.42

The use of corporate partners within partnerships has been almost standard planning over recent years. HMRC is obviously taken a closer look at these arrangements.
There are also provisions in Budget 2013 to ensure that loans from close companies to partnerships are caught by the loans to participator rules in CTA 2010, s 455 (subscription sensitive). For more information, see Budget 2013 — Owner-managed businesses overview news item (subscription sensitive).

'Naming and shaming' of high-risk promoters

As previously announced in the Autumn Statement 2012, high-risk promoters of tax avoidance schemes are to be targeted with a raft of new measures including information powers, penalties and the power to publish the promoter's details.
Overview of tax legislation and rates 2013, para 2.43

Application of decisions in test cases

It is proposed that if HMRC is successful an 'avoidance case' in court, it will be able to **require** taxpayers who have used the same avoidance scheme or similar to acknowledge that the judgment applies to them and either:

- amend their Returns accordingly, or
- confirm that they stand by their original Returns

A tax-geared penalty would be charged, subject to safeguards, if they failed to take reasonable care. This is expected to be legislated in Finance Bill 2014.
Overview of tax legislation and rates 2013, para 2.45

It is unclear whether the reverse will also be true: that HMRC will be required to accept a taxpayer's Tax Return as filed if the another taxpayer is successful in a similar avoidance case.

Tax information exchange agreements with Crown dependencies

Jersey, Guernsey and the Isle of Man have entered into tax information exchange agreements with the UK Government as part of the strategy to target offshore tax evasion. Disclosure facilities will also be put in place to allow investors to settle their past tax affairs with HMRC
Memorandum of understanding: Jersey; Memorandum of understanding: Guernsey ;Memorandum of understanding: Isle of Man

Interestingly, in terms of the categorisation of these Crown dependencies for penalties for offshore matters, Guernsey and the Isle of Man are category 1 territories and Jersey is a category 2 territory. This means that higher penalties are charged in relation to an offence where the offshore matter relates to Jersey. With the signing of this information exchange agreement perhaps Jersey will now be reclassified as a category 1 territory?

For more information on penalties for offshore matters, see the Penalties for offshore matters guidance note.

HMRC's offshore evasion strategy

HMRC published its promised offshore evasion strategy document 'No safe havens' on 20 March 2013. Essentially, the strategy is:

- there will be no jurisdiction where UK taxpayers feel safe to hide their income and assets:
  - more automatic information exchanges (see above)
  - resources will be focused on the highest priority jurisdictions and specialist staff will be recruited to identify and profile high-risk taxpayers
- tax evaders will be encouraged to voluntarily pay the tax due
- tax evaders who do not come forward will be subject to sanctions (such as penalties of up to 200% and the potential widening of penalties for offshore matters which are currently limited to income tax and capital gains tax inaccuracies)
- there will be no place for people who facilitate UK tax evasion (the Government will consider widening the powers in relation to high-risk promoters discussed above to encompass facilitators)

Administration

Simplifying the collection of Class 2

Self-employed people currently pay Class 2 national insurance via monthly via direct debit or via half-yearly bills. To simplify the administration for these people, the proposal is that Class 2 will be collected via Self Assessment, in the same way as Class 4 national insurance is collected. There will be a consultation with interested parties and legislation will be brought forward if required. There is no time scale given, but it is hoped that this could be included in Finance Bill 2014.
Overview of tax legislation and rates 2013, para 2.18

For more on Class 2 national insurance contributions, see the National insurance contributions for unincorporated businesses guidance note.

PAYE coding notice

The Budget contains a proposal to review the rules related to the collection of debts via the PAYE coding notice with a view to increasing the size of the debt which can be collected.

Overview of tax legislation and rates 2013, para 2.46

Further reading

You may also find the following subscription sensitive news items useful:

- Budget 2013 — overview for employers
- Budget 2013 — IHT, trusts and estates overview
- Budget 2013 — owner-managed businesses overview
- Budget 2013 — corporate tax overview
- Budget 2013 — VAT overview
- Budget 2013 — indirect taxes overview