BUDGET 2013/14

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Budget 2013 — overview for employers

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The Budget included a mix of some new proposals and some changes to previously announced measures. For complete details of the whole Budget see the Overview of Tax Legislation and Rates published by HM Treasury and HMRC. This article focuses on those items most likely to be of interest to employers as a result of today's announcements.

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.

Taxable cheap loans — exemption doubled to £10,000

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. The Budget included an announcement that this £5,000 exemption will be doubled to £10,000 from 6 April 2014.

New employers' national insurance allowance

The Chancellor announced that a new allowance of £2,000 per year will be made available to all businesses and charities to be offset against their employer Class 1 secondary NICs bill from April 2014. The allowance will be claimed as part of the normal payroll process through RTI.

The Government will consult on the detail of how this initiative will be implemented before introducing legislation later in 2013.

This is intended to be an incentive for job-creation. It is more generally available but a less generous follow-up to the Regional Employer NICs holiday, which is another form of NIC allowance, available only to start—up businesses in certain geographic regions, which comes to an end on 5 September 2013. Being of more general application and with fewer conditions to satisfy, it should be easier to administer both for employers and HMRC. There is currently no indication whether this is a temporary or a permanent measure.

Employee shareholder status – treatment of shares

Proposals in the Growth and Infrastructure Bill currently before Parliament create a new class of employee now labelled "an employee shareholder" (called an "employee owner" when the policy was first announced). This class of employee is only open to individuals employed by companies. There are three conditions to be met for an employee 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. An employee shareholder does not have any right to request to undertake study or training, to request flexible working arrangements or to receive a redundancy payment and has only limited protection against unfair dismissal. An employee shareholder taking parental or adoption leave (or additional leave) would also have to give more notice of his intention to return to work (16 weeks in place of the normal 6 or 8 weeks as the case may be).

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. Normal tax and NIC rules apply to any shares above that level. Regulations will also be made to ensure the same treatment for national insurance purposes. 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.

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

RTI penalties

Real Time Information ("RTI") is the new system for employers to communicate PAYE information to HMRC electronically and in 'real time' . The vast majority of employers will have to operate RTI from 6 April 2013. See the Real time information guidance note for more information on RTI generally.

The Budget confirmed that, following on from consultation that took place last year, legislation will be introduced in Finance Bill 2013 to set out a new model for late filing penalties for RTI which will apply from April 2014.

Penalties will apply to each PAYE scheme, with the size of the penalty being based on the number of employees in the scheme. Each scheme will be subject to only one late filing penalty each month, regardless of the number of separate returns due in the month. An employer may miss one deadline per year without penalty, but all subsequent defaults will attract a penalty. Penalties will be charged quarterly, and subject to the usual reasonable excuse and appeal provisions.

In cases of late payment, penalties will be based on the number of previous late payments in the tax year. Regulations are likely prevent penalties being issued where there is only a small discrepancy between the return figures and sums paid over each period

There will also be amendments to the existing legislation on penalties for inaccuracies, allowing a tax year to be treated as a single tax period for penalty purposes.

The penalties rates themselves will be set by regulation once the penalty framework has been put in place in Finance Bill 2013.
For more detail, see the TIIN on 'Securing compliance with real time information: penalties'.

Rates and allowances

Income tax

The major changes to the tax rates and allowances for the 2013/14 tax year are as follows:
- the additional rate is reduced from 50% to 45%
- 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 main personal allowance is increased to £9,440

In relation to the 2014/15 tax year, the major news is that the main personal allowance 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.

National Insurance

The national insurance thresholds and allowances relevant to employers for 2013/14 are:

	2013/14 (amount per week unless otherwise stated)
Lower earnings limit, primary Class 1	£109
Upper earnings limit, primary Class 1	£797
Upper accrual point	£770
Primary threshold	£149
Secondary threshold	£148
Employees' primary Class 1 rate between primary threshold and upper earnings limit	12%
Employees' primary Class 1 rate above upper earnings limit	2%
Employees' contracted-out rebate, for contracted-out salary-related schemes only	1.4%
Employers' secondary Class 1 rate above secondary threshold	13.8%
Employers' contracted-out rebate, salary-related schemes	3.4%
Class 1A rate on employer-provided benefits	13.8%
Class 1B rate on amounts included in a PAYE settlement agreement	13.8%

The Chancellor announced that the state pension will be reformed into a single tier pension from April 2016, meaning that the state second pension (S2P) will be abolished. This means it will no longer be possible for individuals to contract-out and therefore:

- all employees will pay the contracted-in rates of primary Class 1 national insurance (currently 12% between the primary threshold and the upper earnings limit and 2% above the upper earnings limit)
- all employers will pay the contracted in rates of secondary Class 1 national insurance (currently 13.8% on earnings above the secondary threshold)

Company cars

As has been the practice in recent years, the Budget documents provide advance information about the company car tax rates that will apply from 2015/16 to 2019/20, but this article focuses only on the changes for 2015/16 and 2016/17 as the rates for later years could well change again before coming into use. See the TIIN on 'Company car tax rates' and the full table of rates in the Overview of Tax Legislation and Rates for details of the changes for all years.

The rates for 2015/16 will be included in Finance Bill 2013. The appropriate percentage to be applied to the price of a car to arrive at the taxable benefit continues to be determined by reference to the CO2 emissions level of the vehicle, with the lowest appropriate percentages applying to the vehicles with the lowest levels of CO2 emissions.

For 2015/16 there will be a new band of 0 to 50g CO2 per km for which the appropriate percentage is 5% and another of 51 to 75g CO2 per km for which the appropriate percentage is 7%.

The appropriate percentages for all other bands above 75g CO2 per km will increase by 2% compared with 2014/15 up to a maximum of 37%.

For 2015/16, the appropriate percentage for each band will increase by a further 2%, again to a maximum of 37%.

A table showing the new bands and percentages, alongside those applicable for years up to 2014/15, can be found here:
Click here to view pdf

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.

Other Budget proposals to be consulted on in 2013

Tax relief for health interventions

This Budget proposal is for a limited exemption from a benefits charge on health-related interventions made by employers to support employees returning to work after sickness. The outline of the proposal so far is that it would exempt up to £500 paid by employers on interventions recommended by the Health and Work Assessment and Advisory Service to support employees to return to work after a period of sickness absence. A consultation is expected later in 2013 with legislation in Finance Bill 2014.

OTS recommendations on approved employee share schemes

In its report published in March 2012, the Office of Tax Simplification ("OTS"), recommended that the current system of HMRC approval of tax advantaged employee share schemes should be replaced with a form of self certification similar to that in place for the Enterprise Management Incentive. The Government has accepted that recommendation and the Budget confirmed that a consultation on a proposed self certification system will be published shortly with a view to legislation in Finance Bill 2014.

OTS recommendations on unapproved share schemes

The Government's plans for picking up on the recommendations in the OTS report on unapproved share schemes, published in January 2013, are less well covered in the Budget. The only comment is that the Government will consult on a number of the recommendations made, with no indication when such consultation may take place or in which Finance Bill any changes might be implemented.

Employee ownership

The Budget confirmed the Govenment's intention to introduce a new relief from capital gains tax on the sale of a controlling interest of a business into an employee ownership structure. That new relief will be consulted on before introduction in Finance Bill 2014. There is also likely to be consultation on ideas for further incentives in this area, including measures targeted at employees through indirect ownership models.

Payroll giving

There is currently a consultation underway on ways to improve payroll giving, setting out a range of options to increase amounts received by charities through payroll giving, including opening up the market to non-charity participants. The consultation closes on 19 April 2013. Future news articles will report on the outcome of that consultation.