

# BUDGET 2013: PERSONAL TAX CHANGES

Chris Jones BA CTA (Fellow) ATT  
Director of Tax Markets &  
Learning Solutions  
Tolley

Tolley®

Tax intelligence  
from LexisNexis®

# Income Tax Rates & Bands 2013/14

---

- Additional rate cut by 5%
  - General rate 50% to 45%
  - Dividends rate 42.5% to 37.5%
    - Or from 36.11% to 30.56% of the net dividend (5.55% fall)
- Higher rate threshold reduced to £41,450
  - This was £42,475 in 2012/13
  - Increases tax burden of higher rate taxpayers by £62
  - Brings 400,000 more taxpayers into the higher rate
- Chancellor assures us this will increase in future:
  - 2014/15: £41,865
  - 2015/16: £42,285

# Personal Allowances & Thresholds

---

- Personal Allowance increases to £9,440
  - Previously announced at £9,205
  - Will rise to the “magic” £10,000 in 2014/15
    - **For those born after 5 April 1948**
- Age-related allowances frozen at 2012/13 levels
  - Only available to those born on or before 5 April 1948
- NIC cuts in at £7,755
- CGT annual exemption rises to £10,900
  - Increase in line with rise in CPI
- IHT Nil Band remains £325,000

## SEIS Changes

---

- “Friends and family” relief
  - But friends and family will often be associates!
- CGT exemption now reduced to just half of the reinvested gain
  - But extended to allow reinvestment in 2013/14 or 2014/15
- Off-the-shelf companies now eligible
  - Previous exclusion was a drafting error
- Income tax relief is at 50% as long as there is tax capacity in year of investment or previous year

# SEIS example – failure of business pre Budget 2013

---

- Investment £100,000, tax relief £50,000
- CGT exemption at 28%, £28,000
- If business fails, claim loss under s131
  - Conversion of capital loss into an income loss
- Loss £50,000 @ 45% = £22,500
- Return to investor is £500, better than risk free!
- If a 40% taxpayer then net cost is only £2,000

# SEIS example – failure of business post Budget 2013

---

- Investment £100,000, tax relief £50,000
- CGT exemption 50% of gain at 28%, £14,000
- If business fails, claim loss under s131
  - Conversion of capital loss into an income loss
- Loss £50,000 @ 45% = £22,500
- Net cost to investor is £13,500, better than risk free!
- If a 40% taxpayer then net cost is only £16,000

# Social enterprises investment tax relief

---

- New tax relief to encourage private investment in social enterprises
- To come in from 6 April 2014
- Consultation over the summer

## Trust rate of income tax

---

- Trust rates to reduce from 50% to 45%
  - And from 42.5% to 37.5% for dividends
- Tax credits attached to distributions will thus also reduce
- If there is undistributed income in the trust covered by the tax pool it will be advantageous to distribute this by 5 April 2013



## Non-domiciled spouses & civil partners

---

- Limit of inter-spouse transfers to a non UK domiciled spouse increases to £325,000 from 6 April 2013
  - Previously this was only £55,000
- No limit on transfers to a UK domiciled spouse
- Election now available to treat non-dom spouse as UK domiciled
  - Worldwide assets brought into IHT charge BUT...
  - No limit on inter-spouse exempt transfers
  - Advantageous where non-dom spouse has few foreign assets
- Elections to be made in writing
  - Provision to backdate up to 7 years (but not before 6 April 2013)
  - Once made it's irrevocable whilst the individual is UK resident

## Limit on IHT deduction for business owners

---

- Liabilities can be deducted in arriving at the net value of an estate on which IHT is charged
  - Even where the debt is used to acquire an assets eligible for BPR or APR
- Business loans secured on the taxpayer's home currently reduce the value of the home and thus the chargeable estate
- From Royal Assent the loan will reduce the value of the business which is already covered by BPR
- This will increase IHT liabilities significantly in some cases

## Care in old age

---

- Currently those with savings in excess of £23,000 are required to contribute to their costs of care
  - This limit is due to rise to £118,000
- From 6 April 2016 there will be a cap of £72,000 on the amount of individual contribution to reasonable care costs
  - Funded by freezing of IHT Nil Band
- This provides greater certainty in estate planning

# Vulnerable beneficiaries

---

- Defined as disabled persons or those under 25 who have lost one or both parents
- Broad aim of changes will be to allow the lower of:
  - £3,000 or;
  - 3% of trust assets
- ... to be applied to non-vulnerable beneficiaries
  - For example, to provide a car or shared holiday for a carer