Charter Tax Consulting Ltd

Budget Announcements 18 March 2015:

Client Summary Note

Introduction

On 18 March 2015, the Chancellor delivered his 2015 Budget Statement. Being the last Budget Statement before a general election, it is probably fair to say that the content of the Budget was largely benign. A few tweaks, a few more swipes towards the (perceived) naughty tax dodgers, but otherwise benign.

Some of the pre-announced changes on the introduction of capital gains tax to non-residents disposing of UK residential property were confirmed, as were the government's wish to bring in a new diverted profits tax for corporates (the "Google tax").

Fellow accountants and tax advisors will be very excited to see that the end is near for the completion of tax returns as they currently stand – apparently all tax return data is to move into a new digital age. However I suspect the mechanics of this may be of more excitement for advisors than for the population at large.

Set out below is an initial summary of the key proposals in today's announcements, that may affect our clients, though naturally bespoke advice will always be required and action should not be taken on the basis of these notes alone. As ever, we will be happy to assist our clients or contacts in relation to any of these issues, so please do contact us should you have any queries.

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No More Tax Returns?!

As part of the Government's vision to modernise the tax system, tax returns will be replaced by digital tax accounts for millions of individuals and businesses. The idea will be to bring together each taxpayer's details in one place, "just like an online bank account".

By early 2016 five million small businesses and ten million individuals are due to have access to their own digital tax account, and by the end of the next Parliament every individual and small business in the UK should have one. Small businesses will be able to link their accounting software to their personalised tax account and have the option to pay as they go.

HMRC will automatically use the information it holds, along with new data from third parties (which may be a lot more than many taxpayers currently think!), to populate the digital accounts. Taxpayers will then need to check this, and enter in further data as necessary (including direct uploads from accounting software).

For businesses, HMRC and Companies House will be streamlining the process to register a new company and sign up for a range of taxes by May 2017.

Further consultation and announcements on this process are to follow from HMRC. Separate consultations will cover a new payment process to support digital tax accounts and reform of National Insurance contributions for the self-employed.

Non-Residents Owning UK Residential Property/ PPR Changes

Historically, non-residents have not paid UK capital gains tax on disposals of UK residential property. However, this will change from 6 April 2015, when non-residents owning UK residential property but not already within the charge to UK capital gains tax (such as through the ATED regime) will then come within the charge.

This extension of the capital gains tax charge has necessitated some changes to the principal private residence exemption, which in fact may also catch out some UK residents with overseas second homes.

In addition, from 1 April 2015, the ATED threshold reduces to just £1m.

A summary of these pre-announced changes can be found in a recent article produce by us by clicking on this link (or please see the articles section of our website).

New Personal Savings Allowance

An allowance will be introduced, from 6 April 2016, to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate tax payers. Additional rate taxpayers will not receive an allowance.

Following this change, from April 2016 banks and building societies will stop automatically taking 20% in income tax from the interest earned on individuals’’ non-ISA savings.

Corporation Tax

The rate of Corporation Tax will reduce to 20% for the financial year beginning on 1 April 2016.

Base Erosion and Profit Shifting – the Diverted Profits Tax

The Diverted Profits Tax remains set to be put on the statue books from 1 April 2015, and will be applied using a rate of 25%. The idea of this new tax (the “Google tax”) is to tax corporates who “in effect” trade in the UK but deliberately avoid having any sort of taxable base here. Fortunately the tax is only due to apply to larger businesses, and businesses with less than £10m of sales to the UK need not (yet?) be concerned.

The “War” on Tax Avoidance and Evasion

The ongoing list of measures to curb the enthusiasm of tax advisers to think of ways to save their clients’ money continues to grow, and individuals that are regarded as “serial avoiders” will be punished. Indeed, mention is made of new criminal penalties to be introduced for tax evasion and for any professionals helping clients to evade tax, although no more specific details are released as yet. The age old argument as to the dividing line between acceptable avoidance/ planning and unacceptable avoidance/ evasion will no doubt continue, though the lines in the sand may shift.

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Common Reporting Standard (CRS): new disclosure facility

One of the key items of weaponry available to HMRC nowadays is the sheer amount of data exchange being introduced by the authorities, both within Government itself and between governments. As a part of these measures, the Common Reporting Standard (CRS) will be a new international information exchange program that will be upon us from next year. Under the CRS, financial institutions will be required to:

- identify accounts maintained for specified persons, that is, account holders who are tax resident in jurisdictions with which the UK has entered into an agreement to exchange information about a wide range of financial accounts and investments to help tackle tax evasion
- collect and report information in a specified manner on specified persons to HM Revenue and Customs (HMRC)

The regulations will also revoke and replace the current implementing regulations for the UK's exchange of information agreement with the United States of America (US), known as FATCA (Foreign Account Tax Compliance Act - automatic exchange of financial account information on US citizens and residents). This is designed to consolidate the requirements on automatic exchange of information and correct minor errors in the current FATCA regulations.

CRS Disclosure Facility

In advance of the receipt of data under the Common Reporting Standard in 2017, the government will offer a new time limited disclosure facility from 2016 to mid-2017 on less generous terms than existing facilities.
However, this will have some undesirable consequences for individuals that haven’t quite yet got around to taking advantage of some of the more generous disclosure facilities already in place, namely:

- **The Lichtenstein Disclosure Facility -** In advance of the new disclosure opportunity, the existing Lichtenstein disclosure facility will close at the end of 2015 instead of April 2016.
- **Closing the Crown Dependencies Disclosure facilities early -** In advance of the new disclosure opportunity, the existing Crown Dependencies disclosure facilities will close at the end of 2015 instead of September 2016.

General Anti-Abuse Rule (GAAR) penalties

Legislation is to be introduced in a “later” Finance Bill that will increase the deterrent effect of the General Anti-Abuse Rule (GAAR) by introducing a specific tax geared penalty that applies to cases tackled by the GAAR.

Corporation Tax Avoidance Scheme Closed

Anti avoidance legislation will, though, be introduced to restrict the use of certain losses viewed as in effect bought in from another business line for tax avoidance purposes.

Capital Gains Tax (CGT) Entrepreneurs' Relief (ER)

Entrepreneurs' Relief (ER) will be denied on the disposal of shares made on and after 18 March 2015 in a company that is a non-trading company in its own right.

The government will also prevent individuals from claiming ER on the disposal of personal assets used in a business carried on by a company or a partnership unless they are disposed of in connection with a disposal of at least 5% shareholding in the company or a 5% share in the partnership assets. This also affects disposals on or after 18 March 2015.

Capital Gains Tax: wasting assets

The CGT exemption for wasting assets will be amended so that it only applies if the person selling the asset has used it in their own business. These changes have effect from 1 April 2015 for Corporation Tax on chargeable gains and 6 April for CGT.

Lifetime Allowance for Pension Contributions

Although of late we have seen some changes to the better for the pension regime, individuals thinking of once again trusting the pension rules and putting their money into a pension will be disappointed to see another change for the worse.

The lifetime allowance for pension contributions is to be further reduced - from £1.25million to £1million, from 6 April 2016. Transitional protection for pension rights already over £1million will be introduced alongside this reduction to ensure the change is not retrospective. The lifetime allowance will be indexed annually in line with CPI from 6 April 2018.

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Inheritance tax – Deeds of Variation (Just Make a Good Will!)

Currently, if all parties due to benefit under a will agree, a deed can be entered into by them within two years, to in effect vary the terms of that will (a deed of variation). Such variations are then treated as if they were written into the will, for the purposes of the calculation of inheritance tax. This has always been a useful mechanism for those of us that are not quite as good as regularly updating our wills as we should be!

However, the Government are now consulting on whether the ability to make tax effective deeds of variation should be changed. One cannot help but feel that the outcome is unlikely to be good news for taxpayers, so it will be a useful reminder to us all to regularly update our wills (which, naturally, we will be happy to work with clients to achieve).

Miscellaneous Changes:

Class 2 NIC to be abolished - It has always been a little odd that the self-employed pay two classes of national insurance (class 2 and class 4), so the smaller class 2 contributions are to be abandoned, but with (as yet unannounced) changes to follow to the class 4 regime. Consultation is promised, with the changes to be proposed later this year.

Individual Savings Accounts (ISAs) changes – ISA's are to be made more flexible to enable people to more readily take money in and out of an ISA within the same year. There will also be a new bonus scheme introduced for when an ISA is used as a savings vehicle to provide a deposit for a property purchase by a first time buyer, under which a bonus of up to £3,000 will be funded by Government, based on savings in the ISA of at least £12,000.

VAT Recovery Concerning Foreign Branches – changes will be made to the way that VAT is recovered by partially exempt businesses (such as banks and insurance companies) who have foreign branches.

Gift Aid Small Donations Scheme (GASDS) - the maximum annual donation amount which can be claimed through GASDS will be increased to £8,000, allowing charities and Community Amateur Sports Clubs to claim Gift Aid style top-up payments of up to £2,000 a year with effect from April 2016.