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2015 BUDGET

FULL SUMMARY

A political, pre-election Budget, delivered by the Conservative Chancellor of a coalition Government: it took Mr Osborne some time to even get to the tax details in his Budget speech today.

The tax measures highlighted include a number of previously announced changes, a raft of others for future years, and a small number which will take effect immediately or at the start of the next tax year. Another round of anti-avoidance measures, the introduction of the "Google" tax from next month and an increase to the Bank Levy mean that this Budget is intended to raise additional taxes, at least in the short term.

Turning to the detail: the tax return is dead. Long live the tax return. Consultation will follow to replace the current annual tax return for individuals and small businesses with online tax accounts from 2020: a considerable IT challenge for HMRC.

In the shorter term, taxpayers will welcome the increases to the Personal Allowance, the introduction of a £1,000 savings allowance and the "help to buy ISA". For pension savers, some good news and some bad. The Chancellor announced that current annuity holders will face a reduced tax bill if they choose to cash in annuities. He also announced however, that the Lifetime Allowance for pension contributions will be reduced from £1.25m to £1m, from April next year.

For business owners, the Entrepreneurs' Relief rules for Capital Gains Tax are tightened with effect from today, to restrict relief to direct disposals of shares in trading companies.

Following consultation last year, amendments will be made to venture capital schemes, such as the Enterprise Investment Scheme (EIS), which encourage investment in UK businesses. The introduction of the orchestra tax relief has been confirmed, together with further minor enhancements to the film and TV tax reliefs.

The Finance Bill, which will give effect to many of the announced measures, is due to be published on Tuesday 24 March, just six days before Parliament is dissolved on 30 March in anticipation of the General Election. This doesn't of course leave much time for Parliamentary scrutiny! In any case, we look forward to the possibility of a second Budget in the summer, after we know the results of the 7 May election.

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"Austerity to prosperity"

PERSONAL TAX

Abolition of the personal tax return

- The principal headline grabber of the day was the announcement of the abolition of the personal tax return. However, this will probably take at least five years!
- From 2020 each taxpayer will have a Digital Tax Account which will collate all the information held by HMRC, such as employment income, bank interest, pensions etc.
- Taxpayers will go online to update/amend the information and make arrangements to pay any tax due.
- The plans will be subject to consultation over the summer of 2015.

Income tax rates and thresholds

- The Chancellor announced that the tax-free personal allowance will be £10,600 in 2015/16 and will increase to £10,800 from 2016/17 and to £11,000 from 2017/18.
- The age-related personal allowance of £10,660 for those born before 6 April 1938 will be scrapped once the standard allowance surpasses it in 2016/17.
- Most people earning less than £100,000 will benefit from the increased personal allowance because the higher rate tax threshold will also increase.
- The 40% higher rate tax will commence at £42,385 in 2015/16, increasing to £42,700 in 2016/17 and £43,300 in 2017/18.

Personal savings allowance

- From April 2016 banks and building societies will stop deducting 20% tax at source on interest paid to account holders.
- The first £1,000 of interest received by basic rate taxpayers and the first £500 for higher rate taxpayers will be exempt from tax.
- Those with income in excess of £150,000 will not qualify for the personal savings allowance.
- Any additional tax due on bank interest will be paid through annual tax returns, although HMRC will try to collect as much as possible through PAYE coding notices on employment income from 2017/18.

Other income tax changes

- Self-employed farmers will be allowed to average their profits for income tax purposes over five years rather than two under new proposals to take effect in April 2016.

Inheritance Tax

- No immediate changes were announced with the rate remaining at 40% on estates in excess of the nil rate band of £325,000.
- There will be a review of the use of deeds of variation used to amend wills after the death of a taxpayer.

Capital Gains Tax (CGT)

- The CGT annual exemption for 2015/16 will be £11,100.
- As previously announced CGT will apply to non-UK residents on the disposal of UK residential property after 5 April 2015.
- The rates will be 18% and 28% as appropriate on the gain in excess of the annual exemption.
- Main residence (PPR) relief on the disposal of residential property will be restricted to the country in which the seller is tax resident, unless the individual is present in the property for 90 midnights in each tax year.

> **"The sun is starting to shine - and we are fixing the roof"**

Abolition of Class 2 National Insurance

- As previously announced, payment of Class 2 National Insurance by the self-employed and partners is to be collected via self-assessment from April 2015.
- The Chancellor announced today that he proposes to abolish Class 2 completely in the next Parliament.
- A consultation will take place over the summer to consider how to amend Class 4 to include a contributory element so it counts towards state pension and other benefits.

Help to Buy ISAs

- From autumn 2015 first time buyers will receive a government top-up to their savings under the newly announced Help to Buy ISA.
- For every £200 monthly saving, an additional £50 will be added.
- Help to Buy ISAs will be available per person, not per home, so joint buyers can both benefit.
- The bonus will be added when the money is used to buy their first home.
- The maximum bonus available will be £3,000 based on £12,000 of savings.

Flexible Individual Savings Accounts (ISAs)

- ISAs will be made more flexible by allowing account holders to withdraw money from their cash ISA and replace it later in the tax year without it counting towards their subscription limit.

National Savings Premium Bonds

- The investment limit will increase to £50,000 from 1 June 2015.

Annuities

- Annuities will be 'unlocked' allowing 5 million pensioners to potentially sell back their annuities for a lump sum from April 2016.
- The tax rate for doing so will be reduced from the current 55% (minimum) to the annuitants' marginal rates.

Lifetime Allowance for pension contributions

- The Lifetime Allowance (LTA) will be reduced from £1.25m to £1m, from April 2016.
- As with previous reductions to the LTA, transitional protection for pension rights already over £1m will be introduced.
- The LTA will be indexed-linked in line with the Consumer Price Index from 2018.
- The Chancellor confirmed that the Annual Allowance will remain at £40,000.

CAPITAL TAXES

Entrepreneurs' Relief

- Entrepreneurs' Relief will be denied on the disposal of shares in a company that is not a trading company in its own right, such as the corporate member of a trading partnership or certain joint venture companies.
- Entrepreneurs' Relief is also to be denied on the disposal of personal assets used in the business carried on by a company or a partnership unless the disposal arises in connection with a disposal of at least a 5% shareholding in the company or a 5% partnership interest.
- These restrictions will affect disposals on or after 18 March 2015.
- The restrictions announced are in addition to the removal of Entrepreneurs' Relief on the transfer of goodwill on an incorporation. This restriction was announced in the Autumn Statement 2014 and came into effect for transfers on or after 3 December 2014.
- A review is to be undertaken of the Entrepreneurs' Relief treatment of academics who dispose of shares in spin-out companies that use intellectual property to which they have contributed.

Venture Capital Schemes

- Subject to, and with effect from, the date of State Aid clearance, certain restrictions and new qualifying criteria are to be introduced with respect to the Venture Capital Schemes (Enterprise Investment Scheme, Venture Capital Trusts and Seed Enterprise Investment Scheme).
- A general requirement is to be introduced that all investments are made with the intention to grow and develop a business and that all investors are "independent" from the company at the time of the first share issue.
- A new qualifying condition will limit relief to companies which first began to trade within the previous 12 years: this rule will not apply where the total investment is greater than 50% of the average turnover in the preceding five years.

- The total investment a company may receive under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) is to be capped at £15m (or £20m for certain companies that meet conditions demonstrating that they are "knowledge intensive").
- The employee limit for knowledge intensive companies is to be increased to 499 employees.
- The requirement that 70% of Seed Enterprise Investment Scheme (SEIS) money must be spent before EIS or VCT funding can be raised is to be removed. This will take effect from 6 April 2015.
- The Government will legislate for a new Social Venture Capital Trust (Social VCT) in a future Finance Bill. The income tax relief for investment in a Social VCT is set at 30% subject to State Aid clearance. Dividends received from a Social VCT will not be subject to income tax nor will any gain on disposal of shares in a Social VCT be subject to capital gains tax.

Capital Gains Tax

- Legislation will be introduced to make clear that the CGT exemption for wasting assets only applies if the person selling the asset has used it in their own business. This change has effect from 1 April 2015 for corporation tax on chargeable gains and 6 April 2015 for CGT.

BUSINESS AND EMPLOYMENT TAXES

Research & Development (R&D)

- Measures are to be introduced to improve access to R&D tax credits for smaller companies including new stand-alone guidance, a system of voluntary advance assurances and, from 2016, a reduction in the time taken to process a claim.

Tax Relief for the Creative Sector

- The rate of film tax relief is to be increased to 25% of all qualifying expenditure: to take effect from 1 April 2015 subject to State Aid clearance.
- Theatre Tax Relief is to be extended to orchestras at a rate of 25% of qualifying expenditure: to take effect from 1 April 2016.
- High End Television tax relief is to be amended to modernise the cultural test and reduce the minimum UK expenditure requirement for all television tax reliefs from 25% to 10%: to take effect from 1 April 2015.

Business Rates

- In addition to the long-term review of business rates announced at the Autumn Statement 2014 the Government is to consult on a possible business rates relief for local newspapers.

Corporation Tax

- Avoidance provisions targeting arrangements aimed at "loss refreshment" are to be implemented with respect to accounting periods beginning after 18 March 2015 (and to notional accounting periods falling after 18 March 2015 where the accounting period straddles that date).
- The measures seek to prevent companies from benefitting from contrived arrangements which seek to convert historical tax losses into more versatile current year losses.

Company Car Tax

- For 2019/20 the appropriate percentage of the list price will increase by 3 percentage points for cars emitting more than 75grams of CO_2/km to a maximum of 37%.

Banks

- The Bank Levy will increase from 0.156% to 0.21% from 1 April 2015.
- Compensation payments to bank customers are to be made non-deductible for corporation tax purposes. This is to be consulted on and legislated for in a future Finance Bill.

Charities

- The maximum annual donation amount which can be claimed through the Gift Aid Small Donations Scheme will increase to £8,000, with effect from April 2016.

> **"Out of the red and into the black - Britain is back paying its way in the world"**

ANTI-AVOIDANCE

Marketed Avoidance Schemes

- A consultation on detailed proposals to restrict tax relief for travel and subsistence for workers engaged through intermediaries is to be undertaken with a view remedial legislation taking effect from 6 April 2016.
- Tougher measures are to be introduced aimed at "serial avoiders" including special reporting requirements and specific surcharges on inaccurate returns arising as a result of failed avoidance schemes.
- The Promoters of Tax Avoidance Scheme regime is to be broadened to allow HMRC to issue Conduct Notice to a broader range of connected persons.

General Anti-Abuse Rule (GAAR)

- Specific tax geared penalties for cases tackled by the GAAR are to be introduced in a future Finance Bill.

Disclosure Tax Avoidance Schemes (DOTAS)

- Legislation is to be introduced to ensure that DOTAS remains an effective information tool for HMRC.

Disclosure Opportunities

- In advance of a new disclosure opportunity the existing Lichtenstein Disclosure Facility and the Crown Dependencies Disclosure Facility will close at the end of 2015 (instead of April 2016 and September 2016 respectively).

VAT

Refunds for Hospices and other palliative care charities

- In the Autumn Statement the Chancellor announced he was considering some sort of mechanism to assist Hospices.
- Today's Budget introduces a refund scheme similar to that applying to Academy Schools and National Museums.

- The measure will take effect from 1 April, though the measures will only be set out in detail in the Finance Bill which is to be published on 24 March.
- The legislation will define palliative care charities, and essentially the measure will allow such bodies to reclaim VAT they incur in carrying out non-business activities, such as the provision of such care when it is funded by voluntary income, or public funding.
- This is a significant boost to the sector.

Medical Courier Charities

- A similar refund scheme is being introduced for medical courier charities, such as “blood bikes” whose main purpose is to provide a free service to the NHS transporting items such as blood platelets, samples for analysis, drugs, patient notes, small medical instruments, etc.
- Where such activities are funded by donations, and public funding, it is regarded as a non-business activity, and the charities are unable to reclaim VAT on the associated costs.
- The detailed legislation will be set out in the Finance Bill, but the measures will take effect on 1 April.

Changes to the partial exemption rules for financial institutions such as banks and insurers

- When organisations make a mixture of taxable and exempt supplies, they can only recover a proportion of the VAT in accordance with what are known as partial exemption methods.
- Such methods provide for VAT on overhead costs to be apportioned to determine how much VAT can be claimed, and often the calculation is driven off the value of the taxable and exempt supplies being made.
- The partial exemption legislation is to be amended to prevent the value of supplies made by overseas branches from being included in the calculation to determine how much of the VAT incurred on overheads in the UK can be recovered.
- In part this rule implements a decision of the CJEU, but the change will apply to any methods previously agreed with HMRC.
- The measure will take effect for the first VAT year following 1 August 2015.
- The change is likely to mainly impact on banks and insurance companies.

VAT Registration Limits

- The VAT registration limit has increased again, but only by £1,000 from £81,000 to £82,000.
- The de-registration limit has increased from £79,000 to £80,000.

For further information on any of the above details, please contact Katharine Arthur, Head of Tax.

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> **“This is the Budget for Britain The Comeback Country”**

ABOUT HAYSMACINTYRE

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