AUTUMN STATEMENT 2014

SUMMARY OF THE MAIN TAX CHANGES

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1. Introduction

At the end of his Autumn Statement to the House of Commons yesterday, George Osborne insisted that Britain is 'on course to prosperity' under his guidance. Naturally, his opposite number Ed Balls disagreed. He pointed out that current borrowing is higher than planned and claimed that 'working people are £1,600 a year worse off' than they were when Mr Osborne took office. In the run-up to a General Election, they are both setting out their applications for the Chancellor's job from May 2015.

The scale of the deficit left Mr Osborne little room for the kind of tax giveaways that might have preceded an election in the past. Perhaps he believes that the public no longer fall for them. Perhaps he is saving something for the March Budget, when it might have a bigger impact. He still produced a long list of measures, many of them only touched on in the speech but described in more detail in the mass of documents released by HMT and HMRC the moment the Chancellor sat down.

Some of the changes announced are very sensible and long overdue, such as the reform of Stamp Duty Land Tax on residential property. Some are more controversial, such as a power for HMRC to take money directly from a debtor's bank account. Some come into effect immediately, such as the closure of an opportunity to save tax on incorporation of a business. Others may only come into effect if Mr Osborne keeps his job in order to put all his proposals into legislation. Although Mr Balls objects to Mr Osborne's plans in general, we do not yet know how many of these proposals will be retained if Labour win in May.

At least one populist measure will take effect just in time to beat a change of government. From 1 May, children under 12 will be exempt from Air Passenger Duty, saving a family up to £71 for each young child. So anyone disappointed by the result of the election can emigrate more cheaply.

Our summary covers the main tax changes announced yesterday and include:

- Reform of the SDLT regime with effect from 4 December.
- 50% increase in ATED charges on properties worth more than £2m from April 2015.
- Personal allowance to increase to £10,600 from April 2015.
- Changes to the Remittance Basis charge for non doms.
- Changes to R&D tax credits.
- Various anti avoidance measures to restrict CT relief on incorporation, entrepreneurs relief and goodwill, income tax relief in respect of miscellaneous losses, bank loss relief restriction, and to group loan relationships.
- Legislation to cover a diverted profits tax, country by country reporting, hybrid mismatches in conjunction with the OECD/G20 BEPS project.

2. Personal Taxes

The 2015/16 tax-free personal allowance was announced in the March 2014 Budget as £10,500, up by £500 from 2014/15. The Chancellor has decided to increase it further, to £10,600, and to raise the threshold for 40% tax to £42,385. These changes will reduce income tax for a basic rate taxpayer by £120 and for a 40% taxpayer by £224.

The benefit of personal allowances is still reduced for anyone earning over £100,000, and will be withdrawn altogether once taxable income reaches £121,200.

The higher ‘age’ allowance for those born before 6 April 1938 remains £10,660. Those born before 6 April 1948, who used to qualify for higher allowances, are now on the same rate as people born later. Other allowances rise broadly in line with inflation.

Apart from the new starting rate for savings income, the rates of income tax remain unchanged, and the threshold for the 45% rate will still be £150,000.

In July 2014, the annual investment limit for tax-free ISA investments went up from £11,880 to £15,000. There will be a more normal annual increase on 6 April 2015 to £15,240. The whole amount can now be invested in cash.

The tax-free status of an ISA has up to now been personal to the original investor. If that person dies, the account can be left in a will free of inheritance tax (IHT) to a spouse or civil partner, but the income and gains become taxable from that point onwards. The Autumn Statement included the announcement that a spouse or civil partner will be able to inherit their late partner’s ISA tax advantages.

Where an ISA that is left to someone other than a spouse or civil partner, as well as IHT, it will also become chargeable to tax on future income and gains.

3. Foreign Domiciliaries

Foreign domiciled individuals [non doms] are generally taxed on the remittance basis. Since 2008, anyone who has been resident here for seven years out of the previous nine has instead had to pay a flat rate tax charge of £30,000 if they claim the remittance basis. For someone who has been resident in the UK for 12 of the last 14 tax years, the remittance basis charge is £50,000.

From 2015/16, the £50,000 charge will increase to £60,000, and a new £90,000 rate will be introduced for someone who has been resident here for 17 of the last 20 years.

If the UK tax on foreign income and gains is lower, it is always possible to declare the actual figures instead of paying the flat rate by not claiming the remittance basis of tax.

4. Pensions

One of the most striking announcements in the March 2014 Budget was the proposal to allow members of money-purchase pension schemes to access their funds in the manner of a bank account, rather than having to purchase an annuity. Since then there has been a consultation on the operation of this system, and announcements of important details. Some of these were confirmed in the Chancellor's speech, but no new proposals were brought forward.

Holders of money-purchase policies will be allowed to draw 25% of their funds tax-free and leave the remainder in the fund, where it will still enjoy tax exemption, or draw it out, paying their marginal rate of income tax in the year in which they draw it.

The present 55% charge on funds left when the pensioner dies, and passing on to beneficiaries of a will is to be abolished. Instead, beneficiaries will generally be treated as receiving taxable income when they draw out the money. If the pensioner dies before taking any benefits, the fund may pass free of all tax.

The Chancellor confirmed another recent announcement on joint-lives annuities. Where someone has purchased such a product and dies before the age of 75, the beneficiary will receive the remainder of the annuity free of income tax.

These changes have attracted a tremendous amount of interest. Pessimists warn that giving people access to their money will encourage them to spend it all immediately. It certainly creates an opportunity for unscrupulous 'advisers' to offer unwise 'investments' to pensioners. When the new rules have been finalised, it will be important for anyone affected to take sound advice on how best to take advantage.

5. Air Passenger Duty

Air passenger duty can be is a substantial addition to the cost of a plane ticket. The rate for an economy long-haul journey (over 2,000 miles from London to the capital city of the destination country) in April 2015 is set to be £71.

The Chancellor has announced that, from 1 May 2015, children under 12 will be exempt from that charge. From 1 March 2016, the exemption will also apply to children under 16. The exemption is only for 'the lowest class of travel' – not for business or first class.

6. Pre Announced Changes

In recent years, it has become common for the Chancellor to make announcements that will take effect one, two or more years later. Some of the more important points that were not mentioned in the Autumn Statement, but as far as we know are still coming in, include the following:

In April 2015, the end of the 0% taxable benefit for electric cars. They will be charged on 5% of the initial list price. There will be a number of other increases in the charging of car and fuel benefits.

From April 2015, a new income tax ‘starting rate’ of 0% for up to £5,000 of savings income, i.e. interest. This will not apply if a person has more than £5,000 of taxable non-savings income. Among the likely beneficiaries are pensioners with interest-bearing investments, but it will complicate their tax computations.

From April 2015, the main rate of corporation tax will become the same as the long standing small profits rate of 20%.

From January 2016, the annual investment allowance for capital allowances will fall from the current £500,000 (since April 2014) to £25,000.

The nil rate band for inheritance tax is expected to remain fixed until April 2018.

By way of contrast and tucked away in the notes to the Autumn Statement is an announcement that the Government has considered possible changes to the taxation of ‘loans to participators by close companies’, but has decided to do nothing. This is important news for anyone with an overdrawn director’s current account from their own company. There are potentially serious tax charges on both the company and the director where the company lends money to a shareholder/director, and it is important to take advice to minimise them.

Another measure that was announced some time ago and has been hotly debated Direct Recovery of Debt (DRD). This is a new power for HMRC to recover tax and tax credit debts from the bank and building society accounts and ISAs of people who have failed to settle their debts. After protests from tax professionals that this was a power too far and the Government has agreed to include further safeguards, but still intends to introduce the measure after the election.

There will however be a guaranteed face-to-face visit to everyone considered for DRD ‘to identify vulnerable debtors to provide them with appropriate support’. The system will start ‘on a small, targeted basis’ in the first year to gain experience and feedback. There will be a right of appeal to the County Court. These are all welcome measures, but it remains to be seen whether HMRC can be trusted with such a potentially damaging power.

7. Residential Property

Stamp Duty Land Tax on property has always been charged at a single rate on the whole purchase price. This meant that a house costing £250,000 was charged at 1% (£2,500), while one costing £1 more bore £7,500 at 3%. This anomalous rule has finally been changed. From 4 December 2014, SDLT on residential properties will be charged on bands of value in the same way that income tax is calculated – nil on the first £125,000; 2% up to £250,000; 5% up to £925,000; 10% up to £1.5m; and 12% above that.

The Chancellor claimed that 98% of house purchases will see a reduction in the SDLT cost, representing an overall tax cut of £760m in 2015/16. Above £937,000 the total tax increases.

He contrasted this proposal to levy a higher one-off tax on the purchase of high-value homes against Labour’s proposal for an annual ‘mansion tax’, which could require a countrywide valuation exercise.

Anyone in the middle of a transaction on 3 December, with contracts exchanged but not completed, will be able to choose the old or the new calculation, so the change will not unfairly increase the cost on a purchase in progress.

Labour wants to introduce an annual tax on all houses worth over £2m. However, there already is an annual tax on expensive houses [ATED] that are owned by a company or other ‘non-natural person’. The use of such ‘envelopes’ to hold a residential property indirectly has in the past reduced the cost of stamp taxes on transfers of the property. The recently introduced ATED charge has raised five times the amount of tax which the government expected in its first year, because there were far more properties affected than they had been foreseen.

ATED is currently charged in four bands, the highest rate in 2014/15 being £143,750 for houses worth over £20m. In the March 2014 Budget, the Chancellor announced that ATED will be extended to houses valued above £1m from April 2015, and above £500,000 from April 2016. The Chancellor has now decided that the rates of ATED will increase by 50% above the rate of inflation for houses valued at over £2m in 2015/16.

8. National Insurance Contributions

The rates of NIC remain unchanged, and the thresholds have risen by small amounts as usual. The Upper Earnings Limit, where employee and self-employed contributions fall from the higher 12% and 9% rates to 2%, is adjusted to be in line with the threshold for 40% income tax – £42,385.

The Employment Allowance, relief for the first £2,000 of employer’s NIC in the year, remains for 2015/16. When it was introduced this year, it was not available for ‘domestic staff’ such as nannies and gardeners. From 6 April 2015, however, the relief will be extended to families employing ‘care and support staff’. A family will be able to employ a care worker at a salary of £22,500 and pay no additional NIC on top of that.

There will also be an exemption for employer’s NIC for apprentices under the age of 25, earning up to the Upper Earnings Limit, to be introduced from April 2016.

9. Inheritance Tax

There is a little known/used exemption from inheritance tax for members of the armed forces whose death is caused or hastened by injury suffered while on active service, even if that death happens later. Where the individual has given their life for the country, the country does not ask for IHT as well. This exemption is to be extended to members of the emergency services or to humanitarian aid workers responding to emergency circumstances such as the Ebola crisis and will be backdated to deaths occurring on or after 19 March 2014.

There is also an IHT exemption for medals and other decorations awarded for valour or gallantry. From 3 December 2014, this will also be extended to cover all decorations and medals awarded to the armed services or emergency services personnel, and to awards made by the Crown for achievements and service in public life.

10. Business Taxation

When a sole trade or a partnership transfers its business to a company, the owners are treated as disposing of any assets that the company takes over. This can create a charge to CGT, but the disposal of business assets may qualify for Entrepreneurs' Relief with CGT at only 10%.

By selling goodwill[the intangible value of business contacts and reputation] and crediting the value to a loan account, a proprietor can pay 10% CGT and draw the money out in the future with no further tax to pay. Paying out salary or dividends would be charged to income tax at rates above 10%. In some circumstances, the company could also claim tax relief against profits for the cost of the goodwill.

This planning opportunity has been closed down with effect for incorporations from 3 December 2014 onwards. Where a company acquires goodwill from a 'related individual or partnership', there will now be no Entrepreneurs' Relief for the transferor, so that CGT could be charged at 18% or 28% with no CT relief for the company. There may still be a tax saving, because the CGT is still less than top income tax rates, but the saving will be much lower.

11. Employee Benefit Reform

One of the innovations of this Government was the introduction of the Office of Tax Simplification, which has been scouring tax law for unnecessary complications. Many of the OTS's suggestions have already been implemented and a new raft will be enacted for 2015/16 in relation to the taxation of taxable benefits provided for employees by employers. The Chancellor says that 51 of 58 recommendations have been accepted at this time.

The distinction between those earning below and above £8,500, when this limit was introduced many years ago, it was referred to as 'higher paid employment' will be abolished. Instead, there will be some focused exemptions for ministers of religion and for carers.

'Trivial' benefits costing the employer no more than £50 will become exempt from income tax. Certain reimbursed expenses will also become exempt, rather than requiring disclosure by the employer on form P11D and a claim for deduction by the employee. These are sensible simplifications but past experience suggests that the rules will have to be checked for hidden traps.

12. Research and Development

The uplift in expenditure for small and medium companies claiming R&D tax credits will rise from 225% to 230% with effect from 1 April 2015. The 'above the line' credit for large businesses will rise from 10% to 11% from the same date.

Eligibility for credit will no longer extend to any expenditure on the costs of materials incorporated in products that are sold.

The Government will launch a consultation in January 2015 with the objective of making it easier for small businesses to claim R&D credits and an advance assurance scheme will be introduced for small companies making their first claim.

13. Corporation Tax

In general, a company may carry forward any unutilised trading losses and set these off against future profits from the same trade without limit. For many major banks, this could mean that they would pay no corporation tax for years. The Chancellor has decided that the banks should return the support that the public purse provided to them during the recession. From 1 April 2015, banks will only be able to offset brought forward losses against 50% of their trading losses each year.

The restriction will apply to losses accruing up to 1 April 2015 and will include an exemption for losses incurred in the first five years of a bank's authorisation.

This will mean that they will pay some corporation tax, but will have higher than expected losses to carry forward each year. This may well have affect balances of deferred tax assets on their balance sheets.

14. Business Rates

The Chancellor has extended the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2015. Over half a million small businesses are expected to benefit, with 385,000 paying no business rates at all until April 2016.

The business rates discount for shops, pubs, cafes and restaurants with rateable values up to £50,000 rises from £1,000 to £1,500, and the 2% cap on the RPI increase in the business rates multiplier will be extended to April 2016.

The Government will carry out a review of the future structure of business rates and report by Budget 2016. The Autumn Statement acknowledges a need to respond to calls by business for clearer billing, better information sharing and a more efficient appeals system.

15. Tax Avoidance

The Chancellor announced a further clampdown on tax avoidance with one particular measure which will prevent the use of artificial transactions to create 'miscellaneous losses' that could otherwise be set against taxable income. Such losses created by tax avoidance arrangements entered into from 3 December will not be allowable.

International businesses that use cross-border transactions to shift profits generated in the UK so that they are not taxable here will be caught by a new 25% tax [diverted profits tax]. That is higher than the 20% corporation tax rate that will apply to taxable profits generally from 1 April 2015.

Legislation is to be introduced to give the UK power to implement the OECD model for country by country reporting. The new rules will require multinational enterprises to provide high level information to HMRC on their global allocation of profits, taxes paid, and indicators of economic activity in a country.

There is to be consultation on the UK's plans for implementing OECD rules for addressing hybrid mismatch arrangements. The new rules are designed to prevent multinational enterprises avoiding tax through the use of certain cross border business structures or finance transactions.

16. Income Tax Rates and Allowances

Allowances	2015/16	2014/15
Allowed at top rate of tax		
Personal Allowance	£10,600	£10,000
Personal Allowance (born 6/4/38 – 5/4/48)*	10,600	10,500
Personal Allowance (born before 6/4/38)*	10,660	10,660
Blind Person's Allowance	2,290	2,230
Allowed only at 10%		
Married Couple's Allowance (born before 6/4/35)*	8,355	8,165
Income limit for age-related allowances	27,700	27,000

*Age allowances are reduced £1 for every £2 by which income exceeds the income limit, until the age allowance is reduced to the normal allowance. Personal allowance is reduced before married couple's allowance. MCA is reduced to a minimum of £3,220 (2014/15: £3,140). Personal allowances will be withdrawn at £1 for every £2 by which total income exceeds £100,000. There will therefore be no allowances if income is £121,200 or more (2014/15: £120,000).

Rate bands	2015/16	2014/15
Starting (within basic rate band)*	£5,000	£2, 880
Basic	31,785	31,865
Higher	31,786-150,000	31,866-150,000
Additional	over 150,000	over 150,000

* There is a 0% (2014/15: 0%) starting rate for savings income only. If general taxable income exceeds the starting rate limit, the 0% (2014/15: 0%) rate is not available for savings income.

Rates	2015/16			2014/15		
Rates differ for General, Savings and Dividend income within each band:						
	G	S	D	G	S	D
Starting	N/A	0%	10%	N/A	10%	10%
Basic	20%	20%	10%	20%	20%	10%
Higher	40%	40%	32.5%	40%	40%	32.5%
Additional	45%	45%	37.5%	45%	45%	37.5%

General income (salary, pensions, profit, rent) uses starting, basic and higher rate bands before savings income (interest). Dividends are taxed as the 'top slice' of income.

17. Tax Efficient Investments

Annual limits	2015/16	2014/15
Individual Savings Accounts (ISA)	**£15,240**	**£15,000**
Junior ISA	4,080	4,000
Child Trust Fund	4,080	4,000
Enterprise Investment Scheme	1,000,000	1,000,000
Venture Capital Trust	200,000	200,000
Seed Enterprise Investment Scheme	100,000	100,000
Registered Pension Schemes		
General limit	*40,000	*40,000
Reduced limit	**10,000	**N/A**

* or 100% of earnings; in some circumstances unused relief of the previous 3 years can justify current contributions.
** for individuals who have flexibly accessed a pension from 6 April 2015

Further announcements are expected on 10 December with the publication of draft 2015 Finance Bill 2015 and again in March next year.

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