MARCH 2013 BUDGET

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MAIN TAX PROVISIONS

1. Introduction

1.1 Overall, yesterday's Budget was fiscally neutral with tax rises matching tax cuts and as such was therefore not surprising. The Chancellor did not have much to play with although he did announce a number of tax changes, in particular an unexpected corporation tax change with the proposed reduction in the main rate to 20% from April 2015 which will result in the UK having the lowest rate in the G20. This would make the UK very much open for business, as emphasised by the Chancellor.

1.2 Perhaps the most surprising feature of the March 2013 Budget was that the press had received a briefing in advance, and someone posted the London Evening Standard's front page on Twitter while it was still embargoed. Whilst there have been leaks in the past, the Chancellor of the Exchequer, Hugh Dalton, leaked key points from his 1947 Budget to a journalist on the way into the House of Commons to make his speech. The Star published the details before he had finished, and he had to resign. It is not thought likely that George Osborne will have to follow Dalton's example.

1.3 The Standard picked a supposed crowd-pleaser for its headline – It Can Only Get Bitter – given the proposed 1p cut in the rate of beer duty, instead of an increase. George Osborne expressed his wish that this generosity should be passed on to customers in pubs, although it may be hard to notice an extra penny in the change from the price of a round.

1.4 Apart from that, the Chancellor had very little good news to share: borrowing is up, growth is down, and rectifying the country's fiscal deficit will take longer than anyone had hoped. These themes have recurred in each of his Budget speeches – we can only hope that at some point the trend will change and the actual results will be better than the forecasts.

1.5 House builders, house buyers and estate agents will have approved of the 'help to buy' announcement, promising interest-free shared equity loans to assist with the purchase of newly built homes. There will also be a mortgage guarantee scheme for buyers who cannot afford the deposit required by a lender. The housing market has not recovered from the boom and bust of the last decade: Mr Osborne hopes that this encouragement will lead to steady growth and not another bubble.

1.6 As has become the custom, the Budget speech was much shorter than it used to be [at under an hour], but the volume of paper setting out the detail gets longer and longer. There was confirmation of changes that have already been announced, new announcements of changes to take effect now, changes to come in future years, and proposals and consultations which may lead to new policies or possibly nothing.

1.7 The more significant tax announcements from yesterday's Budget are listed below:

- 2013/14 allowances and rates: more people taken out of income tax, more paying at 40%.
- Personal allowance for 2014/15 to increase to £10,000.
- £2,000 relief from employer's NIC introduced for 2014/15.
- CGT exemption for Seed Enterprise Investment Scheme extended.
- Closure of some specific tax avoidance schemes, and a GAAR to come into effect this year.
- Main rate of corporation tax to be reduced to 20% from 2014, and abolition of the small companies' rate and marginal relief.
- Confirmation of an annual tax and CGT on high value residential property owned by non natural persons.
- Statutory test of UK residence introduced from 6 April 2013.
- Further increases in the rates of Bank Levy from 2014.

2. Income Tax

2.1 Income Tax Rates And Allowances

2.1.1 As announced in the December 2012 Autumn Statement, the standard personal allowance will increase in April 2013 by £1,335, to £9,440 in 2013/14, the largest ever year-on-year increase, taking some 2 million lower-earning people out of income tax altogether. For a basic rate taxpayer, this represents a tax saving of £267 for the year.

2.1.2 The benefit of the increased allowance is offset for anyone with income over £41,450 by a reduction in the higher rate income tax threshold from £34,370 to £32,010. Taxpayers will start to pay 40% tax once total income exceeds £41,450 (£9,440 + £32,010), down by £1,025 from 2012/13 (£8,105 + £34,370). This means that the saving falls to just £62 for taxpayers with income up to £100,000.

2.1.3 Any saving is dwarfed by the tax increase for anyone in a family which is entitled to child benefit. The High Income Child Benefit Charge, which was introduced on 7 January 2013, will claw back the benefit paid to one partner if either of the couple has income over £50,000. The whole benefit will be clawed back from someone whose income exceeds £60,000. In 2013/14, the first full year of the charge, this will represent a maximum tax increase of £1,055 for a couple with one child, and £1,752 if there are two children.

2.1.4 Personal allowances continue to be withdrawn for those with incomes above £100,000, producing a marginal tax rate of 60% in the band between £100,000 and £118,880. For many of these people, the reduction in the 40% threshold produces an overall tax increase: for those who have no personal allowances (incomes above £118,880), this amounts to £472.

2.1.5 The other major change in tax rates was announced last year, and not mentioned again in Mr Osborne's speech: the reduction in the top rate of tax from 50% to 45% from April 2013 for those with incomes over £150,000. This has been heavily criticised as a tax cut for the very rich while others have to pay. The Chancellor argues that the rich will pay more tax proportionately than they did with the 50% rate, because so many people took steps to avoid it.

2.2 Future Tax Rates And Allowances

2.2.1 The personal allowance will rise to £10,000 from April 2014. This objective of the Liberal Democrats was incorporated in the Coalition Agreement as a target to be achieved before the end of the Parliament; it will have been achieved a year early.

2.2.2 The level of total income, personal allowance plus basic rate band, at which 40% tax starts is intended to rise by 1% to £41,865 at the same time.

2.3 Age-Related Allowances

2.3.1 As announced last year, the higher allowances for those aged over 65 will be frozen from 6 April 2013 at their 2012/13 levels and only those who are already 65 by that date will be entitled to receive them.

2.3.2 When the ordinary personal allowance has reached the same levels (£10,500 for those born before 6 April 1948 and £10,660 for those born before 6 April 1938), the higher allowances will be abolished.

2.3.3 Pensioners will not suffer a reduction in their allowances, but are unlikely to enjoy an increase until 2015 at the earliest, when the £10,000 2014/15 personal allowance may be raised above £10,500.

2.4 Tax Credits

2.4.1 The changeover from the current Working Tax Credit and Child Tax Credit system to Universal Credit (which will also incorporate some other benefits such as Housing Benefit) will start later this year. There were no new details of the system or the changeover announced in this Budget.

2.5 Company Cars And Fuel

2.5.1 The complications of owning a company car continue, with rules announced in previous years coming into force and current announcements of changes to take effect later.

2.5.2 For 2013/14, the percentage of the original list price which is charged as the cash equivalent of a company car will increase by 1% for all vehicles with CO2 ratings between 95g/km (which increases from 10% to 11%) up to 215g/km (where the maximum 35% will be reached – previously 220g/km). For 2015/16, new bands of 0 – 50g/km (5%) and 51 – 75g/km (9%) will be introduced, and the highest emitting cars will have a new maximum percentage of 37%. Further changes have been published going forward into 2016/17, so anyone choosing a new company car now can work out the tax effect of a current decision until they are likely to change it.

2.5.3 The taxable benefit of free fuel provided for use in a company car is calculated by multiplying the same percentage by a fixed figure. This will increase by more than inflation for 2013/14 to £21,100 (2012/13: £20,200), so for many employees the taxable amount for fuel will increase for two separate reasons – the percentage and the fixed figure both increasing.

2.6 Employee Shareholders

2.6.1 The Autumn Statement included an announcement of the introduction of a new ‘employee shareholder’ status. Employees would receive certain tax advantages on the receipt of shares in their employer, but would forgo certain employment rights.

2.6.2 The Budget confirmed that up to £50,000 of shares allocated to an ‘employee shareholder’ will be exempt from CGT on disposal. However, it is only intended that up to £2,000 of shares will be exempt from income tax and NIC when they are allocated to the employee. This is an attractive relief on £2,000 of shares, but that may not be enough to persuade employees to give up their rights; while receiving a larger amount of shares will trigger an immediate tax charge without the cash to pay it.

2.6.3 These rules are intended to take effect for shares received on the adoption of ‘employee shareholder’ status on or after 1 September 2013. It remains to be seen how many employers will wish to offer the facility, or how many employees will wish to take advantage of it. It is noted that later on Budget day, the House of Lords voted against the proposal by a large majority.

2.7 Employee Loans

2.7.1 At present, cheap or interest-free loans provided by an employer to an employee will create a tax charge if the amount is over £5,000 and the rate of interest is below 4%. The threshold will increase to £10,000 from April 2014. Although this was referred to in the speech as enabling larger ‘season ticket loans’, there appears to be no restriction on the purpose of a loan that will qualify for the exemption.

2.8 Individual Savings Accounts

2.8.1 The annual limit on investment in tax-free ISAs increases to by £240 to £11,520 for 2013/14. This limit increases in line with the Consumer Prices Index each year, adjusted so that the result divides by 12 to allow for regular monthly contributions.

2.9 Pension Contributions And Benefits

2.9.1 It was announced in the Autumn Statement that the limits on tax-advantaged pension reliefs will be lowered further on 6 April 2014, after being reduced to £50,000 on 6 April 2011. The cap on annual contributions will fall again to £40,000. It has been confirmed that anyone who has paid less than the current limit in the three years before the change will be able to use the shortfall below £50,000 (not £40,000) to justify higher contributions in 2014/15.

2.9.2 The limit on the value of a tax-advantaged pension fund will fall from £1.5m to £1.25m for those taking benefits from 6 April 2014. Anyone with a larger fund taking benefits after that date will suffer an income tax charge on the excess at 55%. People adversely affected by this reduction, for example, already having pension rights valued at more than £1.25m but not wishing to take benefits before April 2014, can apply for ‘protection’ which will lessen the impact of the change.

2.9.3 Someone who takes their pension benefits may buy an annuity, or instead take ‘drawdown’ – keeping their own fund identifiable and receiving some or all of the income arising. The maximum amount of drawdown income has been fixed at 100% of the annuity that could have been purchased with the fund. This will now be increased to 120%, apparently to take effect from 26 March 2013. This should increase the flexibility available to people drawing their pension benefits.

2.10 Real Time Information Penalties

2.10.1 The Budget included an announcement of new rules introducing penalties for failing to comply with employer's obligations under the new PAYE 'Real Time Information' system that will apply to most employers from April 2013. We are told that the penalties will be 'fair, proportionate and effective.'

2.10.2 For all employers who are about to have to operate RTI, they remain a worrying threat. A new system of late filing and late payment penalties will only apply from April 2014, but it appears that penalties for inaccurate returns may be introduced by the Finance Act 2013.

2.11 Seed Enterprise Investment Schemes (SEIS)

2.11.1 SEIS is a generous relief that was introduced in 2012/13. A subscriber for shares in a small company in the first two years of trade can enjoy a 50% income tax rebate on up to £100,000 invested.

2.11.2 If capital gains of up to the same amount are realised in 2012/13 and invested in a SEIS company in 2012/13 or 2013/14, the gains will be exempted.

2.11.3 These reliefs will become permanent provided a number of conditions are satisfied, but may be lost if the shares are sold or the company is liquidated within a short time. The combination of these reliefs means that an investor can put £100,000 into a company at a cost of only £22,000.

2.11.4 The CGT exemption will now be extended to one-half of any gains realised in 2013/14 and invested in SEIS shares in 2013/14 or 2014/15. In effect, this will halve the CGT rate on such gains (making the potential cost £36,000 instead of £22,000 in the above example).

2.11.5 The original SEIS rules contained a serious trap however as the company could not be acquired from a formation agent, but had to be incorporated by the people who intended to claim the relief. This pitfall will be removed from 6 April 2013, but not retrospectively.

2.12 Small Businesses And The Cash Basis

2.12.1 Further details were published of the 'cash accounting basis' which small unincorporated businesses may use to compute their income tax profits from April 2013. The intention is that those businesses which are below the VAT registration threshold will be able to prepare simpler accounts, ignoring debtors, creditors and stock, and the distinction between capital and revenue, and simply pay tax on the difference between 'cash in' and 'cash out'.

2.12.2 The Budget announcements recognise that the original proposals were themselves quite complicated, and attempts have been made to simplify them. The cash basis will be compulsory for anyone who claims Universal Credit.

2.13 Income Tax Allowances, Rates And Reliefs

	2013/14	2012/13
Allowed at top rate of tax		
Personal Allowance (PA)	£9,440	£8,105
Personal Allowance (born 6.4.38 - 5.4.48)*	10,500	10,500
Personal Allowance (born before 6.4.38)*	10,660	10,660
Blind Person's Allowance	2,160	2,100
Allowed only at 10%		
Married Couple's Allowance (MCA)*+	7,915	7,705
Income limit for age-related allowances	26,100	25,400

+ only available if born before 6th April 1935

*Age-related allowances are reduced £1 for every £2 by which income exceeds the income limit. PA is reduced before MCA, to a minimum of £9,440 (2012/13: £8,105). MCA is reduced to a minimum of £3,040 (2012/13: £2,960).

PA is withdrawn at £1 for every £2 by which total income exceeds £100,000. PA is reduced to nil if income is £118,880 or more (2012/13: £116,210).

Bands	2013/14	2012/13
Basic	32,010	34,370
Higher	32,011-150,000	34,371-150,000
Additional	over 150,000	over 150,000

Rates differ for General, Savings and Dividend income within each band:

Rates	2013/14			2012/13		
	G	S	D	G	S	D
Basic	20%	20%	10%	20%	20%	10%
Higher	40%	40%	32.5%	40%	40%	32.5%
Additional	45%	45%	37.5%	50%	50%	42.5%

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.

If taxable general income is less than £2,790 (2012/13: £2,710), savings income is taxed at a ‘starting rate’ of 10% until total taxable income exceeds that limit. This ‘starting rate band’ is part of the BRB.

The maximum annual tax-efficient gross pension contributions (up to age 75) in 2013/14 are:

- individuals:	the higher of £3,600 or 100% of earnings, to max. £50,000
- employers:	£50,000 less employee contributions

Only current earnings count for the 100% limit. If less than £50,000 has been paid in any of the preceding three years, it may be possible to increase the current contributions by the shortfall. Maximum tax-efficient fund (lifetime allowance) where benefits are taken in 2013/14: £1.5m.

2.14 Car and Fuel Benefits

2.14.1 Car Benefit Assessment 2013/14

Charge based on a percentage of the initial list price of the car; the percentage depends on the carbon dioxide emission ratings of the car, if it has one. For older cars without a rating, the percentage depends on engine capacity.

For 2013/14 the percentage for a petrol engine is :

no emissions	no tax charge
Up to 75g/km	5%
76g/km-94g/km	10%
95g/km-99g/km	11%, then + 1% at 100g/km, 105g/km etc.
215g/km and above	35% (maximum)

Diesel cars have 3% added to the figure for a similarly-rated petrol car, but still have a maximum charge of 35%.

2.14.2 Car Fuel Assessment

The benefit is calculated using the same percentage as that used for the car benefit, applied to a standard figure of £21,100 (2012/13: £20,200).

The taxable amount is therefore between £1,055 (5% – min.) and £7,385 (35% – max.). There is no tax on charging an emission-free electric car.

3. Capital Taxes

3.1 Capital Gains Tax (CGT)

3.1.1 The rate of CGT remains 18% for those whose total taxable income and gains for the year are below £32,010, and 28% for gains which are above that figure. The annual exempt amount for CGT increases by £300 to £10,900. This is the normal increase in line with the consumer prices index.

3.1.2 Trustees continue to be liable to CGT at 28% after deducting half the normal annual exemption (£5,450). The annual exemption is shared between trusts set up by the same settlor since June 1978, subject to a minimum of £1,090

3.2 Entrepreneurs' Relief (ER)

3.2.1 The lower 10% rate of CGT is to be extended to many shares acquired under the Enterprise Management Incentive schemes which small businesses may use to reward key employees.

3.2.2 ER normally requires the shareholder to own the shares for at least 12 months. The length of time for which an EMI option is held may now be included in this qualifying period.

3.2.3 It will also not be necessary for an EMI shareholder to own 5% of the company.

3.3 Inheritance Tax (IHT)

3.3.1 Rates of tax remain unchanged at 40% on death transfers and 20% on lifetime chargeable transfers

3.3.2 The nil rate band of £325,000, which was previously frozen until 2015, will now not increase until April 2018 at the earliest. This will gradually increase the amount collected and the number of estates liable to IHT, estimated at 17,000 in 2010/11 and 22,000 in 2017/18. The measure is intended to offset the cost to the state of capping the amount of domestic care that elderly people will have to pay for themselves.

3.3.3 Transfers between husbands and wives and registered civil partners are generally exempt from IHT without limit. However, there is a lifetime limit where the recipient is domiciled outside the UK and the transferor is UK domiciled. Since the 1980s, this limit has been £55,000.

3.3.4 As announced last year, it will be increased to £325,000 for transfers taking place on or after 6 April 2013. In future, it will be aligned with the nil rate band, and will not change again until 2018.

3.3.5 It will also be possible for non-UK domiciled people to choose to be treated as UK-domiciled for IHT purposes. This will enable them to enjoy the unlimited exemption at the time, but will restrict the tax advantages they might otherwise enjoy later.

3.3.6 A new anti-avoidance rule is introduced to counter an avoidance scheme which involves the deduction of liabilities from a chargeable estate. It has been possible to increase the benefit of a deduction by using borrowings to buy assets that are excluded from the charge to IHT, or which are subject to a 100% relief; and HMRC believe that liabilities are sometimes deducted without ever being paid to the creditor. New rules will prevent the deduction of such liabilities after Royal Assent to the Finance Act 2013.

4. Corporation Tax

4.1 Corporation Tax Rates

4.1.1 As announced in the Autumn Statement, the main rate of corporation tax will fall from 24% to 23% for Financial Year 2013, commencing 1 April 2013, and to 21% in April 2014.

4.1.2 George Osborne announced that the rate will fall again in April 2015 to 20%, the same as the rate for companies with small profits. This will not only cut companies' tax charges, but will simplify the calculations for those which fall in the marginal band between the small profits and full rates.

4.2 Controlled Foreign Companies (CFC) Regime

4.2.1 Further changes have been proposed to the CFC Regime for accountings periods beginning on or after 1 January 2013, which will:

(a) extend the scope of the new CFC rules so they apply to profits from all assets leased under finance leases, including hire purchase and similar types of contract;

(b) limit the amount of double taxation relief (DTR) for UK companies that form part of certain arrangements involving the routeing of a loan from one CFC to another CFC through a UK company;

(c) ensure that references to the interpretation of certain accounting practices are consistent throughout the new CFC rules;

(d) introduce a minor consequential amendment to the arbitrage anti-avoidance rules;

(e) align the definition of a group treasury company in the Worldwide Debt Cap rules and the CFC rules;

(f) relax the limitation for qualifying resources funded from UK debt in specified circumstances, and

(g) ensure the matched interest rules can apply to all leftover profits.

4.3 Loans To Participators

4.3.1 When a 'closely controlled company' makes a loan to a 'participator' (in general, a shareholder), it may incur a liability under s.455 CTA2010 to pay an amount equal to 25% of that loan to HMRC if the loan remains outstanding nine months after the end of the accounting period. The tax charge is repaid to the company when the participator repays the loan.

4.3.2 The Budget included an announcement of new rules to tighten up the circumstances in which a loan will be regarded as 'repaid'. The charge may not be cancelled if a new loan of a similar amount is taken out afterwards.

4.3.3 In addition there will be new rules to catch various indirect ways of making loans, including via partnerships [LLPs], and where there is extraction of value from a close company and the value is transferred to a participator.

4.3.4 These changes will operate from 20 March 2013.

4.4 Exit Charge

4.4.1 Legislation will be introduced in Finance Bill 2013 which retains the existing rules that charge companies corporation tax on all the profits and gains arising in the period up to the date they cease to be resident in the UK within nine months and a day of the end of that period. However, where a company that is incorporated in the UK or another EEA territory ceases to be UK resident and becomes a resident of, and established in, another Member State of the EEA, it will have two further payment options to manage corporation tax charges that arise under the exit charge provisions. These payment options will likewise be available to non-resident companies that carry out a trade through a UK permanent establishment, where the transfer of a whole or part of that UK business to another Member State of the EEA creates an exit charges liability.

4.4.2 Both of the new options allow companies to defer the time at which they must settle some or all of the tax they are due to pay under current tax rules. Companies will be able to defer tax using either or both methods, so long as they clearly state which method is to be adopted for which assets when applying for deferral.

4.4.3 The first new option is designed to ensure minimal compliance burden. It involves a calculation of the tax due at the time of migration, with staged payments of the tax attributable to exit charges then made in six equal annual instalments starting with the first payment due within nine months and one day of the end of the accounting period. This option allows all assets to be taken together, without distinguishing between different classes, and without the need for them to be tracked individually after migration.

4.4.4 The second new option is more directly related to the economic life of assets. It involves a calculation of the tax due at the time of exit, with the tax attributable to exit charges allocated on an asset by asset basis. Companies would be obliged to provide HMRC with an annual statement identifying the realisations of assets in that period, and the tax would become payable in respect of those realisations. For intangible assets, derivative contract and loan relationship profits, the useful economic life of each asset would be determined at the point of migration. Tax would then be payable in equal annual instalments over the useful life of the asset.

4.4.5 Tax related to exit charges on any assets may be deferred for up a maximum of ten years, or until the disposal of the asset if sooner. The amounts deferred under either of the above options will be subject to interest.

4.5 Research And Development (R&D) Credits

4.5.1 R&D credits allow companies to deduct a multiple of the expenditure incurred for tax purposes. If £100 of cost is treated as £200 in computing tax, the company effectively receives a grant for incurring the expenditure. A new 'above the line' credit for large companies will be introduced in April 2013, and will become the only relief for large companies engaged in R&D activity from April 2016. This will affect the way in which the incentive is reflected in company accounts, and is intended to increase the 'visibility' of the support that is being given to R&D activity through the tax system.

4.5.2 The new credit has been set at 10% of the relevant expenditure, which will slightly increase the benefit to the claimant over the current system.

4.6 Chargeable Gains On Foreign Currency Assets

4.6.1 Chargeable gains have to be computed in sterling using the exchange rates ruling on the dates of acquisition and disposal. Exchange rate movements can therefore significantly affect and distort gains and losses on assets that are bought and sold for foreign currency. What appears to be a gain in the foreign monetary value of an asset may be a loss in sterling, and vice versa.

4.6.2 Rules to simplify these calculations, for corporation tax only, will take effect when the Finance Act 2013 receives Royal Assent.

4.7 Capital Allowances

4.7.1 As announced last year, there will be an 'extension and tightening' of the enhanced capital allowances for low-emission cars. 100% first year allowances will be available for cars rated up to 95g/km and bought before 31 March 2015 (110g/km for expenditure up to 31 March 2013).

4.7.2 From the same date, businesses buying cars with ratings above 130g/km will only qualify for the reduced writing down allowances of 8%. At present, cars with ratings up to 160g/km are put into the 'general pool' with the higher 18% rate of WDA.

4.8 Bank Levy

4.8.1 Legislation will be introduced in Finance Bill 2013 to amend the rates of Bank Levy.

4.8.2 For periods falling wholly or partly after 1 January 2014, the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.0625% to 0.071% and the rate for short term chargeable liabilities will be increased from 0.13% to 0.142%.

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5. Value Added Tax (VAT)

5.1 Registration And Deregistration Thresholds And Rates

5.1.1 The registration threshold for VAT rises from £77,000 to £79,000 on 1 April 2013. The deregistration threshold rises from £75,000 to £77,000 on the same date.

5.1.2 Self-assessment returns for businesses can use 'three-line accounts' if they are below the registration threshold

5.1.3 The standard rate of VAT will remain unchanged at 20% and the lower rate at 5%.

5.2 Car Fuel

5.2.1 The values to be used by a business which supplies road fuel to a proprietor, director or employee for private use change with effect for return periods starting on or after 1 May 2013.

5.2.2 Although the scale rates are based on CO2 emissions, they are not based on a percentage calculation as the income tax benefit charges are. It is necessary to look up the exact figure in a table which is available on the HMRC website

6. Stamp Duty Land Tax (SDLT)

6.1 Rates

6.1.1 There was no new announcement about rates of stamp duty land tax, but measures introduced last year have been brought into effect.

6.1.2 The higher threshold for properties in 'disadvantaged areas' has been abolished with effect from 6 April 2013.

6.2 Anti-Avoidance

6.2.1 Also as widely expected, the Chancellor announced measures to close down certain types of SDLT avoidance schemes which involve an onward sale [a subsale or transfer of rights] which is not completed for a number of years, and where the immediate purchaser is left in possession of the property but bears no SDLT liability, while the transfer of rights falls below the SDLT threshold.

7. Stamp Duty Reserve Tax (SDRT)

7.1 Growth Markets

7.1.1 The Chancellor announced an intention to abolish stamp duty for transactions in shares on 'junior' share markets such as the Alternative Investment Market or the ISDX Growth Market. If approved, this will take effect in 2014.

8. Other Measures

8.1 High Value Residential Properties

8.1.1 Last year's Budget included a package of measures to target the avoidance of SDLT and CGT by taxpayers acquiring high value residential properties through companies and other legal vehicles, so-called 'envelope schemes'. The first measure, a 15% SDLT charge on transferring a house worth £2m to certain 'non-natural persons'[NNPs], including companies, took effect in March 2012.

8.1.2 The Annual Residential Property Tax [ARPT] has become the 'Annual Tax on Enveloped Dwellings' (ATED) and takes effect from 1 April 2013. ATED returns must be sent to HMRC by 30 April at the beginning of each ATED period which lasts for one year and begins on 1 April. For the first year of ATED beginning 1 April 2013, there is a transitional arrangement whereby the return will be due by 1 October 2013.

8.1.3 The ATED is a flat rate charge based on bands of value to UK residential property UK worth over £2m owned by a NNP. There are a number of exemptions for property development, investment rental and trading businesses, residential properties held for employee accommodation, properties held for charitable purposes and working farmhouses.

8.1.4 A CGT charge at 28% will apply to gains from disposals by NNPs of such property accruing after 6 April 2013, and will apply also to foreign companies.

8.1.5 Enforcement of these charges on foreign entities however may however pose practical problems for HMRC.

8.2 Anti-Avoidance Measures

8.2.1 As usual, the Chancellor hoped to raise considerable amounts of money by closing loopholes. His speech included the announcement that persons promoting aggressive tax avoidance schemes may in future be 'named and shamed', although those who do so may simply regard this as good publicity.

8.2.2 A 'General Anti-Abuse Rule' (GAAR) will take effect after the Finance Act 2013 receives Royal Assent. This will enable HMRC to negate the effect of artificial tax avoidance schemes if the economic effect of transactions appears to be different from the tax effect, e.g. a loss arises for tax which is larger than the economic loss suffered by the taxpayer.

8.2.3 A scheme must be referred to an advisory panel before HMRC can use the GAAR, and taxpayers will still have a right of appeal against the panel's opinion. It remains to be seen whether this will reduce the enthusiasm of UK taxpayers for avoidance schemes.

8.2.4 By contrast, changes were announced to the rules on 'transfer of assets abroad', which seek to stop avoidance by UK residents who move income bearing assets out of the country.

8.2.5 Memoranda of Understanding relating to cooperation on tax matters have been signed with Guernsey and Jersey which will make available tax disclosure facilities, similar to that recently announced with the Isle of Man.

8.2.6 These facilities will be available from 6 April 2013 to 30 September 2016.

8.2.7 To support the objectives of each facility, the Governments of Guernsey and Jersey will require financial intermediaries to contact relevant persons to advise them of the disclosure facility and to ensure adherence to legislation for the prevention of money laundering.

8.3 Statutory Residence Test

8.3.1 An individual's 'residence' status has a significant effect on their liability to income tax and CGT. Up to now, it has been determined by a mixture of statute law, case law precedent and HMRC practice. A number of recent high profile legal disputes have shown that the law is confusing and contradictory, and several taxpayers have been held to be liable to UK taxes when they believed they had done enough to sever their links with the country.

8.3.2 After a long consultation, the government is to introduce a statutory test of residence which is supposed to make the question clearer. The legislation will be included in the Finance Act 2013 and take effect from 6 April 2013.

9. National Insurance Contributions (NICs)

9.1 Rates And Thresholds

9.1.1 The rates and thresholds for NIC were announced in the Autumn Statement. The threshold at which employees start to pay NIC increases from £7,605 to £7,755, and the employer threshold increases from £7,488 to £7,696, representing a small saving. The upper earnings limit, at which the rate for employee contributions drops from the full 12% to 2%, falls from £42,475 to £41,450, offsetting the increase in income tax arising from the lowering of the starting point for the 40% rate. For someone earning £42,475, there is an overall reduction in NIC of about £120 for the year.

9.2 Employer Contributions

9.2.1 The Chancellor announced that a relief for the first £2,000 of employer's NIC will be introduced for all employers from 2014/15. The smallest businesses may not have to pay any employer's NIC at all; whilst the effect on larger employers will be negligible

9.3 Longer Term Changes

9.3.1 The Chancellor also confirmed a further radical change: the lower contracted-out NIC rates will cease in 2016. Those who currently pay these rates, who must be members of a salary-related employee pension scheme, will pay more NIC as a result, but will receive a larger state pension at retirement

9.4 Rates And Limits For 2013/14

Class 1	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£472	£5,668
Primary Threshold – employees (PT)	149	646	7,755
Secondary Threshold – employers (ST)	148	641	7,696
Upper Accrual Point (UAP)	770	3,337	40,040
Upper Earnings Limit – employees (UEL)	797	3,454	41,450

Employer's Contribution	Contracted In	Contracted Out
From 6th April 2012, only employment with a salary-related pension scheme can use the lower contracted-out NIC rates.		
On earnings up to ST	Nil	Nil
On earnings between ST and UAP	13.8%	10.4%
On earnings above UAP	13.8%	13.8%

Employee's Contribution		
Contracted in: 12% on earnings between PT and UEL, 2% above UEL.		
Contracted out: 10.6% on earnings between PT and UAP; 12% from UAP to UEL; 2% above UEL.		
Earnings over LEL qualify for benefit, and must be reported under PAYE, but no NICs are payable until earnings reach PT.		
The reduced Class 1 rate payable by certain married women and widows is 5.85% for earnings between PT and UEL, 2% above UEL.		
Class 2 (Self-employed)	Earnings over £5,725 per year	£2.70 per week
Class 3 (Voluntary)	No limit applicable	£13.55 per week
Class 4 (Self-employed)	Profits between £7,755 and £41,450	9%
	Profits above £41,450	2%

Note

This summary has been prepared from the Chancellor's speech and documents made available by HM Treasury. The proposals are subject to amendment before the Finance Act is passed. You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication.

If you would like further details on the Budget provisions, please contact Keith Rushen on 0044 (0)207 486 2378.

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