MARCH 2014 BUDGET

ROBINSON RUSHEN

CHARTERED TAX ADVISORS
CHARTERED ACCOUNTANTS

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MAIN TAX PROVISIONS

1. Introduction

1.1 It used to be general practice for the contents of the Chancellor's red box to be top secret. Nothing was disclosed or discussed in advance. These days, tax rates and allowances are announced in the Autumn Statement, policies are put out for consultation, and the Chancellor appears on television to discuss some of his proposals the weekend before the Budget. It was therefore very unusual for a speech to spring genuine surprises. This one contained significant announcements that no one anticipated.

1.2 The most striking proposals concerned the relaxation of the rules for taking pension benefits. There will be consultation on the details but it seems that from April 2015, people with a defined contribution scheme will be allowed to choose how much they take out and when they take it. They will still pay income tax on what they draw, at marginal income tax rates, after the existing 25% tax-free lump sum, but they will not have to sign up for an annuity. Other less radical relaxations take effect before the end of this month.

1.3 Another big change that will affect many people is the relaxation of the rules on tax free ISAs From July 2014, the annual investment limit will be increased and, for the first time, it will be permitted to invest the whole amount in cash funds.

1.4 There were big cheers in the House for a penny off beer and the halving of bingo duty, but more cheers from business for a doubling of the Annual Investment Allowance for purchase of plant and machinery. Unfortunately, whenever there is a change in the limit, convoluted calculations are required for periods straddling the change.

1.5 As has become the custom, whilst the Budget speech was much shorter than it used to be [just under an hour], the volume of paper setting out the detail gets longer and longer. This includes 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 to nothing.

1.6 The more significant tax announcements from this week's Budget include:

- Personal allowances and thresholds announced for 2015/16;
- Tax system starts to gear up for separate Scottish income tax rate;
- Flexibility of taking pension benefits increased from March 2014;
- Further significant relaxation of pension rules to come in 2015;
- ISA limits increased, rules simplified;
- Seed Enterprise Investment Scheme reliefs made 'permanent';
- Reduction in CGT main residence exemption confirmed;
- Annual Investment Allowance increased to £500,000 from April 2014;
- Tax charges on 'enveloped dwellings' to be extended to lower values;
- Users of tax avoidance schemes to be required to pay tax upfront before arguing about it in court;
- Confirmation of measures to close down perceived tax avoidance using partnership structures.

2. Income Tax

2.1 Income Tax Rates And Allowances

2.1.1 As announced in the Autumn Statement, the standard personal allowance will increase in April 2014 by £560 to £10,000 in 2014/15, being the fulfillment of a commitment made in the Coalition Agreement at the start of the Parliament, a year early. For a basic rate taxpayer, the reduction in tax is £112.

2.1.2 Attention has been drawn by the press to significant increases in the numbers of taxpayers paying 40% tax. The level of total income at which the higher rate starts will increase in April 2014 from £41,450 to £41,865. However, that still represents a reduction in the 'basic rate band' which is charged to 20% tax (down from £32,010 to £31,865). This means the full benefit of the £560 increase in the allowance is not felt at 40% by a 40% taxpayer. A person earning up to £100,000 will enjoy a tax reduction of only £195.

2.1.3 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 £120,000. For those who have no personal allowances (incomes above £120,000), the reduction in the basic rate band represents a small tax increase of £29.

2.2 Future Tax Rates And Allowances

2.2.1 The personal allowance will rise to £10,500 from April 2015. The basic rate band will again narrow slightly from £31,865 to £31,785, so 40% tax will start on a total income of £42,285. The increases in the 40% threshold (1% each year) will continue to draw more people into paying higher rate income tax.

2.2.2 In the Autumn Statement, the Chancellor announced that married couples and registered civil partners will be allowed to transfer up to £1,000 of their personal allowances to their spouse or partner, starting in 2015/16. This will be linked to the personal allowance, so the amount will in the event be £1,050. Transfers can only be made to a basic rate taxpayer, so the maximum saving is £210.

2.3 Age Related Allowances

2.3.1 As announced in 2012, the higher allowances for those above 65 remain frozen at their 2012/13 levels, and only those who were already 65 by 5 April 2013 are entitled to receive them. When the ordinary personal allowance has reached the same levels, the higher allowances will be abolished. As the rate for those born before 6 April 1948 is £10,500, this will apply in 2015/16.

2.3.2 Only the higher £10,660 allowance for those born before 6 April 1938 will continue, probably for one more year.

2.4 Scottish Income Tax

2.4.1 Following the Scotland Act 2012, the Scottish Parliament has powers to vary the rate of income tax in Scotland, with greater control over spending the revenue from this differential rate. This is not dependent on the outcome of the independence referendum but part of devolution. It is expected that a Scottish rate will be introduced with effect from April 2016.

2.4.2 The Budget includes provisions to deal with the interaction of the Scottish rate with the rest of the UK tax system, including tax reliefs which use the basic rate such as Gift Aid and personal pension contributions. These are technical provisions which will need to be examined for their practical effect nearer the time.

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 2014/15, 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 76g/km (which increases from 10% to 11%) up to 210g/km (where the maximum 35% will be reached, previously 215g/km). Only zero emissions cars (no charge) and those with very low emissions (up to 75g/km, charged on 5%) are held at the same percentages as for 2013/14.

2.5.3 Further increases have been published going forward into 2018/19, 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. By 2018/19, a car emitting 0 to 50g/km will be taxed on 13% of the list price, and one emitting 180g/km or more will be taxed on 37%.

2.5.4 The taxable benefit of free fuel provided for use in a company car is calculated by multiplying a fixed figure by the same percentage. This will increase for 2014/15 to £21,700 (2013/14: £21,100), so for many employees the taxable amount for fuel will increase for two separate reasons being the percentage and the amount.

2.5.5 Where an employee makes a payment to the employer as a condition of having a company car for private use, the taxable benefit is reduced. The law has been changed to make it clear that from 2014/15 any such payment is only effective if it is made before the end of the tax year in which the private use took place. It will not be possible to extinguish a tax charge later, typically following a PAYE investigation which has disclosed unreported benefits. A similar change applies to the charge on employer-provided vans.

2.6 Employee Loans

2.6.1 It has been confirmed that the threshold below which low interest employee loans are not charged to tax will increase to £10,000 from 6 April 2014.

2.6.2 For loans above that, the taxable benefit for 2014/15 will be calculated using an official interest rate of 3.25%.

2.7 Employee Medical Expenses

2.7.1 An exemption from income tax and NICs of up to £500 is to be introduced later in 2014 covering the provision of recommended medical treatment to help an employee return to work after a period of absence through sickness or injury. Relief covers the payment or reimbursement of treatment costs.

2.8 Employee Share Schemes

2.8.1 As previously announced, the maximum value of shares that can be issued to employees under an approved all employee Share Incentive Plan (SIP) is increased from Royal Assent to the Finance Bill (usually at the end of July). The employer can issue up to £3,600 (up from £3,000) of 'free' shares to employees, who can also purchase up to £1,800 (up from £1,500) worth of 'partnership' shares from their gross pay.

2.8.2 Among other changes to encourage employee share ownership, tax incentives are being introduced for certain employee ownership trusts. These include relief from CGT on gains accruing on the disposal of shares in a trading company to a qualifying trust which acquires control of the company and operates for the benefit of all employees, and an exemption from income tax of £3,600 for certain payments made to employees of qualifying employee-owned companies.

2.9 Individual Savings Accounts

2.9.1 The Chancellor decided to increase the attractiveness and flexibility of ISAs with effect from 1 July 2014:

- ISAs will be reformed into a simpler product, the 'New ISA' or NISA;
- the previously announced annual investment limit of £11,880 will be increased to £15,000;
- the Junior ISA limit of £3,840 will be increased to £4,000;
- the different limits for cash ISAs and stocks and shares ISAs will be removed and it will be possible to put the whole amount into cash;
- existing ISA funds will be brought within the new rules, so it will be possible for existing stocks and shares ISAs to be reinvested into cash.

2.9.2 Anyone wishing to take advantage of this new flexibility should consider taking investment advice before moving their funds.

2.10 Venture Capital Trusts

2.10.1 Investors who subscribe for shares in Venture Capital Trusts [VCTs] enjoy a 30% rebate of the cost against their income tax.

2.10.2 The Budget includes measures to prevent a VCT from returning share capital to investors within three years of the end of the accounting period in which the VCT issues the shares. This appears to have been used to exploit the relief, rather than encouraging investment in high growth small and medium sized companies as intended. Distributions made from realised profits will not be affected.

2.11 Pensions

2.11.1 As announced last year, the limits on pension reliefs will be lowered on 6 April 2014. The cap on annual pension inputs will fall from £50,000 to £40,000. A member of a pension scheme who has had inputs below their limit in the three years before the change will be able to use the shortfall below £50,000 (not £40,000) to justify higher inputs in 2014/15.

2.11.2 The limit on the value of a tax advantaged pension fund falls 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, because they have funds on which they have not drawn their benefits which will take them over £1.25m when they do so, can apply for 'protection' to reduce the impact of the 55% charge.

2.11.3 The most striking section of the Budget speech concerned the rules for defined contribution pension schemes. Traditionally, members of such schemes have been required to use their accumulated fund to buy an annuity by the age of 75. This has become increasingly unpopular as annuity rates have fallen. The rules were relaxed some years ago to allow 'drawdown' instead of an annuity, with the fund still identifiable, and the pensioner receives an income based on the returns on that fund, rather than an amount that has been contractually fixed with the pension company.

2.11.4 These rules are now being relaxed further with effect from 27 March 2014:

- drawdown is generally capped at 120% of an equivalent annuity on the pensioner's fund (calculated using a published government rate), this will be increased to 150% of the equivalent annuity;
- where a person has a contractual right to income (usually an annuity or existing pension) of £20,000 pa, they can draw as much as they like from another pension fund ('flexible drawdown') subject to income tax on the amount withdrawn, this requirement will be reduced to £12,000 pa;

- it will become easier to commute small pension pots to a lump sum payable immediately.

2.11.5 These are very welcome changes, but anyone affected should consider taking advice on the best course of action in their own circumstances.

2.11.6 Even more striking is the proposal for further flexibility to be introduced in April 2015. From that date, it is proposed that those eligible to take pension benefits from defined contribution funds will be able to draw any amount they like. The Chancellor confirmed that there is no intention to remove the right to draw 25% of the fund tax free, but further amounts will be charged to income tax at the pensioner's marginal rate. The government will consult over the next year on the best way to implement this new flexibility.

2.11.7 This is again very welcome as it will allow people access to the money they have saved up and remove the need to suffer unattractive annuity rates.

2.11.8 It is notable that the Budget predictions include an expectation that this will raise a significant amount of revenue for the Treasury. Instead of being unable to draw more than an annuity, savers are expected to want to pay the tax in order to be able to spend their funds. The government may yet consider it necessary to introduce some limits to prevent people cashing in all their savings and leaving themselves dependent on state benefits.

2.12 Starting Rate/Savings Band

2.12.1 The 'starting rate band' complicates the tax affairs of many pensioners, those who have a small amount of non savings income, and whose savings income takes them above the personal allowance. They are charged at only 10% (the 'starting rate') on savings income of up to £2,880 in 2014/15.

2.12.2 The Chancellor has announced that this will change to a zero rate for up to £5,000 of savings income in 2015/16. Non savings income will not be eligible for the zero rate, but it uses up the band. This is a welcome tax relief, but it is just as complicated as the present rule.

2.13 Seed Enterprise Investment Schemes (SEIS)

2.13.1 SEIS is a generous relief that was introduced in 2012/13. A subscriber for shares in a small trading company, which has started a new trade in the last two years, can enjoy a 50% income tax rebate on up to £100,000 invested. The combination of these reliefs means that an investor can put £100,000 into a company at a cost of only £22,000 [being 50% in income tax and 28% in CGT].

2.13.2 Where capital gains of up to the same amount are realised in 2014/15 and invested in a SEIS company, half the gains will be exempted. In effect, this will halve the CGT rate on such gains. The potential initial relief for an investment is therefore up to 64% of the cost being 50% in income tax and 14% in CGT.

2.13.3 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 in a short time.

2.13.4 The SEIS was originally intended to run until April 2017, with the CGT relief only available for the first two years. The Chancellor has announced that this scheme has been a success and is to be made ‘permanent’. The 50% income tax relief and exemption for half of reinvested gains will therefore be available for investments for the foreseeable future.

2.13.5 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.

2.14 Income Tax Allowances, Rates And Reliefs

	2014/15	2013/14
Allowed at top rate of tax		
Personal Allowance (PA)	£9,440	£9,440
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	2,160
Allowed only at 10%		
Married Couple's Allowance (MCA)*+	7,915	7,915
Income limit for age-related allowances	26,100	26,100

+ 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 £10,000 (2013/14: £9,440). MCA is reduced to a minimum of £3,140 (2013/14: £3,040).

PA is withdrawn at £1 for every £2 by which total income exceeds £100,000. PA is reduced to nil if income is £120,000 or more (2013/14: £118,880).

Bands	2014/15	2013/14
Basic	31,865	32,010
Higher	31,866-150,000	32,011-150,000
Additional	over 150,000	over 150,000

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

Rates	2014/15			2013/14		
	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 £2,880 (2013/14: £2,790), 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 2014/15 are:

- individuals:	the higher of £3,600 or 100% of earnings, to max. £40,000
- employers:	£40,000 less employee contributions

Only current earnings count for the 100% limit. If less than the max [£50,000 up to 2013/14] 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 2014/15: £1.25m, unless ‘protection’ is claimed for an existing fund.

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 £31,865 and 28% for gains which are above that figure.

3.1.2 The annual exempt amount for CGT increases by £100 to £11,000. This is below the normal increase in line with the consumer prices index.

3.1.3 Trustees continue to be liable to CGT at 28% after deducting half the normal annual exemption (£5,500). The annual exemption is shared between trusts set up by the same settlor since June 1978, subject to a minimum of £1,100.

3.1.4 Legislation will be introduced in the Finance Bill 2014 to ensure that capital gains made by a remittance basis user in the overseas part of a split year of residence are not charged to tax. This corrects a defect in the existing split year rules.

3.2 Main Residence Relief

3.2.1 It has been confirmed that the exemption of gains on a property that has been a taxpayer's only or main residence will be restricted. To allow for delays in selling a home, the last 36 months of ownership have been exempted, even if the taxpayer no longer lives there. This gives a significant benefit to someone who rents out a former home, or has two properties each of which has at some point been the main residence.

3.2.2 For disposals on or after 6 April 2014, the exempt period will be reduced to 18 months. The 36 month rule is however retained where the owner is disabled or has moved into a care home. The change has no effect on someone who lives in their home right up to the time they sell it.

3.3 Non Residents And UK Residential Property

3.3.1 As announced in the Autumn Statement 2013, legislation will be introduced to charge CGT on future gains made by non residents disposing of UK residential property.

3.3.2 A consultation on how best to introduce the charge will be published shortly after the Budget. These changes will have effect from April 2015 with legislation included in the Finance Bill 2015.

3.4 Inheritance Tax (IHT)

3.4.1 Rates of tax remain unchanged at 40% on death transfers and 20% on lifetime chargeable transfers The nil rate band of £325,000, which was previously frozen until 2015, will not increase until April 2018 at the earliest.

3.4.2 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.

3.4.3 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.

3.4.4 Legislation will be introduced in the Finance Bill 2014 to treat funds held in foreign currency accounts in UK banks in a similar way to excluded property, for the purposes of provisions which restrict how liabilities are deducted from the value of an estate for inheritance tax.

3.4.5 These changes will close a loophole in the provisions, so that a liability will be disallowed as a deduction where the borrowed funds have been deposited into a foreign currency account in a UK bank which is disregarded for inheritance tax purposes. These changes will have effect from Royal Assent to Finance Bill 2014.

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 23% to 21% for Financial Year 2014 (commencing 1 April 2014), and to 20% in April 2015.

4.1.2 From 2015, the main rate will be the same as the rate for companies with small profits. This will simplify the calculations for those falling in the marginal band between the small profits and full rates.

4.1.3 Small companies will suffer an effective rate of 21.25% on profits falling between £300,000 and £1.5m in the year to 31 March 2015 (limits are reduced for short accounting periods and for associated companies).

4.2 Enterprise Zones

4.2.1 Companies investing in plant or machinery in designated enhanced capital allowance sites in Enterprise Zones receive 100% capital allowances on such expenditure. This relief, which was due to expire in 2017, will now be extended for a further 3 years from 31 March 2017 to 31 March 2020.

4.3 Research And Development (R&D) Credits

4.3.1 Loss making small and medium sized companies conducting research and development can claim a repayment by 'surrendering' qualifying R&D expenditure (which is uplifted by 125%) for a payable tax credit. The rate of credit will be increased from 11% to 14.5% for expenditure incurred on or after 1 April 2014.

4.4 Capital Allowances

4.4.1 The Annual Investment Allowance [AIA] is the amount of expenditure on plant on which a business can claim 100% relief in the period of purchase. Last year, the Chancellor increased the AIA from £25,000 to £250,000 for a limited period, and it was scheduled to reduce again on 1 January 2015.

4.4.2 The rate of AIA will now be increased to £500,000 from 1 April 2014 (companies) or 6 April 2014 (income tax) until 31 December 2015, when it will revert to £25,000.

4.4.3 This is very welcome and, according to the Chancellor, should allow 99% of businesses to claim full relief for their expenditure on plant in the period in which they incur it. However, the calculations are very complex where a period of account straddles the change of rate, and anyone contemplating a large purchase to take advantage of the increased limits should take advice before they commit themselves.

4.5 Capital Gains Roll Over Relief And Intangible Fixed Assets

4.5.1 Legislation will be introduced in the Finance Bill 2014 amending rewritten legislation to prevent claims for capital gains roll over relief on the reinvestment in an intangible fixed asset. This will bring the corporation tax treatment of companies seeking to claim capital gains roll-over relief into line with the legislation previously enacted in Finance Act 2002.

4.5.2 For any such claims made before 19 March 2014 the tax cost of the replacement intangible fixed asset is to be adjusted when calculating future debits and credits. These changes will have effect from Budget Day.

4.6 Bank Levy

4.6.1 The Government is to consult on the merits of a new charging mechanism for the bank levy, where banks are allocated into different bands according to their chargeable equity and liabilities, and then charged an amount set for that band. This aims to address some of the concerns raised around the existing bank levy, and increase the predictability and sustainability of the tax moving forward.

4.6.2 A consultation document will be published on 27 March 2014, with any subsequent changes to the bank levy's design introduced during the passage of Finance Bill 2014, and will apply for all chargeable periods commencing on or after 1 January 2015.

4.7 Loss Buying Rules

4.7.1 Legislation is to be introduced in the Finance Bill 2014 to exclude Research and Development Allowances under Part 6 of Capital Allowances Act 2001 from the anti-loss buying rules in Part 14A of Corporation Tax Act 2010. These changes will have effect for "qualifying changes" of ownership under the Part 14A rules occurring on or after 1 April 2014.

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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 £79,000 to £81,000 on 1 April 2014, whilst the deregistration threshold rises from £77,000 to £79,000 on the same date.

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 2014.

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 on the HMRC website (search for 'vat fuel scale rates'). The charge rises from a minimum on ratings up to 120g/km to the maximum for 225g/km or more.

5.3 Prompt Payment Discounts

5.3.1 Where discounts for prompt payment are offered by businesses to other businesses, under UK VAT law, VAT is calculated on the discounted invoice amount, even if the customer does not take up the discount. As the customer can usually deduct input tax on expenditure, this does not lead to an overall loss of VAT.

5.3.2 HMRC has noticed increasing use of prompt payment discounts being offered to consumers, who would not be able to recover VAT. At the same time, doubts have been raised over whether the UK's rule complies with EU VAT law.

5.3.3 The rule will therefore be changed so that VAT will be due on the consideration actually received. This will require extra paperwork where the customer is a VAT registered business which needs a VAT invoice showing the deductible amount.

5.3.4 The change will take effect from 1 May 2014 for telecommunication and broadcasting services supplied to consumers, and for all supplies from 1 April 2015.

6. Stamp Duty Land Tax (SDLT)

6.1 Rates

6.1.1 Most of the rates and thresholds for SDLT remain unchanged, ranging from 1% to 7% for residential property and 1% to 4% for non-residential. However, the 15% charge on transfer of a residential property to a 'non-natural person', introduced last year for properties worth over £2m, has been extended with effect from 20 March 2014 to those worth over £500,000.

6.1.2 A 'non-natural person' includes a company, a partnership including a company or a collective investment scheme. These 'envelope structures' have been used in the past to avoid SDLT on future transfers of the property.

7. Stamp Duty Reserve Tax (SDRT)

7.1.1 In last year's Budget, 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. This will take effect from 28 April 2014.

7.1.2 As announced a year ago, surrenders of units in UK unit trusts or shares in UK open ended investment companies will no longer be liable to SDRT with effect from 30 March 2014.

8. Other Measures

8.1 High Value Residential Properties

8.1.1 The 'Annual Tax on Enveloped Dwellings' (ATED) was introduced for 2013/14 and applies a flat rate charge based on bands of value to residential property in the UK worth over £2m which is owned by a non-natural person. There are a number of exemptions, such as for working farmhouses or other employee accommodation, and rental properties.

8.1.2 The rates of ATED have increased in line with inflation for 2014/15 with charges for the coming year range from £15,400 (up from £15,000) on a property valued between £2m and £5m to £143,750 (up from £140,000) for a property valued above £20m.

8.1.3 In addition, the scope of the tax will be extended from April 2015 to cover 'enveloped' residential properties with a value over £1m, and from April 2016 to values over £500,000.

8.2 Users Of Failed Avoidance Schemes

8.2.1 Legislation is to be introduced in the Finance Bill 2014 to give HMRC the power to give notice to taxpayers who have used avoidances schemes which are defeated in another party's litigation that they should amend their returns or settle their disputes with HMRC accordingly. Taxpayers who decide not to settle their case will risk a penalty. This change will have effect from Royal Assent to the Finance Bill 2014.

8.3 Accelerated Payment Of Tax In Avoidance Cases

8.3.1 Taxpayers who have entered into tax avoidance schemes falling under the Disclosure of Tax Avoidance Schemes rules or the General Anti Abuse Rule, or which have been ruled against in a court case, will have to pay the tax in dispute within 90 days of HMRC issuing a notice requiring payment.

8.3.2 The taxpayer can still take the matter to court and recover the tax if successful. However, the scheme will no longer confer the cash flow advantage of not having to pay the tax until the end of any litigation.

8.4 Transfer Of Corporate Profits

8.4.1 Legislation will be introduced in the Finance Bill 2014 to prevent companies from obtaining a corporation tax advantage by transferring profits between companies within a group.

8.4.2 The legislation will provide that where as part of tax avoidance arrangements a company transfers all or a significant part of its profits to another group member, then the company's profits will be taxed as though the transfer had not occurred. These changes will have effect for any transfer of profits made on or after 19 March 2014.

8.5 Anti Avoidance And Partnerships

8.5.1 Following consultation during 2013, the government is enacting measures to counteract the use of partnerships for tax avoidance purposes in three areas:

- disguised employment relationships.
- tax-motivated allocations of business profits or losses.
- tax-motivated disposals of assets through partnerships.

8.5.2 The new provisions apply with effect from April 2014.

8.6 Offshore And Onshore Employment Intermediaries

8.6.1 As announced in the Budget 2013 and following consultation, legislation will be introduced in Finance Bill 2014 to strengthen obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries.

8.6.2 In addition, legislation is to be introduced in the Finance Bill 2014 to prevent employment intermediaries being used to avoid employment taxes and obligations by disguising employment as self-employment. Following consultation, the legislation has been revised to incorporate a number of small changes to address some of the concerns raised. A Targeted Anti-Avoidance Rule has also been introduced.

8.6.3 These changes will have effect from 6 April 2014.

8.7 Artificial Use Of Dual Contracts

8.7.1 Legislation is to be introduced in the Finance Bill 2014 to prevent high earning non domiciled individuals from avoiding tax by artificially dividing the duties of a single employment between a UK and an overseas contract. Overseas employment income will be taxed on the arising basis where tax is not payable on the overseas contract at a rate broadly comparable to UK tax rates.

8.7.2 Following technical consultation, legislation has been revised to prevent charges arising on dual contracts which are not motivated by tax avoidance. The legislation will be amended to prevent charges arising on directors with less than a 5% shareholding in their employer, clarify that an income tax charge cannot arise on income related to employment duties performed in tax years prior to 2014/15 and the legislation will also take into account employments held for legal/regulatory reasons.

8.7.3 The threshold in the comparative tax rate test will be reduced from 75% to 65% of the UK additional rate. These changes will have effect from 6 April 2014.

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 £7,755 to £7,956, and the employer threshold has been set at the same level as that for employees for the first time since 2010/11.

9.1.2 The upper earnings limit, at which the rate for employee contributions drops from the full 12% to 2%, rises from £41,450 to £41,865, raising this threshold saves 40% tax, but collects more NIC.

9.2 Employer Contributions

9.2.1 As announced a year ago, a relief for the first £2,000 of employer's NIC will be introduced for all employers from April 2014, claimed through the first Real Time Information report of the new tax year.

9.2.2 Whilst the smallest businesses may not have to pay any employer's NIC, the effect on larger employers will be negligible.

9.3 Rates And Limits For 2014/15

Class 1	**Weekly**	**Monthly**	**Yearly**
Lower Earnings Limit (LEL)	£111	£481	£5,772
Primary Threshold – employees (PT)	153	663	7,956
Secondary Threshold – employers (ST)	153	663	7,956
Upper Accrual Point (UAP)	770	3,337	40,040
Upper Earnings Limit – employees (UEL)	805	3,489	41,865

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.

Employee's Contribution		
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 £5,885 per year	£2.75 per week
Class 3 (Voluntary)	No limit applicable	£13.90 per week
Class 4 (Self-employed)	Profits between £7,956 and £41,865	9%
	Profits above £41,865	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.

ROBINSON RUSHEN
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