



cutting through complexity

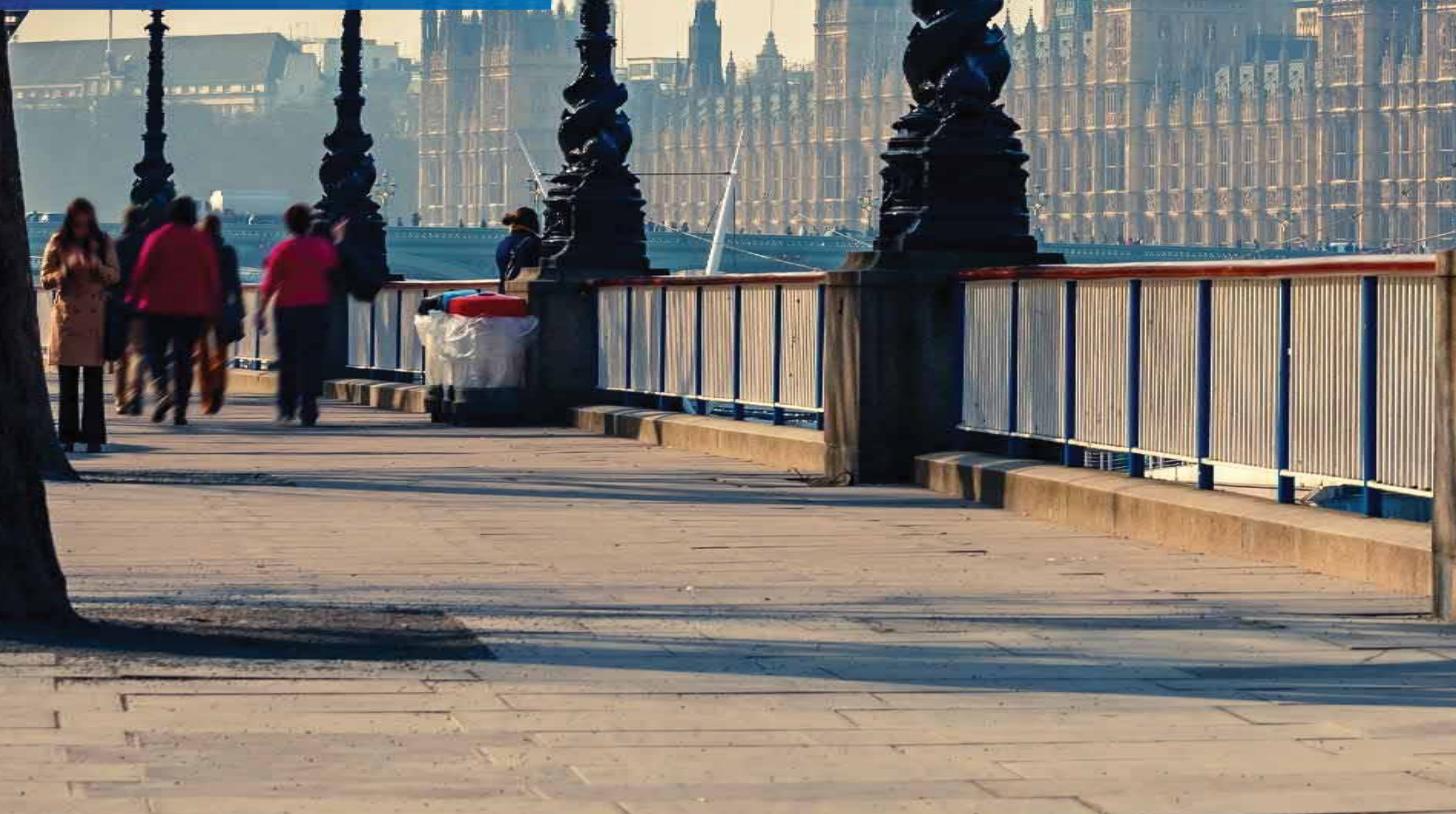
Budget 2015

What it means for you

KPMG commentary

19 March 2015

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Our view



This is the last Budget of the current Parliament and consequently the Chancellor's Budget Speech focused on the economic themes of the Coalition Government and their progress over the past 5 years. Whilst the Chancellor had a lot to say about the state of the economy and announced several investment decisions across the country, there were only a few major tax changes announced at the Budget. As expected the Budget changes were, on the whole, fiscally neutral – so who were the winners and losers? Clue: there is a general election in May 2015.

Winners

- Basic and higher rate taxpayers (with income less than £100,000) with increased personal allowances announced for 2016/17 and 2017/18
- Basic and higher rate taxpayers who will benefit from the £1,000 tax exemption (£500 for higher rate tax payers) for savings income from April 2016. In the main this will benefit pensioners with savings
- Oil and gas companies will benefit from reduced taxes and a general investment allowance, back dated to 1 January 2015
- Companies in the creative and cultural sector benefiting from the film and high end television production reliefs. In addition new reliefs will apply from 1 April 2015 for children's television and orchestras from 1 April 2016
- Farmers, who will have the ability to average their earnings over 5 years, with effect from April 2016

Losers:

- Banks (again) are hit with an increase in the Bank levy, the cessation of Corporation Tax relief on certain compensation payments and changes to VAT recovery on foreign branches. This is in addition to the measures announced at the Autumn Statement to restrict the use of their brought forward trading losses derived from the financial crisis
- The previously accepted planning for corporate groups refreshing their brought forward losses has now been deemed to be unfair and blocked
- Entrepreneurs' relief has been taken away for employees who have used structures to get within the rules

As well as these new measures, the Chancellor confirmed the proposals set out previously that capital gains tax (CGT) will be extended to non UK tax residents on the disposal of UK residential property and the introduction of a new 25% diverted profits tax. This will apply to large multinational companies on arrangements either avoiding a UK taxable presence on business activities or where the transactions or entities lack any economic substance creating a UK tax advantage.

One big announcement was the end to the tax return, over the next Parliament, with the introduction of tax accounts with pre-populated data from HMRC. This use of 'big data' will be challenging to get right, as even minor errors will directly impact on individual taxpayers. As one of the key information sources will be the employers' returns under Real Time Information (RTI), it is disappointing that there has been no post implementation review of the detailed workings of RTI. As RTI is also used to calculate Universal Credit payments, the efficiency and accuracy of RTI is becoming ever more important. Whilst banks and building societies will not need to deduct 20% income tax on interest payments from April 2016, information will still need to be provided to HMRC for inclusion in the individual's tax accounts.

A simplification measure is the abolition of the flat rate class 2 National Insurance Contributions (NICs), in the next Parliament, and the reform of class 4 NICs to introduce a new benefit test. There will be a consultation later in 2015.

The changes to pensions continue, with the lifetime limit to be reduced to £1 million and the ability to sell annuities with effect from April 2016. It is hoped that after this rush of changes to pensions and their taxation over

the past couple of years, there is a period of reflection to ensure that these changes bed in, and any mis-selling risks are minimised.

Further moves to inhibit serial tax avoiders are due to be announced on 19 March 2015. Together with the early closure of the Liechtenstein and other offshore disclosure facilities, changes to make it easier to prosecute tax evaders and the introduction in the future of tax geared penalties for schemes falling foul of the General Anti-Abuse Rule, the Government is continuing to change the landscape for individuals and companies trying to artificially reduce their tax bills.

In summary, this was a quiet Budget from a tax perspective; the focus was on the general election in May 2015. Most of the tax cuts announced apply from 2016, but the freeze in fuel duties and the cuts in alcohol duties will have a more immediate impact.



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Economic implications



The Budget headlines were:

- The public finances are improving, with the OBR forecasts of Government borrowing lower in every year up to 2018-19 compared with the Autumn Statement forecasts
- The important turning point when public debt as a share of GDP starts to fall has been brought forward by a year, thanks to the sale of shares in Lloyds, so the Chancellor can claim to have achieved this within the present Parliament
- In 2019-20 the Government has aimed for a much lower surplus, £7 billion instead of £23 billion, removing the need for drastic further cuts in public spending that had attracted criticism from all sides
- The measures announced in the Budget were more or less revenue neutral – this was not a ‘giveaway’ pre-election Budget, because the Government’s top priority remains restoring the public finances to health
- Within these tight constraints the Chancellor nevertheless managed to conjure up a politically attractive set of measures

Additional revenue was extracted from some carefully chosen targets:

- The levy on the banks was increased to 0.21% while denying Corporation Tax relief on compensation payments
- A further crackdown on tax avoidance and evasion
- A reduction in the lifetime allowance to £1 million for pensions

This raised enough money to pay for some politically popular giveaways: an increase in personal allowances, a new tax allowance for savings income and some help for the hard pressed North Sea oil producers, following the sharp fall in the oil price. There was also a freeze in fuel duty and the reduction in alcohol duties.

Perhaps the most interesting figures published today were those showing lower public borrowing (compared with the Autumn Statement) in every year until 2018-19. An improvement in the public finances so close to the election may look suspicious. But the forecast comes from the independent Office for Budget Responsibility and there are good reasons to suspect that they may actually have underestimated the extent of the coming fall in public borrowing.

Mr Osborne has had the misfortune to preside over a period, exceptional in post-war history, during which prices have grown faster than wages. The negative effect on real living standards has been much discussed. The negative effect on the public finances is less widely understood. It is worth examining.

At the start of the Great Recession, the sterling exchange rate fell very sharply, driving up import prices and pushing inflation briefly above the Bank of England target. At the same time, the collapse in demand, and hence corporate profits, made companies reluctant to grant wage increases.

These developments worsened the public finances because higher prices pushed up the cost of public spending, while income tax revenues, which follow wages, were much less buoyant.

The recession had another important effect. In the early years private wages fell sharply relative to public sector wages, again worsening the deficit because the tax receipts, on income and expenditure generated by the private sector, fell relative to the cost of employing public servants.

However, the tide is now turning. The Budget Red Book reveals that real living standards, as measured by real household disposable income per capita will finally rise above their 2010 level this year.

As the economic upswing gathers pace this rise in real incomes will accelerate. It will be led by private sector wages, which tend to grow more rapidly than public sector wages in the upswing (just as they fell more rapidly in the early stages of the downswing). These are the fundamental reasons why the public finances might improve faster than expected in the years ahead.

So the Government's luck may have turned. After a long period in which the fiscal deficits came in, year after year, rather worse than predicted, we may be entering a period of better-than-predicted outturns. The lucky winner of the 7 May election will be the beneficiary.

A portrait photograph of Bill Robinson, a middle-aged man with glasses, wearing a dark suit, white shirt, and patterned tie, smiling at the camera. The photo is set within a white rectangular frame with a thin black border, which is itself centered within a larger light blue rectangular area.

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Business implications



The Chancellor opened this year's Budget statement saying, "If you back Enterprise, you increase revenue" and it was a Budget that clearly worked hard to do that, with a series of measures designed to help boost businesses across the UK.

That said, it did lack exciting headline fodder. However, we consistently hear business leaders are happy to trade high profile new initiatives for stability, simplification and certainty.

So, to the positive stuff

From abolishing the annual paper tax return for SMEs in favour of real-time digital tax accounts, to the removal of class 2 NICs for the self-employed and the doubling of funding to UK Trade & Investment for supporting exports to China, SMEs will see some benefits.

The measures designed to raise awareness of, and increase ease of access to, the Research and Development (R&D) tax credits regime are a welcome boost for the multitude of business that undertake innovative activity. Smaller companies now have the opportunity to get their claims for R&D tax credits pre-approved for three years, while a 2-year publicity strategy increases awareness of the reliefs available.

R&D tax relief is playing an important part in incentivising innovation and fuelling the UK's growth. We've always said that the single biggest change that would make it even more effective is to increase awareness of it and to make claiming easier, which these measures do.

There were some sector specific announcements; with the oil industry, suffering from the drop in oil price, set to benefit from the back dated reduction in the supplementary charge to 20% and the future reduction in petroleum revenue tax rate from 50% to 35% as well as a new simplified investment allowance to come in next month.

The drinks and pub industry will cheer reductions in duty on beer, cider and spirits and farmers were added to the list of beneficiaries with the announcement that they will be able to average their income over five years.

And the technology sector has scored an £11 million investment to boost tech-hubs and incubators throughout the UK, which is terrific news for a strongly performing part of the economy. Our recently published Tech Monitor shows that UK tech start-ups have a two year survival rate of 82%, compared to the UK average of 76%, so this should be money well spent by the Chancellor.

Tech business activity is highly concentrated in London, and with cities such as Manchester and Leeds eager to grow their tech footprint and reputation, this investment is an important step towards supporting the establishment of tech hubs in key cities.

Continuing to look outside of the capital, devolution is a business issue and the announcement of pilot schemes for Manchester, Cheshire East, Cambridgeshire and Peterborough to retain 100 per cent of additional business rate growth above forecasts is a significant step towards putting more buying power in the hands of the UK's city regions.

This offers these areas the potential to make spending decisions that attract and sustain their business communities in ways that meet local and regional needs more accurately.

Not all parts of the economy had reason to thank the Chancellor though, with the banks hit by an increase in their levy and proposals to deny tax deductions for compensation payments for mis-selling.

And, as expected there was a strong theme of preventing tax avoidance – re-announcing the Diverted Profits Tax, preventing contrived use of tax losses and abuse of Entrepreneurs' Relief. The latter could result in putting people off taking the risk of backing young companies.

In the context of tax rules, it is understandable for the Government to specify that only individuals meeting the 5% rule should enjoy the 10% tax rate on capital gains on disposal of the business interest, but the details around its enforcement could make backing a management buy-out less attractive, putting the brakes on incentivising the very people likely to create a more entrepreneurial Britain.

Business will be broadly pleased that the 2015 Budget was 'business as usual' with few surprises and some targeted relief.

A professional headshot of a woman with blonde hair, wearing a blue blazer and a necklace, set against a blue background.

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Public Sector implications



Today's Budget – an opportunity to re-imagine Government.

Across the public sector, we need to redesign services that are fit for today, rather than trimming yesterday's.

The Chancellor today told us that we will move from austerity to prosperity a year earlier than expected. We have four more years of austerity before we can celebrate. £30 billion of savings need to be found, with £13 billion coming from Government Departments and £12 billion from the welfare budget. The remaining £5 billion is to come from reducing the tax gap through crack-downs on avoidance and evasion.

Having gone through five years of austerity, the task facing local authorities, Departments and other public bodies is not trivial, especially given the ring-fence around Health, Education and the aid budget. Many organisations have already made significant changes to their internal operations and public services – few corners of Government (local or national) remain unreformed. So, while the scale of the required savings is less than we might have predicted even as recently as the Autumn Statement (with thanks to oil prices and low inflation), incremental nips and tucks will not suffice.

Impact for Devolved Government

Managers in the Public Sector will be looking to take their experience of the best examples of wholesale reform from the past five years and replicate that more widely. And this is where devolution comes in. The 'Northern Powerhouse', including West Yorkshire with its new City Deal, now has the opportunity to revolutionise delivery. This can be achieved partly through joint commissioning. Commissioners are now close enough to the customer to understand their needs, specify services, then monitor provision to ensure the best outcomes. The savings will come from standardisation, eradicating duplication across partner organisations and a true focus on the end result for local people. Outsourcing is not the only answer – instead managers will have powers to adopt innovative delivery models, balancing public, private and third sector provision according to their local context. Social impact bonds and other new forms of financing work better in this devolved model as managers are closer to the required outcomes. The Chancellor said that his door was open to cities and regions wishing to discuss further devolution in their areas and it will be interesting to see whether an orderly queue forms.

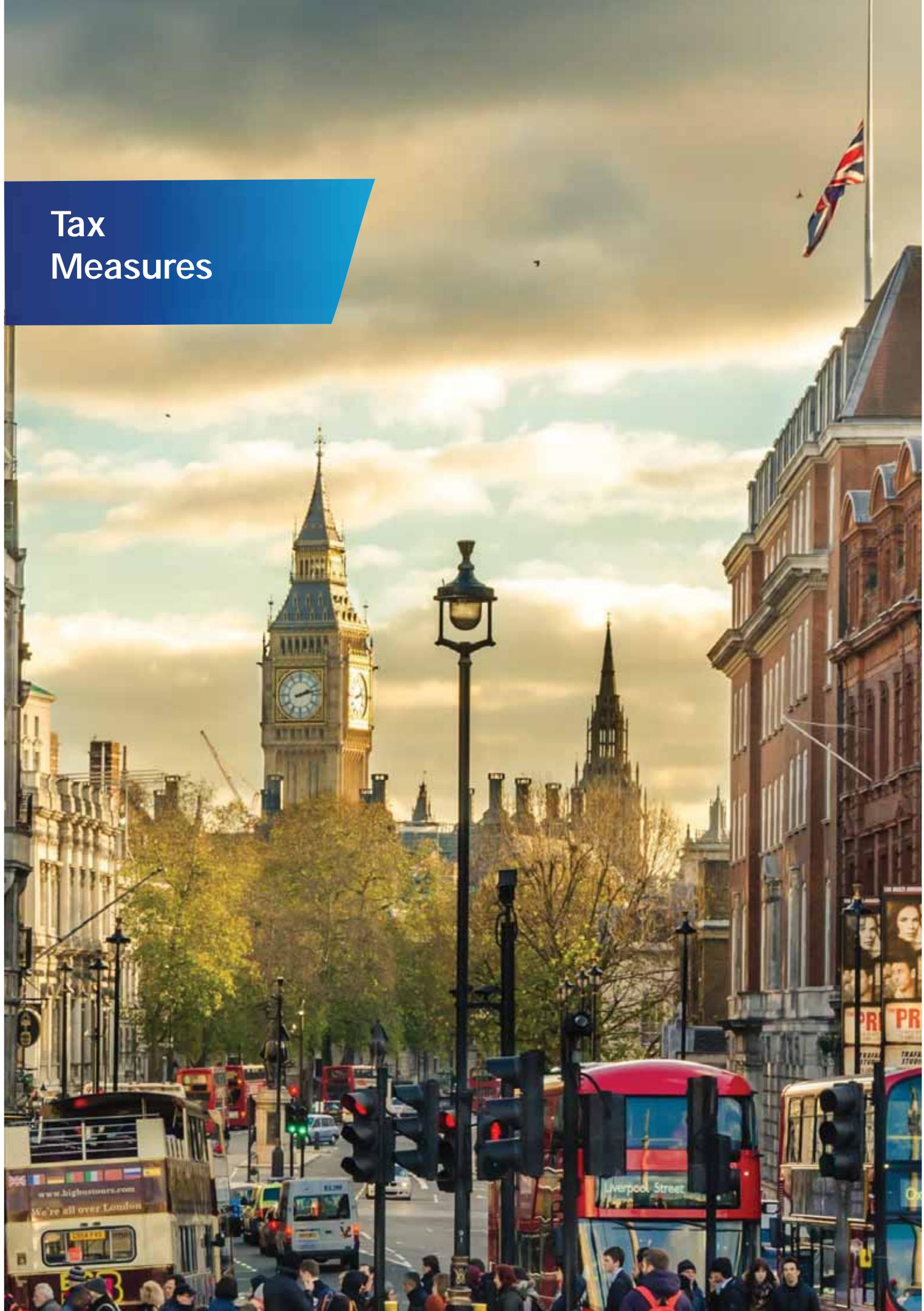
Impact for Central Government

Back in Whitehall, Civil Servants in those Departments that are not ring-fenced will be faced with the challenge of delivering double-digit savings. The Chancellor indicated how this would be achieved in HMRC. The shift from annual tax returns to a year-round service is an example of the increasing focus on creating end-to-end digital Government services. Moving services online undoubtedly now means revamping an entire service with the customer at its heart, rather than just adding a flashy web front-end and hiding a paper-process behind it. Digitisation isn't enough, nor is trimming at a Departmental level. Whitehall needs to pull together and look at common functions across Government to drive these savings. For example, rather than many Departments using different processes to collect money from the public, why don't we design a single function whether we're paying our taxes or renewing our passport.



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Tax Measures



Individuals

Businesses

Tax rates and allowances

Corporation tax rate of 20%, an increase in the personal allowance to £10,600, income tax rates of 20%, 40% and 45% and a new savings allowance.

Corporate taxes

The rate of Corporation Tax for profits other than ring fenced profits falls to 20% in April 2015 and is unified with the small profits rate. The Finance Bill will also set the rate at 20% for the financial year commencing 1 April 2016.

Personal taxes

The income tax personal allowance increases to £10,600 from 6 April 2015 for those under 75. The personal allowance will be removed at a rate of £1 for every £2 of income over £100,000.

Broadly, income will be taxed at the following rates:

	2015/16	2016/17
Personal Allowance	£10,600	£10,800
Basic rate (20%)	£10,601-£42,385	£10,801-£42,700
Higher rate (40%)	£42,386-£150,000	£42,701-£150,000
Additional rate (45%)	Over £150,000	Over £150,000

The personal allowance is then set to rise to £11,000 in 2017/18, in line with the intention to increase the allowance to £12,500 by 2020. The higher rate threshold will also rise by £600 in 2017/18, taking it to £43,300.

From 6 April 2015 the starting rate of tax on savings income will be reduced from 10% to 0%, and the maximum amount of income subject to the 0% rate will be increased to £5,000.

The annual exempt amount for capital gains tax increases to £11,100 from 6 April 2015.

A more detailed summary of rates for 2015/16, including NICs, can be found in our [Tax Rate Card](#).

Personal Savings Allowance

From April 2016, a tax-free allowance of £1,000 (or £500 for higher rate taxpayers) will be introduced for interest on savings.

Basic rate taxpayers with a total income up to £42,700 a year, will be eligible for a £1,000 tax-free savings allowance.

Higher rate taxpayers with income between £42,701 and £150,000, will be eligible for a £500 tax-free savings allowance.

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Death of the annual tax return for individuals and businesses?

Employers	Businesses	Individuals
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One of the headline measures of this Budget was the rollout of digital tax accounts to replace paper tax returns for certain taxpayers.

Moves to roll out digital tax accounts, pre-populated with information already held by HMRC, were included in the latest version of HMRC's Digital Strategy, published last December. The Budget has given us some more information, confirming that, by the end of the next Parliament, every small business and individual will have their own digital account.

The intention of the new system is to allow taxpayers to have an overview of all their tax affairs, including PAYE and VAT where relevant, in one place. Accounts will be pre-populated with data already held by HMRC (for instance, PAYE information submitted by employers), and with 'new data from third parties'. Ultimately, the intention is that small businesses will be able to link their accounting software to their personalised tax account, removing the need for the submission of an annual tax return.

The Government acknowledges that those taxpayers with more complex affairs – likely to include assignees, high net worth individuals, those with partnership income and those with income from overseas – will still need to provide information to HMRC. However, the intention is that the new digital tax account will provide a more straightforward method of doing this than the current Self Assessment return system.

Making use of existing data in this way, and giving taxpayers easier access to their tax information, will have clear benefits, particularly for individuals and small businesses with relatively straightforward tax affairs who are currently required to submit Self Assessment returns. There are challenges for HMRC, however, both around delivering a user-friendly and technologically robust system and ensuring that it is using good quality data when pre-populating accounts. PAYE data, likely to be some of the first used, will be key here, and with employers reporting ongoing problems with Real Time Information (RTI) reporting, it is unfortunate that the Government has not taken the opportunity to launch the promised review of RTI and iron out remaining issues ahead of the digital account roll out.

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Employment Intermediaries: restriction of relief for Travel & Subsistence (T&S)

Individuals	Employers
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T&S relief will be restricted where supervision, direction or control is exercised over workers engaged and providing services via an intermediary.

Following on from the consultation exercise on the availability of travel and subsistence (T&S) relief under overarching contracts of employment the Government has now confirmed its intention to restrict T&S relief for workers engaged through an employment intermediary where supervision, direction and control (SDC) is exercised over the workers by the end user. This measure will therefore be focused not only on instances where over-

arching contracts of employment are used, but also other working arrangements involving the use of employment intermediaries, such as Personal Service Companies (PSCs) and Umbrella Companies.

The measures are due to take effect from April 2016, following a consultation to be held this summer, which is intended to confirm the underlying details and scope of the T&S restrictions. It is hoped that the consultation exercise will ensure that the term 'intermediaries' is suitably defined, so that arrangements such as those involving seconded employees do not fall foul of the new restrictions.

The Government's intention is to level the playing field between employment businesses that lower their costs by using these arrangements and those that do not; however the extent to which this measure will adversely affect those individuals who have been able to claim T&S relief in this manner up until now remains to be seen. Equally, questions remain over the way in which these new measures will interact with the wider ongoing consultation on T&S expenses, as well as the recently introduced legislation covering offshore and onshore employment intermediaries.

The Government has also highlighted concerns raised by stakeholders that individuals do not understand how their take-home pay is affected by existing T&S payment arrangements. The Government wants employment intermediaries to provide workers with greater transparency on how they are employed, and what they are paid, and the Department of Business Innovation and Skills will consult on these proposals on transparency later this year.

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Help to Buy ISA

Individuals

Assistance has been announced for first time buyers.

The Help to Buy ISA is designed to assist individuals who are saving to buy their first home.

It will be available, through banks and building societies to individuals (minimum age of 16) who are first time home buyers. Each person can have one Help to Buy ISA (rather than one per house purchased) so those buying together can each have a separate Help to Buy ISA with its own limits and qualification for the Government bonus.

Whilst an initial maximum deposit of £1,000 can be saved when the Help to Buy ISA is first opened, the maximum monthly saving permitted will be £200, with the Government contributing 25% of the amount saved. The maximum Government contribution will be £3,000 (in relation to £12,000 of savings), with such contribution being calculated and paid when the Help to Buy ISA account holder buys their first home (subject to a minimum Government contribution of £400).

It appears that the Help to Buy ISA will count as the single cash ISA to which an individual can contribute in a tax year under the normal ISA rules. Each ISA provider can apply their own withdrawal rules and decide upon interest rates offered.

The Help to Buy ISA can be used by the first time buyer to purchase, for their personal residence, a first home worth up to £450,000 in London or £250,000 elsewhere in the UK.

The Help to Buy ISAs can be opened within a four year period after the scheme formally opens (expected to be Autumn 2015). Once an account is opened there is no time limit as to how long the ISA can be used for saving (nor any time limit on when the Government bonus can be claimed on purchase of the first home).

The operational details will be finalised following discussions with industry.

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Individuals

Flexibility in relation to ISAs

The rules regarding ISA withdrawals have been relaxed, together with a broadening of permitted investments for ISAs and Child Trust Funds.

The Government has announced its intention to relax certain, of the currently strict, rules in relation to withdrawals of funds from ISAs.

Currently, once funds have been withdrawn from an ISA, they still count as having been used as part of an individual's ISA subscription limit. Therefore it has not been possible to make withdrawals from an ISA and later pay these back into the ISA in the same tax year unless under the ISA subscription limit for the year.

The Government announced in the Budget that regulations will be introduced in Autumn 2015, following consultation on technical detail, to enable ISA savers to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for the year in which they pay the funds back in.

In addition, the Government announced further relaxations of the permitted investments for ISAs and Child Trust Funds. Regulations will be introduced, with effect from 1 July 2015, to extend the list of qualifying investments to include listed bonds issued by Co-operative Societies and Community Benefit Societies, and SME securities that are admitted to trading on a recognised stock exchange.

The Government has announced that it will explore further extending the list of qualifying ISA investments to include not only Peer-to-Peer lending (a response on the previous consultation is due Summer 2015) and debt (as announced at Autumn Statement 2014) but also equity securities offered via crowdfunding platforms. The consultation is expected to occur during Summer 2015.

The flexibility in relation to ISA withdrawals will be welcomed by many savers. It remains to be seen how many ISAs and Child Trust Funds will take advantage of this increased scope of investment.

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Creating a secondary annuity market

Individuals

The Government wants to extend the new pension freedoms to the 5 million people who have already bought an annuity.

As announced previously, the Government has launched a consultation on allowing those who have already bought an annuity to benefit from the new pension freedoms. From April 2016, the Government intends to allow annuity holders to sell the income they receive from their annuity in order to access the funds more flexibly.

The annuity holder would be able to access its value if they can find a willing third-party buyer. The Government is inviting views on who should be able to purchase annuities and is keen that a range of entities – though not individuals – should be able to do so.

The annuity provider would continue to make annuity payments for the lifetime of the annuity holder, but would reassign those payments to the purchaser. The pensioner would be able to access the capital as a lump sum or place it into drawdown to use the proceeds more gradually, in both cases paying income tax at their highest marginal rate – instead of at least 55% which would apply under current tax rules.

The intention is that this will apply to anyone with an annuity purchased in their own name. Annuities purchased by an occupational pension scheme in the name of the trustees – and therefore still effectively an asset of the scheme – would not be included.

Making a decision whether to sell, and at what price, will be very difficult for consumers. Not only is it a complex financial transaction, but the decision will also impact an individual's tax position and potentially the system for benefits and long-term care. The Government is considering:

- requiring individuals to take independent financial advice (this could be in all cases or above a given threshold only)
- providing free and impartial tailored guidance by extending the scope of Pension Wise (the new at-retirement guidance to help members of defined contribution schemes understand the new pension freedoms)
- requiring annuity providers to give warnings of the risks and factors consumers should be considering when making this decision

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Pensions Lifetime Allowance

Individuals

The Lifetime Allowance is to be further reduced, to £1 million.

The Chancellor has announced that the pensions Lifetime Allowance, which restricts the value of tax-favoured pensions savings an individual can make in his or her lifetime, will reduce from £1.25 million to £1 million from April 2016.

As was the case when the Allowance was last reduced (from £1.5 million to £1.25 million from April 2014), two forms of transitional protection will be put in place to protect existing rights:

- Individual protection – giving individuals their own personal Lifetime Allowance (above the prevailing standard Allowance); these individuals can continue to accrue benefits but any benefit in excess of the personal Lifetime Allowance will incur a Lifetime Allowance tax charge
- Fixed protection – allowing individuals to retain a £1.25 million Allowance; but this is immediately lost if there is a new benefit accrual

There is some small consolation for this reduction in the Allowance, with the announcement that it will start to be indexed in line with the Consumer Price Index (CPI) – but only from 2018 onwards.

The Annual Allowance, restricting the tax-favoured savings an individual can make each year, is to remain unchanged at £40,000.

The repeated lowering of the Lifetime Allowance creates an atmosphere of uncertainty around the stability of the pensions tax regime and will tend to disincentivise individuals to save for their retirement through a pension – particularly at a time when the Chancellor is announcing measures to encourage other forms of saving.

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Entrepreneurs' Relief – restrictions

Individuals

Entrepreneurs' Relief will be restricted for joint ventures and associated disposals on or after 18 March 2015.

The Government has tightened up the rules around Entrepreneurs' Relief with immediate effect, with two headline changes affecting joint ventures and associated disposals.

Previously, individuals who held 5% of a company, which had at least a 10% interest in an underlying trading company, were able to claim Entrepreneurs' Relief on the disposal of their shares, providing the joint venture rules were met. This was the case even if their indirect holding in the trading company was below 5%. Finance Bill 2015 will include legislation taking effect from 18 March 2015:

- making it necessary to hold a 5% direct interest in a trading company in order to access Entrepreneurs' Relief
- excluding activities carried out by joint ventures from the trading test for Entrepreneurs' Relief

In addition, where a company is a member of a trading partnership, in determining whether the company is a trading company for the purposes of Entrepreneurs' Relief the trading activities of the partnership will not be taken into account.

The second reform affects associated disposals – the ability to claim Entrepreneurs' Relief on the sale of personal assets used in the business when also disposing of an interest in that business. Prior to 18 March 2015, this relief could be accessed by selling a negligible interest in the business at the same time as disposing of the personal assets, provided the vendor met the conditions for Entrepreneurs' Relief prior to sale. For disposals on or after 18 March 2015, the relief is only available when also disposing of a minimum 5% of the shares of the company carrying on the business, or (where the business is carried on in partnership) of a minimum 5% share in the assets of the partnership carrying on the business.

Both of these changes preserve the Government's intention that Entrepreneurs' Relief is only available to those disposing of a significant portion of a trading business.

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Individuals

Businesses

CGT for non-residents – reporting requirements

HMRC have published more detail on the system for reporting disposals and paying any tax due.

From 6 April 2015 CGT will be charged on future gains made by all non-UK residents on the disposal of UK residential property. Draft legislation was published shortly after the 2014 Autumn Statement as reported in our [commentary](#) on the draft Finance Bill.

HMRC have published a set of [frequently asked questions](#) (FAQs) as part of the Budget 2015 publications, part of which provide more detail on the system for reporting disposals and paying any tax due.

It has been confirmed that non-UK resident persons (which includes trustees, personal representatives and companies, as well as individuals) affected by the new charge will need to make a return, known as a Non Resident Capital Gains Tax (NRCGT) return, to HMRC within 30 days of conveyance of the property. Unless the person is already within the UK Self Assessment system the NRCGT return will also need to include an assessment of the tax due and the tax will need to be paid within the same 30 day period. Filing and payment will be made electronically. Amendments can be made to a NRCGT return within one year of 31 January following the end of the tax year in which the property disposal occurs.

Persons within Self Assessment will also need to report the gain in their tax return for the year of disposal. They can choose whether to pay the tax due as part of that tax return, or earlier through the NRCGT return.

Annual Tax on Enveloped Dwellings (ATED) related CGT (at 28%) continues to be calculated in the normal way. Rules will ensure that the amount of gain subject to ATED-related CGT is not also subject to the new non-resident CGT charge.

A return is required even where no tax liability arises, including where a claim for PPR or exemptions available to certain companies apply. All relevant claims must be made in the tax return.

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CGT for non-residents – Principal Private Residence relief

Individuals

From 6 April 2015 non-UK resident individuals will be taxable on the disposal of residential property.

UK and non-UK resident taxpayers with a residential property in a territory other than that in which they are tax resident will, from 6 April 2015, need to meet a new day count or occupancy test in order for the residential property to be eligible for Principal Private Residence relief (PPR) from CGT. This new requirement is being introduced as HMRC were concerned that, without it, the new CGT charge on non-residents owning UK residential property (see above) could be undermined. The day count test was first announced in the Government's [Response to the Consultation on Implementing a CGT charge on non-residents](#) and the detail published in the draft Finance Bill, as to which please see our Finance Bill commentary [here](#).

Today the Government has published a number of [FAQs](#) on this Non Resident Capital Gains Tax (NRCGT) and UK residential property. These [FAQs](#) confirm a number of points including:

- Only the gain from 6 April 2015 is chargeable
- If the property is a PPR until 5 April 2015 and sold within 18 months of this date, the gain will be exempt irrespective of whether the new occupancy tests are met
- If you rebase the value of the property at 5 April 2015 you are not required to get a valuation at that date but it is sensible to record in April 2015 the condition of the property
- To meet the occupancy test you are required to stay overnight for at least 90 days during the tax year. Just being in the property at midnight is not sufficient
- PPR under the new tests must be claimed in the tax return in respect of the disposal
- Where the owner of the property is non UK resident and the property is in the UK, if their spouse/civil partner is UK resident the new occupancy test does not apply for any year the spouse is UK resident
- Letting relief can continue to apply

There are still outstanding questions which we hope will be resolved with the publication of the Finance Bill on 24 March. It is not clear how the abolition of tax returns towards the end of the next Parliament will impact these proposals.

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Restriction on CGT exemption for certain wasting assets

Individuals

Businesses

The CGT exemption for certain wasting assets is only available where qualifying assets have been used in the seller's own business.

Currently certain wasting assets (normally those with a predictable life not exceeding 50 years) are exempt from CGT. This exemption also covers gains which arise from the disposal of assets used as plant or machinery where capital allowances cannot be claimed.

In a recent Court of Appeal case, it was concluded the gain on the disposal of a valuable painting that had appreciated in value was exempt from CGT. This was because the asset had been lent by the owner, before it was sold, to another party (a country house) to use as plant in its business. In this case the trade was opening the country house and its grounds to the public, and the trade included exhibiting works of art to the public.

For gains accruing on and after 1 April 2015 for Corporation Tax purposes and 6 April 2015 for CGT purposes, the CGT exemption for certain wasting assets will only be available where qualifying assets have been used in the seller's own business. It is not wholly clear how these new rules will apply where part of the gain in question accrued prior to April 2015.

The Government has confirmed that this measure will not impact on a business, such as an open house business, that owns and disposes of qualifying wasting assets that have been used by the business but have not qualified for capital allowances.

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Venture Capital Schemes

Individuals

Changes announced at Autumn Statement to SITR have been confirmed, along with a number of new conditions for venture capital schemes generally.

In the Autumn Statement the Government announced proposals to increase the amounts that can be invested in organisations under Social Investment Tax Relief (SITR), and extend its scope. These changes were confirmed, along with a number of new conditions for the venture capital schemes generally – Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), Venture Capital Trusts (VCT), and SITR – in the Budget statement.

The Chancellor has announced that the following conditions will take effect once EU approval has been granted:

- A requirement that all investments are made with the intention to grow and develop a business
- A requirement that all investors are 'independent' from the company at the time of the first share issue

- Introduction of new qualifying criteria to limit relief to companies where the first commercial sale took place within the previous 12 years – disallowed if total investment represents more than 50% of turnover averaged over the preceding 5 years
- Restriction of total investment a company may receive under EIS and VCT to £15 million, increased to £20 million if the company is ‘knowledge intensive’
- An increase in the employee limit for ‘knowledge intensive’ companies to 499
- Effective from 6 April 2015, removal of the current requirement that 70% of SEIS money must be spent before EIS or VCT funding can be raised

At this stage, the Government have not provided any further detail on the definitions of ‘independent’ or ‘knowledge intensive’.

Measures were announced in the Autumn Statement which extended the scope of SITR to include companies involved in community energy generation, whilst simultaneously excluding these investments (along with other companies benefiting from subsidies for the generation of renewable energy) from the EIS, SEIS, and VCT schemes. In addition, pending EU approval, the Government will raise the annual limit for SITR investments to £5 million, and the overall limit to £15 million, per organisation. These measures will be introduced in Finance Bill 2015.

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Trivial benefits in kind – statutory exemption

Employers

Amended legislation will introduce an annual cap of £300 for certain office holders and employees who are family members of those office holders.

Finance Bill 2015 introduces a statutory exemption for trivial benefits, which will take effect from 6 April 2015. Where the qualifying criteria are met, the statutory exemption removes the need for employers to report such benefits on employees’ forms P11D or alternatively on a PAYE Settlement Agreement after the end of the tax year.

The draft legislation currently sets out four conditions which need to be met in order for the exemption to apply: the benefit cannot be in the form of cash or a cash voucher; it cannot exceed £50 in value; it must not be part of a salary sacrifice arrangement; and it cannot be in recognition of particular services performed by an employee.

Following further consultation, an annual cap of £300 has now been introduced for office holders of close companies and employees who are family members of those office holders. We anticipate that updated legislation will be published in the Finance Bill on Tuesday 24 March, incorporating this additional rule for close company directors and employees.

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Individuals

Employers

Taxation of company cars and vans

Previously announced measures are confirmed, along with a 3% increase (from 2019/20) in the CCT percentage for cars with emissions of more than 75g/km.

Company Car Tax (CCT)

2016/17 – 2018/19: As previously announced, the appropriate percentage of the list price subject to tax for ultra-low emission vehicles (cars with emissions of less than 75g/km) will be as follows:

CO2 emission	2016/17	2017/18	2018/19
0-50g/km	7%	9%	13%
51-75g/km	11%	13%	16%

Cars with emissions in excess of 75g/km (grams of carbon dioxide per kilometre) will see successive 2% rises in the list price percentage in each of 2017/18 and 2018/19, with a maximum cap of 37% remaining in place.

2019/20: For cars with emissions of more than 75g/km, the appropriate percentage of the list price subject to tax will increase by 3% to a capped maximum of 37%, which remains unchanged from previous announcements.

For ultra-low emission vehicles the percentage point differential between the bands (between 0-50g/km and 51-75g/km, and between 51-75g/km and 76-94g/km) will remain at 3%. Therefore, these bands will also increase by a further 3% from 6 April 2019 to 16% for 0-50g/km, and 19% for 51-75g/km.

Incentives for ultra-low emission vehicles from 2020/21 will be subject to review in Budget 2016.

Van Benefit Charge (VBC)

Regulations will be introduced so that the 2016/17 VBC will increase by reference to the Retail Prices Index (RPI) figure, as at September 2015. As previously announced, the charge for the 2015/16 tax year will be £3,150 (2014/15: £3,090)

For zero emission vans, as previously announced in Budget 2014, it was confirmed that a reduced charge will be extended on a tapered basis until 5 April 2020. Such vans will be subject to 20% of the standard charge in 2015/16, followed by rates of 40%, 60%, 80% and 90% in subsequent tax years, before aligning with the standard rate in 2020/21.

Fuel Benefit Charge (FBC)

From 6 April 2016, the FBC multiplier will continue to increase by reference to RPI for both company cars and vans. As previously announced, the FBC multiplier for cars during the 2015/16 tax year will be £22,100 (2014/15: £21,700), whilst the charge for vans will be £594 (2014/15: £581).

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Diverted Profits Tax

Businesses

There were some general indications of changes to the draft legislation but we need to wait for the Finance Bill for the detail.

This is a completely new business tax due to come into force from 1 April 2015, taxing both UK and non-UK companies. The tax was announced and draft legislation provided pre-Christmas 2014. Diverted Profits Tax (DPT) is aimed at counteracting aggressive tax planning involving the diversion of profits from the UK in advance of the outcome of the OECD Base Erosion and Profit Shifting (BEPS) initiatives.

We understand from discussions with HMRC this tax is intended to have a narrow application. However, the wording used in the current draft of the legislation is extremely broad, which has meant that many multinational groups are finding it difficult to establish whether it applies to them. There are also extremely broad obligations to notify HMRC that a group meets certain conditions in the legislation, which impose significant compliance obligations on groups, regardless of whether or not they are engaged in aggressive tax planning.

In the Budget, there were some general indications of changes to the draft legislation. However, the final legislation will not be published until 24 March 2015, giving multinational groups very little time to assimilate its effect before the liability starts to accrue on 1 April 2015. This is a significant issue for those groups which are affected, since the new tax is charged at 25%, compared with the Corporation Tax rate from 1 April 2015 of 20%. We are also hoping to see an update of the draft guidance which was issued at the time of the Autumn Statement.

All that was published in the Budget was a list of where the changes will be:

- To the operation of the conditions under which a charge can arise – We expect the conditions for application to be put into a more logical order, with some tightening of wording used to provide greater clarity of the targets of the legislation
- To narrow the notification requirements – We expect HMRC not to require notification if the issues have been explicitly considered or are under consideration, albeit that HMRC have indicated that an existing advance pricing agreement (APA) arrangement does not provide protection from a potential DPT charge
- Giving credit for tax paid – For example, taking into account tax paid by controlled foreign companies (CFCs), albeit not by the overseas company itself
- Specific exclusions – We expect extension of the excluded loan relationships exemption
- Application to companies in the oil and gas sector – We identified specific problems for this sector in the application of DPT and we anticipate that HMRC are responding to these representations

The Diverted Profits Tax team within HMRC have been engaged in a heavy workload of meetings with groups of taxpayers and advisors to discuss the practical implications. While the proposals to narrow the application of DPT are welcome, there remains a high level concern that HMRC's efforts amount to 'legislation by guidance', which is not appropriate in a country aiming to attract inward investment by a clear tax regime and is particularly difficult in the context of a 'self-notification' regime.

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Prevention of loss refreshing

Businesses

The measure, taking immediate effect, aims to prevent loss refreshing, i.e. turning brought forward tax losses into current year deductions.

Companies with brought forward tax losses, e.g. trading losses, non-trading loan relationship deficits and management expenses ('relevant carried-forward reliefs') may be affected by this measure. The provisions will apply if all of the following conditions are met:

- The arrangements create new profits to accelerate the use of brought forward losses
- The arrangements create new in-year losses or deductions that will reduce the taxable profits of the group
- A main purpose of the arrangements is to achieve that outcome
- The anticipated tax advantage is more than the anticipated value of any other economic benefits to the arrangements, i.e. the provisions will not apply if the arrangements are predominantly commercial

If the provisions apply then the company will not be able to use its relevant carried-forward reliefs against profits arising from the arrangements, but otherwise the losses remain available for carry forward. The provisions do not impact on the new deductions arising from the arrangements. A similar provision which applies for bank losses will take priority over this new rule.

The provisions apply to arrangements entered into at any time but only to profits that arise from the arrangements on or after 18 March 2015. Straddling periods must be split, with profits apportioned on a time basis unless this would be unjust or unreasonable.

Companies utilising brought forward tax losses on or after 18 March 2015 will need to review whether profits arise from arrangements which meet the conditions of the new anti-avoidance provision and the impact on deferred tax assets. The provisions require an assessment to be made of the non-tax economic benefits. An example is given where a company with losses brought forward is funded with equity and on-lends to another group company to make a commercial acquisition. Although interest income on the loan is offset by the brought forward losses, the main economic driver of the arrangement, and its largest anticipated benefit, is the opportunity to generate additional profits. As a result the anti-avoidance provision will not apply. A further example is where a profitable trade is transferred to a company with brought forward trading losses. Here the rule does not apply as the arrangement has not generated a new deduction.

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Measures affecting banks

Businesses

A Bank levy increase, no deduction for compensation payments and removal of the requirement to deduct tax on interest payments.

Corporation Tax relief for compensation payments by banks is to be blocked

Large remediation programmes to compensate customers have become a regular feature of the banking industry in recent years. Where payments are made by a bank to return income on which it would previously have been taxable, the bank will typically have sought to claim tax relief in respect of the payment. The Government has announced an intention to consult on proposals to block this relief, increasing the cost to the banks of making compensation payments and effectively further penalising the high-profile misconduct issues which blighted the large banks. The consultation is expected to start before the end of the month and whilst no date for the proposed changes to come into effect has yet been given, the fact that the policy costings show revenue of £150 million being raised in 2015/16 suggests that any significant delay is unlikely.

Bank levy rate to rise – again

The rate of the Bank levy is set to increase again, to 0.21%, with effect from 1 April 2015. The half-rate applicable to long term equity and liabilities will similarly rise to 0.105%. The rate has risen regularly since the levy's introduction in 2011 and is now over four times higher than originally. The Government had previously stated its intention of obtaining an annual yield of £2.5 billion from the levy, with previous increases in the rate being primarily intended to maintain this yield in the face of shrinking bank balance sheets. The latest rise goes further, however, producing a forecast annual yield of £3.7 billion from 2017/18. Although this will inevitably raise questions about the consequential effect on the banks' ability to support the real economy through increased lending, the Government is likely to take comfort from the Office for Budget Responsibility's view that any impact on the supply of credit is unlikely to be significant.

Removal of requirement to deduct tax on interest payments

At present banks will typically deduct basic rate income tax from interest credited to customers' accounts under the Tax Deduction Scheme for Interest (TDSI) rules. The Government intends to remove the requirement to deduct tax at source in this way from 6 April 2016 following the introduction of the personal savings exemption as a result of which most individuals will pay no tax on their savings income. For those banks currently responsible for deducting the tax and paying it across to HMRC this change potentially represents an important administrative simplification.

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Oil and Gas measures

Businesses

A reduction in the headline rate of tax and new incentives for investment were encouraging measures announced for the Oil and Gas industry

Reduction in the headline rate of tax

The Budget announced that the Supplementary Charge to Corporation Tax (SCT) will be reduced from 30% to 20%. This will take effect from 1 January 2015, and builds on the 2% reduction to the Supplementary Charge announced at the Autumn Statement.

The Budget also announced that the rate of Petroleum Revenue Tax (PRT) will be reduced from 50% to 35%. This will be effective for chargeable periods from 1 January 2016.

The announcements will reduce the headline rate of tax payable to 50% (from 60%) for non-PRT paying fields and to 67.5% for PRT paying fields (from 80%).

Basin-wide Investment Allowance

The Investment Allowance which has been subject to consultation over the last few months will be introduced from 1 April 2015. This allowance will replace the current series of field allowances and will be based on levels of investment expenditure.

The allowance will be available for all fields and will exempt an amount of taxable profits, equal to 62.5% of a company's qualifying investment expenditure, from SCT. Details on the nature of the expenditure that will qualify for the allowance is expected to be published on 20 March 2015.

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Capital Allowances

Businesses

There were minor tweaks to the existing capital allowances legislation and a commitment to review the planned reduction in the AIA.

This year's Budget continues the Chancellor's recent tradition of providing stability and certainty to businesses in making capital investment decisions, with only minor tweaks to the existing capital allowances legislation and a commitment to review the planned reduction in the Annual Investment Allowance (AIA). Specific measures announced include the following:

- A pledge to confirm the revised AIA threshold that will apply from 1 January 2016 at the next Autumn Statement; the Chancellor feels this should be at a more 'generous' level than the planned reduction to £25,000. The regime currently provides businesses with 100% relief for investment in their first £500,000 of expenditure on plant or machinery

- A change in the designation of two assisted areas within the Leeds enterprise zone so that businesses can access the 100% first-year allowance for investment in plant or machinery
- An update to the Enhanced Capital Allowances (ECA) list of qualifying energy and water technologies in the summer of 2015
- An extension of the ECA qualifying period for low-emission cars, zero-emission vans and gas refuelling equipment for vehicles from March 2015 to March 2018, as first announced in the 2014 Budget (as commented on in [Weekly Tax Matters of 12 December 2014](#))
- A new 100% tax relief for business contributions to partnership funding schemes for flood or coastal defence projects, as first announced at the 2014 Autumn Statement (as commented on in [Weekly Tax Matters of 12 December 2014](#))
- Specific changes to the anti-avoidance rules to prevent entitlement where a taxpayer sells or transfers an asset to a third party and leases it back under a long funding lease or hire purchase agreement, but it did not incur capital or revenue expenditure in acquiring the asset in the first instance. The draft legislation was originally released on 26 February 2015 (as commented on in [Weekly Tax Matters of 27 February 2015](#)) and will form part of the 2015 Finance Bill

These measures are for the large part aimed at very specific types of transaction or investment, but for the estimated 99.8% of businesses who currently pay no tax on their capital investment as a result of the AIA, the Chancellor's announcement to reconsider the proposed reduction from 2016 will be warmly welcomed.

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Changes to R&D Tax Relief

Businesses

Following consultation, there will be changes to the draft legislation restricting the amount of relief on consumable items.

At the Autumn Statement, the Government announced changes to Research & Development (R&D) Tax Relief to disallow the costs of consumable items (e.g. materials) incorporated in the products of R&D that are eventually sold. Following consultation, there will now be changes to the draft legislation to ensure that consumable items included in the products of R&D that are transferred as waste or at no consideration will continue to qualify for relief.

This is good news as it means the legislation will be more targeted and that businesses which are not able to recover the costs of their R&D activities from the sale of the product of those activities will still be able to claim relief. More details will be known once the Finance Bill is published on 24 March 2015.

The Government also confirmed the increase in the rates of relief available announced at the Autumn Statement. From 1 April 2015 the relief available to Small and Medium Sized Enterprises (SMEs) will increase from 225% to 230% of qualifying expenditure. At the same time the rate of the R&D Expenditure Credit (RDEC) for large companies will increase from 10% to 11%.

For SMEs, the increased rate coupled with the payable credit of 14.5% will mean that companies can receive over £33 of cash from HMRC for every £100 of qualifying spend. The increased rate of the RDEC will increase the benefit for large companies from 8% to 8.8%.

This extra support is great news for the UK's innovative businesses. The increase in the rate of the RDEC will provide further encouragement for companies to consider locating R&D activities in the UK.

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Businesses

Changes to Creative Sector Reliefs

The Government has announced a number of changes to improve the reliefs available to the creative industries.

From 1 April 2015 the rate of Film Tax Relief for qualifying expenditure above £20 million will increase from 20% to 25%. This will bring the rate in line with that given for qualifying expenditure up to £20 million, so that all qualifying expenditure will qualify for a credit of 25%. The change is subject to State Aid approval.

The minimum UK expenditure requirement for High End TV and Animation Reliefs will be reduced from 25% to 10% and changes made to the cultural test, both with effect from 1 April 2015. These changes are again subject to State Aid approval.

Following consultation on the new Children's TV relief, the Government has announced that relief will be extended to apply to game shows and competitions. This will be a welcome boost to the children's TV industry as many programmes take this format.

The changes to the Creative Sector reliefs are great news for the UK's creative businesses, particularly those in the TV and Film industries. A wider variety of programmes will qualify for support and there will be more flexibility with regards to where expenditure can be incurred. The increase in the rate of the Film Tax Relief for expenditure over £20 million will provide further encouragement for large budget, international films to be produced in the UK.

The Government also confirmed the introduction of the Orchestra Tax Relief in April 2016 although no announcement was made on the outcome of the recent consultation. It is good news that the Government is committed to supporting UK orchestras, but we will need to wait and see whether the draft legislation published later this year delivers a relief that can support the full range of performances given by UK orchestras.

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VAT: Deductions relating to foreign branches

Businesses

UK implements Credit Lyonnais CJEU Judgment in a change that may impact financial and insurance institutions with branches outside the UK.

In a change that is stated to bring UK law in line with the 2013 *Credit Lyonnais* (C-388/11) Court of Justice of the European Union (CJEU) Judgment, VAT recovery by reference to foreign branches will no longer be eligible to be taken into account when calculating UK overhead VAT recovery. This change will affect businesses on both standard and special partial exemption methods.

The changes apply from 1 August 2015; however, where 31 July 2015 falls within the annual adjustment period, the new rules will only apply from the start of the next partial exemption year. The impact of the change will depend on whether the UK financial businesses were including the turnover of EU branches or non-EU branches in their UK recovery calculations. The current UK rules can be seen as creating a risk that a multi-locational business could artificially increase its UK overhead VAT recovery by over-allocating UK overhead VAT to its non-EU branches. There appears to be a read-across to the recent CJEU Judgment in *Skandia* (C-7/13), where transactions with overseas branches in certain EU Member States, which are VAT grouped locally, may now give rise to the right to recover UK VAT incurred.

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Individuals

Tax Avoidance

Businesses

The Chancellor announced that the Government will introduce further measures against tax avoidance in a future Finance Bill.

The Government began a consultation in January on tougher measures for 'serial avoiders' – those who use tax avoidance schemes that habitually fail year after year. The Chancellor has now announced that these measures will be pursued. The measures will not only introduce additional administrative and financial measures for 'serial avoiders' – the intention is also to publish the names of the taxpayers concerned.

Whether the plans to tackle serial avoidance can be made to work properly in practice remains to be seen. The consultation document published in January was thin on detail and it is not clear how the long delays between an avoidance transaction taking place, and the outcome of litigation that finally determines whether it fails, will be handled.

Another part of the January consultation involved introducing penalties for taxpayers whose planning is defeated as a result of the General Anti-Abuse Rule (GAAR) which came into force in 2013. Again, the Chancellor has confirmed these measures will go ahead. This should help HMRC to respond more effectively to the most egregious of tax planning arrangements.

The timing of both of these measures is as yet unclear.

Last year new rules came into force which required taxpayers involved with certain planning arrangements to make accelerated payments of the tax in dispute. Essentially, this was designed to change the economics of tax avoidance and meant that the tax would sit with the Treasury whilst the dispute was resolved. At that time the Government announced that 43,000 Accelerated Payment Notices would be issued over the period till March 2016, collecting some £7.1 billion in tax. The Chancellor today announced that following a review, a further 21,000 notices will be issued raising an additional amount in excess of £550 million.

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Disclosure facilities and automatic exchange of information

Individuals

Existing Disclosure Facilities will expire early, to be replaced by a new regime for a limited period before Automatic Exchange of Information kicks in.

Under the Inter-Governmental Agreements, starting in 2016 for the Crown Dependencies and Overseas Territories, HMRC will receive a wide range of information on offshore accounts held by UK tax residents, including names, addresses, account numbers, interest and account balances.

In addition, agreement has also been reached among 92 countries (including EU) to exchange information on bank accounts automatically every year via the Common Reporting Standard (CRS) and EU Directive of Administrative Cooperation II.

Before information exchange comes into force, there will be a realignment of HMRC disclosure facilities:

- The Liechtenstein Disclosure Facility (LDF) and Crown Dependencies Disclosure Facilities will close earlier than planned at the end of 2015 rather than 5 April 2016 and 30 September 2016 respectively
- A tougher 'last chance' disclosure facility will be offered between 2016 and mid-2017, with penalties of at least 30% on top of tax owed and interest and with no immunity from criminal prosecutions

The Government will legislate powers under which financial intermediaries can be required to notify their UK resident customers with UK or overseas accounts, to inform them about the CRS, the penalties for evasion and the opportunities to disclose.

The Government will invest £4 million in data analytics resource to maximise the yield from the CRS data.

Further details on a new criminal charge for those committing tax evasion and a new civil penalty for those who facilitate another person's evasion are expected to be announced on 20 March.

A limited window now remains to use the LDF before it expires at the end of the year. This includes a guaranteed immunity from prosecution. The stakes continue to get higher, and the financial implications more costly, for those with undisclosed assets who do not take action.

We expect that when all facilities expire HMRC will intensify the number of investigations and those who have not disclosed will be penalised heavily. We would envisage this could include a significant rise in the number of criminal prosecutions for failure to disclose income arising offshore.

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UK to implement automatic exchange of information regulations

Businesses

HM Treasury is introducing regulations to comply with EU and global obligations on automatic exchange of information.

HM Treasury has announced new regulations to comply with the UK's obligations under the EU Revised Directive on Administrative Cooperation (Council Directive 2014/107/EU) to improve international tax compliance (DAC), as well as the UK's obligations under the Competent Authority Agreements with non-EU jurisdictions for the Common Reporting Standard (CRS). These regulations will also revoke and replace the existing regulations for the UK's exchange of information agreement with the United States contained in The International Tax Compliance (United States of America) Regulations 2014 (Statutory Instrument 2014/1506), commonly known as the Foreign Account Tax Compliance Act (FATCA).

These combined regulations will consolidate the requirements across current and proposed automatic exchange of information regimes and we understand, will also correct some minor errors in the current FATCA regulations. These combined regulations will require Financial Institutions to:

1. Perform certain due diligence requirements to identify accounts maintained by certain Specified Persons in a jurisdiction with which the UK has entered into an agreement to exchange financial information
2. Collect and report the prescribed information on these Specified Persons to HM Revenue and Customs (HMRC)

Over 90 countries have committed to exchange information under the CRS with first reporting due in 2017 or 2018. The UK (and other EU Member States) will be required to implement the DAC, the EU equivalent of CRS, via domestic legislation by 31 December 2015. The UK regulations in relation to the DAC and CRS will become effective from 1 January 2016 and for the FATCA agreement, they will be effective 21 days from the date these regulations are laid.

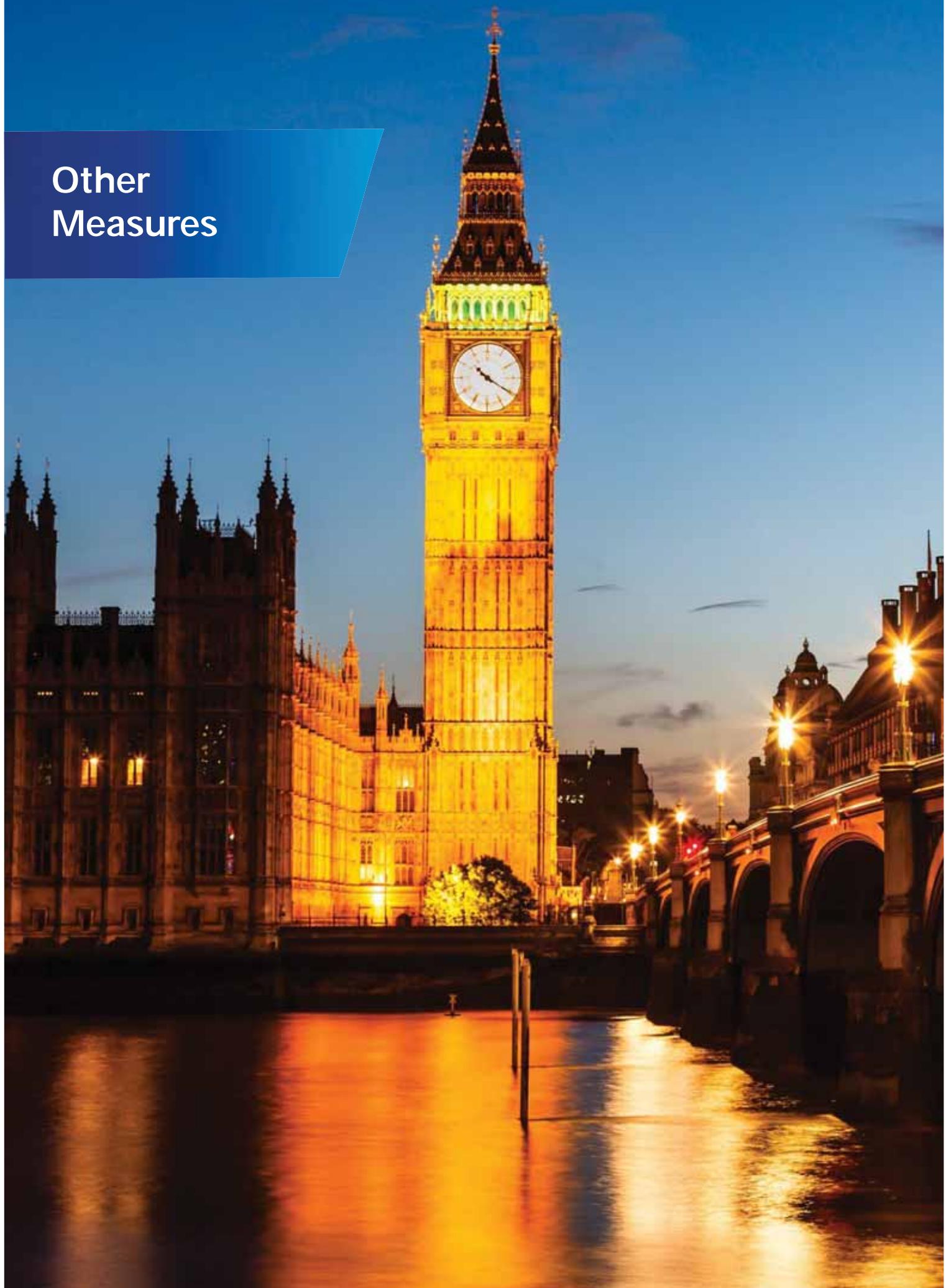
We believe these regulations will provide a level of useful consistency to UK based Financial Institutions across the different automatic exchange of information regimes. The regulations will define and provide consistency to certain definitions across the regimes as well as establishing the due diligence and reporting requirements. In addition, anti-avoidance provisions will be introduced and a penalty regime will be implemented for non-compliance.

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Other Measures



Other measures

Corporate debt and derivative contracts:

No further detail was provided in the Budget on the proposed changes to the corporate debt and derivative contracts regimes. It was confirmed that legislation on changes to the 'late interest' rules will be included in the Finance Bill to be published on 24 March 2014. HMRC have indicated that, subject to the agreement of any new Government, the remaining legislation will be included in a later Finance Bill although the current intention is still to introduce the new corporate rescue provisions with effect from 1 January 2015, but the new targeted anti-avoidance rules for loan relationships and derivative contracts may be deferred from the expected 1 April 2015 start date.

The following other measures, due to be introduced on or before 6 April 2015, were also announced or confirmed in the Budget. References are to the Overview of Tax Legislation and Rates (OOTLAR) unless otherwise stated.

Corporate

Name of measure	Reference
Investment managers – disguised fee income	1.4
Exemption from withholding tax for private placements	1.6
Flood defence relief	1.9
Landlord's energy saving allowance (LESA)	1.10
Status for tax purposes of certain bodies	1.43

Personal tax

Name of measure	Reference
Inheritance tax exemption for emergency service personnel	1.42
Strengthen self-employed test for Working Tax Credit – work being carried out should be on a commercial basis with a view to realising a profit	1.45

Indirect tax

Name of measure	Reference
VAT refunds for charities providing palliative care	1.23
VAT – threshold revalorisation	1.24
VAT refunds to medical courier charities	1.26
Alcohol duty rates	1.27
Alcohol wholesalers	1.28
Tobacco duty rates	1.29
Gaming duty	1.30
Climate change levy (CCL) main rates	1.31
Landfill tax rates	1.32
Value of landfill communities fund	1.33

Name of measure	Reference
Landfill tax loss on ignition testing	1.34
Vehicle Excise Duty (VED) rates for cars, vans, motorcycles and motorcycle trade licences	1.35
Heavy Goods Vehicle (HGV) VED and Road User Levy	1.36
Vehicle Excise Duty (VED) 40 year rolling classic vehicle exemption	1.37

Measures unchanged following consultation

The following measures were published as part of the draft Finance Bill clauses in December 2014 and remain unchanged following consultation.

Tax Policy and general

Name of measure
Country by country reporting
Disclosure of Tax Avoidance Schemes regime changes
Employment intermediaries – penalties
Enhanced civil penalties for offshore tax evasion
Promoters of tax avoidance schemes

Corporate

Name of measure
Bank loss-relief restriction
Tax treatment of credit loss allowances
Special purpose share schemes (commonly known as 'B share schemes')
Consortium relief – 'link company' rules
Accelerated payments and group relief
Restricting relief for internally-generated goodwill transfers between related parties
Oil and Gas – high pressure high temperature cluster area allowance
Oil and Gas – extension of accounting periods for Ring Fence Expenditure Supplement
Stamp duty land tax – alternative property finance reliefs
Stamp duty land tax treatment – Multiple Dwelling Relief of shared ownership properties

Personal tax

Name of measure
Annual tax on enveloped dwellings (ATED) – increase in charges
ATED – reducing the administrative burden
Capital Gains Tax entrepreneurs' relief: deferral
Inheritance tax – exemption for medals and other awards
Blind persons allowance, married couples allowance and income limit for 2015-16

Name of measure

Income tax miscellaneous loss relief
Employee benefits and expenses – Real time collection of tax through voluntary payrolling
Employee benefits and expenses – Abolition of the £8,500 threshold for benefits in kind
Bereavement support payment – exemption from income tax
Lump sums provided under Armed Forces Early Departure Scheme
Taxation of resident non-domiciles – remittance basis charge
Tax exemption for travel expenses of members of local authorities
Gift aid digital – role of intermediaries
Extending death relaxation to annuities

*Indirect tax***Name of measure**

Air Passenger Duty Child Exemption
Tobacco anti-forestalling restrictions
Aggregates levy – credits in Northern Ireland (NI)
Refunds of VAT – refunds for search and rescue charities and air ambulance charities
VAT – refunds to Highways Agency
Fuel duty incentives for aqua methanol
Carbon price floor – exclusion for combined heat and power

*Measures coming into effect in later periods**Tax Policy and general*

Measure	Reference
HMRC Tax Enquiries – closure rules	2.31
Direct recovery of debts	2.34

Corporate

Measure	Reference
Enhanced capital allowances – energy saving and water efficient technologies	2.14
Application of Stamp Duty Land Tax on certain authorised property funds	2.23
R&D tax credits – improving access for smaller companies	2.128 (Red Book)

Employment issues

Measure	Reference
Abolition of Class 2 National Insurance contributions (NICs)	2.36

Personal tax

Measure	Reference
Sporting testimonials	2.6

Measure	Reference
Bad debt relief on peer-to-peer lending	2.7
Gift Aid Small Donations Scheme	2.9
Social Venture Capital Trusts	2.12
Farmers averaging	2.13
Inheritance tax (IHT) online	2.24
Inheritance tax and trusts	2.25
Venture capital schemes: new industry forum	2.76 (Red Book)
Changes to the taxation of inherited annuities (where the policy holder died under 75)	2.82 (Red Book)
Capital Gains Tax entrepreneurs' relief: academics	2.97 (Red Book)
Simplified expenses: legislative amendments	2.191 (Red Book)
The Government will amend the simplified expenses regime introduced in Finance Act 2013 to ensure that partnerships can fully access the provisions in respect of the use of a home and where business premises are also a home.	
OTS review of partnerships: publication of final report	2.194 (Red Book)
The Government will consider or take forward over 70% of its recommendations and has already completed work on many of these.	
IHT – review of use of deeds of variation	2.91 (Red Book)

Indirect tax

Measure	Reference
Fuel Duty – cancellation of scheduled rise	2.158 (Red Book)
Tobacco duty – tackling the illicit trade	2.17
Tobacco levy	2.18
Air passenger duty rates for 2016-17	2.19
Carbon price support rates	2.20
Landfill Communities Fund – proposals for reform	2.21

Measures unchanged from Autumn Statement which will be legislated in a future Finance Bill.

Measure
Income tax – deductions at a fixed rate
VAT – refunds to certain bodies
Inheritance tax – new digital service online



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