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United Kingdom – Chancellor Presents 2015 Budget with No Surprises

by Colin Ben-Nathan, Steve Wade, and Rachel Beecroft, KPMG LLP, London (KPMG LLP in the United Kingdom is a KPMG International member firm)

For coverage of last year's U.K. Budget, see *Flash International Executive Alert* 2014-032 (21 March 2014.

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On 18 March 2015, the Chancellor of the Exchequer delivered the U.K.'s 2015 Budget Statement.[1] The Statement contained measures concerning the taxation of personal income and savings, National Insurance Contribution thresholds, the capital gains tax exemption amount, and tax simplification tied to tax forms and filing, amongst other measures and plans. Some of the changes had been previously announced -- details of announcements made in the Autumn Statement 2014 and the measures in the draft Finance Bill 2015 were published last year.[2]

The Finance Bill 2015 is due to be published on 24 March 2015, and an update from KPMG LLP (U.K.) will follow at that time.

Why This Matters

There are several measures affecting employees – including those on international assignment – and their employers that impact employment costs, risk, compliance, and individual tax liabilities.

The tax changes may affect cost projections for future assignees and budgeting for international assignments to the U.K. or from the U.K. where the assignee will be subject to U.K. taxation. Furthermore, any resultant tax differentials may impact tax equalizations. Finally, where appropriate, adjustments by payroll administrators to withholdings should also be made.

Below we highlight the employment tax-related measures in the Statement concerning employees – including those on international assignment – and their employers.

Please note, there is a general election due to be held in the U.K. on 7 May 2015, and measures announced as being effective in future tax years will be dependent on the policy of the new government taking office after that date.

Tax Rates/Thresholds

Personal Income Tax

It had already been announced in the 2014 Autumn Statement, that the higher rate (40 percent) tax threshold would start at £31,786, and that the additional rate threshold would remain at £150,000. The personal allowance (U.K. exempt amount) has been increased to £10,600 (£600 more than the personal allowance in 2014/15). The personal allowance will continue to be tapered for individuals earning over £100,000 (being reduced to nil for earnings over £121,200 for 2015/16).

The personal allowance will rise again to £10,800 in April 2016 and to £11,000 in April 2017. The upper threshold for the basic rate tax band will also increase (to £31,900 in April 2016 and to £32,300 in April 2017), meaning that higher rate taxpayers also benefit from the increase to the personal allowance. The married couples allowance will increase to £1,100 from April 2016.

Income Tax on Savings Income

It was announced in the 2014 Budget Statement that from 6 April 2015, the 10-percent starting rate of tax for savings income will be abolished and replaced with a 0-percent tax rate on savings of up to £5,000.

Therefore, for individuals with combined earnings and savings of up to £15,600 in the year to 5 April 2016, no tax will be paid on the savings income and the individual can register to receive his/her savings income tax free (the £15,600 is made up of the personal allowance of £10,600 and the nil rate savings band of £5,000).

KPMG Note

Individuals earning over £15,600 will pay tax on their savings at their marginal rate of tax, subject to the special rates applicable to dividend income. Individuals who do not earn over £15,600, but earn more than the personal allowance and receive savings income in addition to their earnings (which takes them over the £15,600 limit) may be able to reclaim some of the tax withheld on their savings income, even though they cannot register to receive their savings income tax free.

The Chancellor also announced that from April 2016 a Personal Savings Allowance will be introduced, which exempts basic rate taxpayers from income tax on the first £1,000 of savings income. Higher rate taxpayers will be exempt from income tax on the first £500 of savings income. There will be no exemption for additional rate taxpayers. In conjunction with this the automatic withholding at source of 20-percent tax on savings income will cease from that date.

National Insurance Contributions (NIC)

The NIC rates are unchanged for 2015/16, but the various thresholds at which NIC is paid are being increased by the consumer price index (CPI) percentage. Employee – or primary – contributions will be payable at a rate of 12 percent on earnings between £155 and £815 per week and at a rate of 2 percent on earnings above £815. Employer – or secondary – contributions will be payable at 13.8 percent on earnings above £156 per week.

Reforms to NIC for the self-employed – including the abolition of Class 2 contributions and the reform of Class 4 contributions – were announced, but no further details have been given. A consultation on the changes to Class 4 contributions is expected later in 2015.

Capital Gains Tax

The capital gains tax annual exempt amount for individuals, personal representatives, and trustees for disabled people will rise to £11,100 from 6 April 2015. The exempt amount for other trustees will rise to £5,550.

Sales of Residential Property by Non-U.K. Residents

Some frequently asked questions ("FAQs") were published on 18 March 2015[3] relating to the modified tax treatment of residential property sales by non-U.K. residents that will take effect from 6 April 2015. Further details together with amended legislation are expected with the publication of the Finance Bill 2015 next week.

KPMG Note

A particular concern relates to the position of those who are working full-time outside the U.K. and are thereby non-U.K. resident. In most instances, they would not have been concerned by the sale of their house in the U.K. and any capital gains tax arising, as no tax would arise since they were non-U.K. resident. It now seems that a sale could trigger a tax charge. KPMG LLP (U.K.) is seeking clarification from Her Majesty's Revenue & Customs (HMRC) on this point.

Tax Simplification

The Chancellor announced in the Statement that self-assessment tax returns will be abolished and will be replaced with digital tax accounts. It is expected that these accounts will be pre-populated with data collected by HMRC from employers, banks, and other third parties. The move to these digital accounts is expected to be completed by the end of the next Parliament.

Earlier reports have indicated that taxpayers filing electronically using HMRC's software would have P60 data included in the tax return later this year.

The government has said that it will publish a "road map" later this year providing more information on how these changes will be delivered. There will also be a consultation on the new payment process that will be required to support these changes.

KPMG Note

While this change may be welcomed by those who are not partial to completing and filing annual tax returns, it seems unlikely that the new HMRC system will contain details of overseas bank accounts (with the possible exception of the Channel Islands), overseas dividends, overseas gains, foreign tax credits, etc. It is also unlikely to be able to deal with tax equalization. So this is unlikely to mean the demise of U.K. tax return preparation in some form; however, it will mean at least a change in how data is received.

KPMG LLP (U.K.) is already discussing with HMRC how we can obtain client data that it holds electronically to use in tax returns. A current stumbling block is that HMRC does not currently have a single database that holds agent details. Until this is resolved, HMRC cannot be sure it is providing the data to the correct agent.

The other difficulty is that a new digital account is only as good as the data behind it. There are still problems with PAYE Real Time Information that need to be rectified and, until they are, the flaws in the data could flow directly through to the taxpayer. Care will need to be taken to establish that taxes appearing to be due, but not actually due, are not paid by vulnerable taxpayers.

Pensions

Annuities

The government will legislate from April 2016, to allow people who are already receiving income from an annuity to agree with their annuity provider to assign their annuity income to a third party in exchange for a lump sum or an alternative retirement product.

Lifetime Allowance for Pension Contributions

The government will reduce the lifetime allowance for pension contributions from £1.25 million to £1 million starting 6 April 2016. Transitional protection for pension rights already over £1 million will be introduced alongside this reduction so that the change is not retrospective.

The lifetime allowance will be indexed annually in line with CPI from 6 April 2018.

Umbrella Companies and Employment Intermediaries

Autumn Statement 2014 included announcements that the government would review the growing use of “overarching” contracts of employment that allow some temporary workers and their employers to benefit from tax relief for home-to-work travel expenses. This relief is not generally available to other workers.

The government’s view is that the current situation is unfair, and as a result of the review, the rules will be changed to restrict travel and subsistence relief for workers engaged through an employment intermediary (for example an umbrella company or a personal service company) where they are under the supervision, direction, and control of the end-user. These changes will take effect from April 2016 following a consultation on the detail of the changes.

KPMG Note

KPMG LLP (U.K.) understands that the government’s intention is to level the playing field between employment businesses that seek to lower their costs by using these arrangements and those that do not. However, the extent to which this measure will adversely affect those individuals, often lower paid workers, who have been able to claim travel and subsistence relief in this manner up until now, remains to be seen.

The government has said that stakeholders have also raised concerns that individuals do not understand how their take-home pay is affected by these arrangements. Accordingly, it wants employment intermediaries to provide workers with greater transparency on how they are employed, and what they are being paid. The Department of Business Innovation and Skills will consult on these proposals on transparency later this year.

Footnotes :

1 See :
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413949/47881_Budget_2015_Web_Accessible.pdf .

Also, see:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414106/OOTLAR_2015.pdf .

2 See *Flash International Executive Alert* 2014-114 (4 December 2014) and *Flash International Executive Alert* 2014-115 (11 December 2014).

3 See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413988/capital-gains-tax-non-uk-res.pdf .

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The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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