cutting through complexity

Summer Budget 2015

What it means for you

KPMG commentary

9 July 2015

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Our view

The Summer Budget of 8 July 2015 will be remembered as a reforming Budget, with major changes to welfare provisions, including limiting tax credits, and introducing the new National Living Wage. Looking through those headline measures there are a number of important tax measures which will impact individuals and businesses.

Companies will be able to look forward to further reductions in the corporation tax rate to 18% from 2020 and a permanent investment allowance of £200,000 which will give business the stability for investment in plant and machinery in the years ahead. This will enable businesses to plan ahead for investments, rather than rely upon annual changes in this allowance.

However, this good news will be offset by the adverse cash flow impact of bringing forward corporation tax payments by four months for accounting periods commencing after 1 April 2017. Whilst this will only apply to companies with chargeable profits of at least £20 million, (calculated on a group basis), this measure is expected to increase the Government's corporation tax receipts by over £4 billion in 2017/18 – a significant overall permanent cash flow advantage. The introduction of new measures specific to the bank sector has continued with a new supplemental charge of 8% on profits albeit this is somewhat offset by planned reductions in the bank levy.

There are some specific tax changes which ensure that profits charged under the controlled foreign companies' regime are not reduced by UK losses or expenses. In addition, the abolition of corporation tax deductions for amortisation of goodwill brought in last December for acquisitions of goodwill from individuals and partnerships related to the company in question has been extended to include all business acquisitions from 8 July 2015. This will facilitate a more level playing field between business acquisitions and those structured as purchases of shares.

Universities and charities will also no longer be able to claim the repayable research and development tax credit for expenditure incurred on or after 1 August 2015.

Large businesses will be charged a new apprenticeships levy which is aimed at spreading the cost of new apprentices around all large companies. The New National Living Wage will also have a large economic impact for certain businesses which rely upon low paid staff. Sectors such as care services will be particularly affected, with potential knock-on impacts for local government.

Whilst there are only minor current changes for VAT and, for many businesses, employment taxes, the increase in the employment allowance by £1,000 to £3,000 from April 2016 will reduce employers' National Insurance bill, except for those companies who only employ one director. Specific measures such as the changes to the domicile rules and separately announced changes to the treatment of Short Term Business Visitors to the UK will also affect certain businesses. On pensions, there has been confirmation of the Conservative pre-election commitment to reduce the lifetime limit to £1 million and tapering of the annual limit for earners above £150,000 towards £10,000. The Chancellor has also announced a fundamental review into the taxation of pensions, potentially moving towards a regime where pension contributions would be taxable, but pension receipts would be tax free. This would have a large impact on the savings industry as a whole and it will be interesting to see how the consultation develops.

Significant changes abound in the private client arena. The tax definitions of domicile will limit the number of years a UK resident can claim non-UK domicile status. This will bring in to tax worldwide income and gains for individuals who have been resident in the UK for 15 out of the past 20 years. There are other domicile changes. These will also apply for Inheritance Tax (IHT) purposes. Further changes will bring homes owned by non-domiciled residents through offshore structures into the IHT net.

There is also a levelling in the house purchase arena with the introduction of a restriction of mortgage interest relief to 20% for buy to let properties. This will significantly impact on those individuals who have invested in buy to let properties as an alternative to pension provision although the phasing in over four years commencing from 1 April 2017 may provide them time to plan for the increased income tax that may fall due.

Owner managed companies will need to consider the timing of the payment of dividends over the next few years, as a new system for the taxation of dividends will apply from 6 April 2016. Although a £5,000 tax free dividend allowance is being introduced, this will be offset by the abolition of the associated tax credit and the increase in rates of tax by 7.5% on dividends. The Government has estimated that over £2.5 billion of tax will arise on dividends paid prior to 6 April 2016 by individuals seeking to extract funds from companies before the higher rates of tax come in. The overall effect of these changes will be to narrow the tax gap between profits paid as bonuses and profits paid as dividends.

Overall this is a major tax raising Budget with significant reductions in the Government's welfare bill. By 2020, it is predicted that the net effect of all measures announced at the Summer Budget will be over an additional £18 billion income/savings for Government. Pensioners appear to be mainly unaffected by these changes.

Chris Morgan
Head of Tax Policy

T: +44 (0)20 7694 1714
E: christopher.morgan@kpmg.co.uk

Paul Harden
Director

T: +44 (0)20 7694 5419
E: paul.harden@kpmg.co.uk

Economic implications

Economic implications

Mr Osborne has not, up to now, been a very lucky Chancellor. He inherited a huge fiscal deficit and has presided over a recovery that, in the early years, repeatedly disappointed. Initial plans to eliminate the deficit over the life of the Parliament morphed, year by year, into plans to halve the deficit over the same period.

In March there were signs that his luck was changing. Tax revenues came in a bit higher than expected. Government debt peaked as a share of GDP. Real disposable income started to rise. Helpful developments just ahead of an election.

The Summer Budget shows further change in the same direction. According to the Office for Budget Responsibility (OBR), the fiscal watchdog, the underlying state of the public finances has improved. Output will be significantly higher this year – mainly thanks to faster growth in 2014. Wage growth has risen to 3% while price inflation is in negative territory. Real incomes, and consumption, are growing at their fastest rate since recession struck, generating more tax revenue across the board. Meanwhile lower inflation is holding down the costs of public procurement while, as so often happens in upswings, public sector wages are not rising as fast as in the private sector – a fiscally helpful development that the Chancellor will prolong by limiting public sector wage growth to 1% per annum.

The tax windfall presented the Chancellor with choices to eliminate the deficit faster, to cut back on public spending more slowly; or to cut tax rates. He has chosen to cut the deficit faster this year. He then eases up in the following years, before achieving his target surplus in 2019-20. This change of deficit-reduction profile, together with the expected sharp cuts in welfare spending and a net increase in taxation, allows him to free up a significant increase (averaging nearly £20 billion per annum) in the Departmental spending limits.

You would never have guessed this from his speech, but he has 'used his first Budget to loosen significantly the impending squeeze on public services spending that had been pencilled in by the Coalition in March.' That is official, from the opening sentence of the OBR report, published alongside the Budget.

Mr Osborne is a political craftsman. He found the room for his tax cuts by raising taxes on the insurance companies and the (still unpopular) banks, increasing the climate change levy (a green tax), and raising Vehicle Excise Duty (now re-branded as a new source of dedicated revenue to pay for better roads).

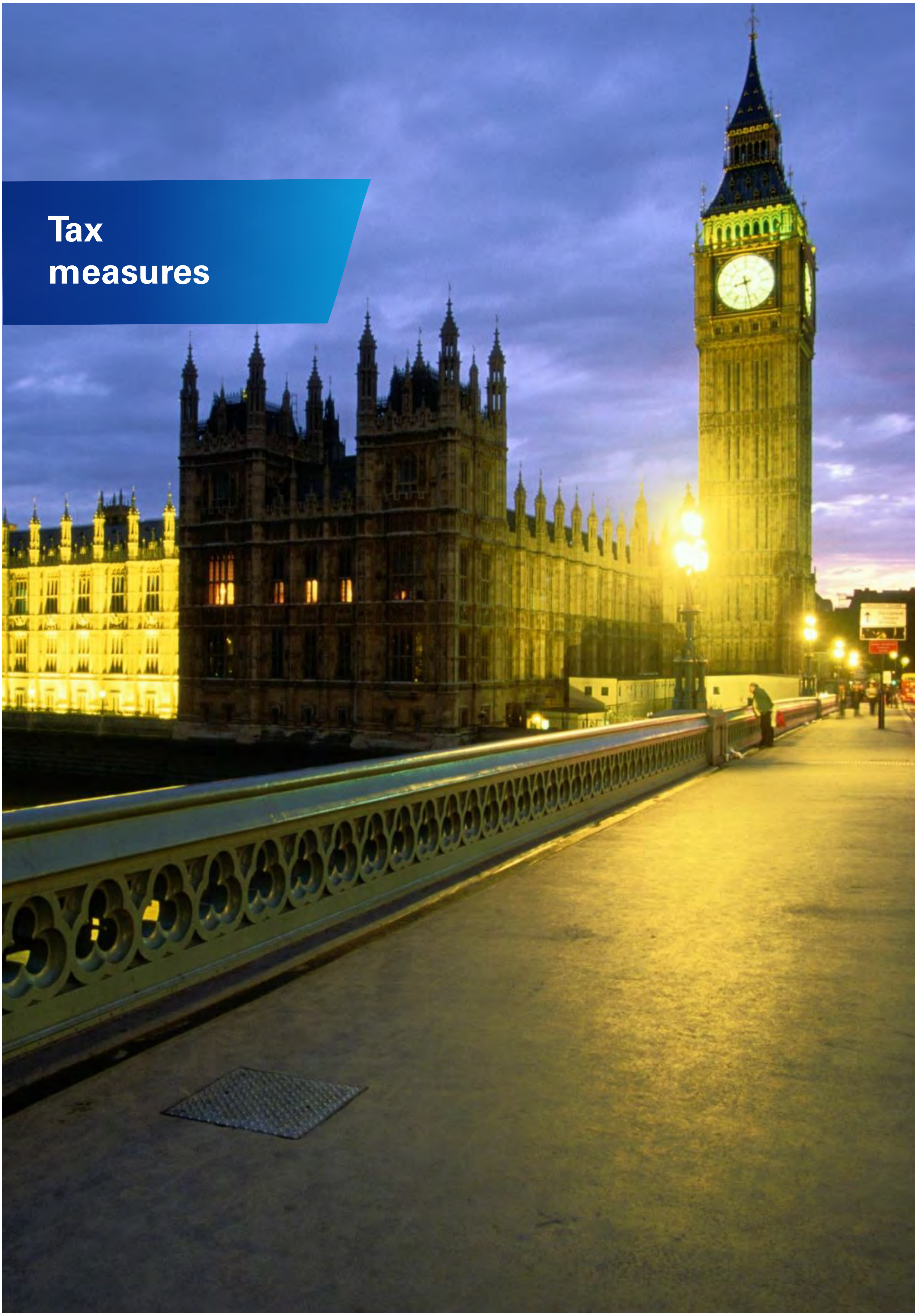
How would he spend it? His Budget objective – a low-tax, low welfare economy, high wage economy – was well trailed. We expected the increase in the personal allowance and in the 40% tax threshold. We wondered if he would cut inheritance tax, and he did, to the delight of the Tory faithful. And we knew he was going to cut welfare.

The rabbit from the hat was to raise the Minimum Wage to the Living Wage for which he had previously evinced little enthusiasm. The measure could, it is hoped, boost productivity (as some early adopters have found). However, it won't be popular with the catering trade or the (struggling) food retailers. But who cares about the economics. It was a political masterstroke and a ringing endorsement of KPMG's early and enthusiastic advocacy of the Living Wage.

Bill Robinson
Director, Economics

T: +44 (0)20 7311 3515
E: bill.robinson@kpmg.co.uk

Tax measures



Individuals

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Rates, allowances and thresholds

The triple lock may have restricted the Chancellor's room for manoeuvre, but that did not prevent him from making an unexpected cut in corporation tax rates, and increasing tax rates on dividends.

As expected, the Budget has confirmed that we will see legislation to prevent any increase in the headline rates of income tax, National Insurance Contributions (NICs) and VAT. Significantly, though, this has not prevented the Chancellor from announcing changes to the income tax treatment of dividends (see *Reform of taxation of dividends* below).

The other big change in rates was not (as had been anticipated) an increase in the capital gains tax rate, but an unexpected cut in the rate of corporation tax. The new unified rate will remain at 20% for Financial Years 2015 and 2016 but will reduce to 19% from FY2017 (beginning 1 April 2017) with a further reduction to 18% from FY2020.

Offsetting this unexpected generosity is an unexpected move to bring forward the payment dates for companies or groups with profits of £20 million or more. These companies, like other large companies, currently pay tax in quarterly instalments with the first instalment falling in the seventh month of the accounting period. For periods starting on or after 1 April 2017 the payments will be brought forward by four months so that they will fall in the third, sixth, ninth and twelfth months of the period. This one-off advance in payment dates is projected to realise an additional £7.6 billion in corporation tax over the two years from April 2017.

On the income tax side, as well as the changes to the taxation of dividends, there has been movement on thresholds and allowances. The Conservative Party manifesto promised that the income tax personal allowance would rise to £12,500, and the threshold at which 40% tax becomes payable would increase to £50,000, both by the end of the current Parliament. The Chancellor has now announced that, as a step towards meeting these targets, the personal allowance will increase to £11,000, and the higher rate threshold (together with the NICs Upper Earnings Limit) will increase to £43,000, from 6 April 2016.

With the other thresholds for NICs remaining unchanged, the gap between the point at which NICs and income tax become payable will widen further. However, the Government has promised that the Office of Tax Simplification will look at closer alignment of income tax and NICs: in the longer term we may, therefore, see the two moving closer together.

A summary of key rates and allowances for this year can be found in our Summer Budget Tax Card.

Stephen Whitehead

T: +44 (0)20 7311 2829
E: stephen.whitehead@kpmg.co.uk

Greg Limb

T: +44 (0) 20 7694 5401
E: greg.limb@kpmg.co.uk

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Future role of the Office of Tax Simplification (OTS)

The Budget has given us some indication of the future direction the work of the OTS will take, but not full details of its expanded remit.

Ahead of the Budget, the Government had promised to permanently establish the OTS, and to expand its remit. The full details are still unclear, but we do now know that the OTS will be established as a 'permanent office of HM Treasury', with legislation to be included in Finance Bill 2016. Ahead of this, a 'framework agreement' will be published before the Parliamentary summer recess.

Two key new areas of review have also been announced, which give an indication as to how the OTS will work going forward: the closer alignment of income tax and National Insurance, and the taxation of small companies. Both of these pick up themes from previous OTS reviews – what is new, though, is the focus. As a letter from David Gauke to Michael Jack and John Whiting (respectively Chairman and Tax Director of the OTS) states, these will be 'a new type of review for the OTS, focusing on the issues and impacts rather than on making specific recommendations'.

Gauke also states that his vision is for 'a stronger OTS to play a greater role in the public debate…and tackle the big complexities in the system'. It is welcome that this will include looking at areas, such as the alignment of tax and NICs, which have historically been seen as politically difficult. We hope, though, that in setting out the OTS's remit the Government remembers the OTS's own recent statement that 'change causes complexity'. Whilst it is reviewing areas of existing law, new law is being made without reference to simplification. We suggest that the OTS's revised remit should include reviewing all substantial pieces of draft legislation. This should not replace the public opportunity for scrutiny of draft legislation offered by the publication of draft Finance Bill clauses, but should run in parallel to provide an alternative perspective, to ensure that any proposed changes are evaluated against the long-term goal of simplification of the UK tax system.

We also believe that it is important that proper post-implementation reviews are carried out in those areas where substantial changes are made to the legislation, to ensure that policy objectives are met and problems identified (and rectified) swiftly: the OTS could play a valuable role here too.

Chris Morgan
T: +44 (0)20 7694 1714
E: christopher.morgan@kpmg.co.uk

Paul Harden
T: +44 (0)20 7694 5419
E: paul.harden@kpmg.co.uk

Alison Hobbs
T: +44 (0)20 7311 2819
E: alison.hobbs@kpmg.co.uk

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Tax investigations to intensify for individuals and companies

HMRC to receive an additional £800 million over the course of the Parliament to tackle non-compliance and tax evasion.

An additional £800 million of funding has been pledged to HMRC over the next five years to help them combat non-compliance and tax evasion. The additional funding will be used to:

- Allow HMRC to identify and tackle tax evasion and other non-compliance among wealthy individuals. This will include extending HMRC's Customer Relationship Model to individuals with net wealth between £10-20 million. The Government will also consult on enhancing the information reported to HMRC by wealthy individuals and trustees;

- Triple the number of criminal investigations that HMRC undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates;
- Tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals;
- Tackle serious non-compliance by trusts, pension schemes and non-domiciled individuals; and
- Extend efforts to tackle non-compliance by large businesses.

Additionally, the following measures were announced:

- A new power to acquire data from online business intermediaries and electronic payment providers to help HMRC identify businesses that are trading but not declaring or paying tax. HMRC will invest in new investigators from 2016 to exploit this data;
- The creation of a digital disclosure channel which makes it simple for taxpayers to disclose unpaid tax liabilities;
- Legislation to require financial intermediaries (including tax advisers) to notify their customers about the Common Reporting Standard, the penalties for evasion and the opportunities to disclose; and
- A 'special measures' regime to tackle businesses that persistently adopt highly aggressive behaviours including around tax planning, and a voluntary Code of Practice defining the standards HMRC expect large businesses to meet in their relationship with HMRC.

Derek Scott
T: +44 (0)20 7311 2618
E: derek.h.scott@kpmg.co.uk

Chris Davidson
T: +44 (0)20 7694 5752
E: chris.davidson@kpmg.co.uk

Jim Keys
T: +44 (0)20 7694 4106
E: jim.keys@kpmg.co.uk

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Reforming pensions tax relief – Green Paper

A Government Green Paper seeks views on whether and how to reform the basis of pensions tax relief.

A new Government Green Paper questions whether the current system of pensions tax relief appropriately incentivises people to take responsibility for their retirement saving.

The paper considers the background of demographic, market and Government policy changes, before going on to examine the current tax relief system, which is broadly:

- **Exempt** contributions;
- **Exempt** investment gains and income; and
- **Taxed** benefit payments (excepting the tax-free lump sum).

It questions whether this remains appropriate, but whilst setting out the criteria any reformed system should meet, it stops short of making any specific proposals.

The one alternative taxation basis specifically mentioned in the paper is to tax pension contributions up front, by shifting to a **Taxed-Exempt-Exempt** system like that applying to ISAs, with perhaps some element of top-up by the Government. However, that is not raised in a particularly leading way, so this appears to be a genuinely open-minded consultation.

The paper hints at the possibility of reforming the lifetime and annual allowances, noting that recent changes have had an impact on individuals' ability to plan their pension saving, and questions whether differential treatment should apply to defined benefit and defined contribution pensions.

Whilst the current pensions tax system could undoubtedly be improved, the Green Paper comes against an already hectic schedule of pensions change. Any attempt at radical simplification will be greatly hampered by the likelihood that all pension savings made prior to any future date of change would have to be ring-fenced in some way.

Andrew Scrimshaw

T: +44 (0)20 7311 3102
E: andrew.scrimshaw@kpmg.co.uk

Simon Mayho

T: +44 (0)20 7311 3177
E: simon.mayho@kpmg.co.uk

Pensions annual allowance restriction for higher earners

Employers | Individuals

From 6 April 2016, those with earnings above £150,000 will face a further restriction in the amount of tax-relieved pension savings they can make each year.

The annual allowance restricts the amount of tax-relieved pension saving an individual can make each year. For most individuals it is currently £40,000. It is possible to carry forward unused allowance from the previous three tax years to offset any excess in the current year.

From the 2016/17 tax year the annual allowance for those earning above £150,000 is to be reduced on a tapered basis so that it reduces to £10,000 for those earning above £210,000. For every £2 of income above £150,000, an individual's annual allowance will reduce by £1.

The restriction will apply to any individual with 'threshold income' – broadly the individual's net income for the tax year – of more than £110,000. If threshold income exceeds £110,000 the individual must calculate their 'adjusted income' which includes the value of employer pension contributions for the tax year. If adjusted income exceeds £150,000 the taper will apply.

The annual allowance is measured over pension input periods (PIPs) which do not always match the tax year. So in order to introduce this measure there are complex transitional arrangements for 2015/16 to align PIPs with the tax year from 6 April 2016.

This restriction and the transitional measures will bring headaches for employees, employers and pension schemes. A significant number of impacted individuals are unlikely to know what their annual allowance is until it is too late to do anything about it. Individuals may decide to restrict their pension savings to £10,000.

Simon Mayho

T: +44 (0)20 7311 3177
E: simon.mayho@kpmg.co.uk

Andrew Scrimshaw

T: +44 (0)20 7311 3102
E: andrew.scrimshaw@kpmg.co.uk

Inheritance tax nil rate band and residential property

Individuals

Introduction of an additional IHT band of £175,000 for individuals leaving their main home to their children or direct descendants.

An individual has a nil rate band (currently £325,000) that is set against the value of their estate on death, and against the value of gifts in the seven years prior to death. The current freeze on this nil rate band is to be extended to 2020/21.

For deaths on or after 6 April 2017, an additional nil rate band will be available in respect of a property that has been the individual's main residence at some stage and that is left to a direct descendant. This additional band will be the lower of the deceased's interest in the property and the following limits that will be phased in as follows:

2017/18	£100,000	2018/19	£125,000	
2019/20	£150,000	2020/21	£175,000	Indexed thereafter

The additional band can only be applied in respect of a single property that has been the main residence of the deceased at some stage and can only be used on death, not in respect of lifetime gifts. The band will also be available where an individual has downsized their property after 7 July 2015, so they do not lose the benefit of this enhanced band by moving.

Any unused proportion of the band can pass to a surviving spouse or civil partner in the same way as for the main nil rate band. This means that by 2020/21 a couple, or the survivor of a couple, will have a total nil rate band of £1 million where the property that has been a main residence is left to a direct descendant.

There is an important cap on the availability of the additional band. Where the value of the net estate of the deceased (not just the property concerned) exceeds £2 million, the additional band will be tapered away at a rate of £1 for every £2 that the value of the estate exceeds this limit.

The delay in bringing in the full value of the additional nil rate band and the cap on its availability for estates that exceed £2 million in net value are important limitations on the value of this new provision.

Daniel Crowther

T: +44 (0)20 7694 5971
E: daniel.crowther@kpmg.co.uk

Graham Charlton

T: +44 (0)117 905 4132
E: graham.charlton@kpmg.co.uk

New definition of domicile for tax purposes

Individuals

Changes to who will be treated as domiciled for UK tax purposes.

UK domiciled individuals are taxed on their worldwide sources of income and gains regardless of whether they are remitted to the UK. Foreign domiciled persons (non-doms) can elect to be taxed on their non-UK sources of income/capital gains only to the extent that they are remitted to the UK. There is a specific rule which applies for inheritance tax (IHT), where a non-dom is deemed UK domiciled when they have been UK resident for at least 17 of the last 20 tax years.

From April 2017, those who have been resident in the UK for more than 15 out of the past 20 tax years will be deemed UK domiciled for all UK tax purposes. This rule will apply irrespective of when an individual first became resident in the UK. As a result they will no longer be able to claim the remittance basis in respect of non-UK income and gains. The new test will replace the current IHT deemed domicile test.

The Government also believes that those who have a strong connection with the UK, having a UK domicile of origin at birth, but who have left the UK and acquired a domicile of choice elsewhere as a matter of law, should not be able to access the remittance basis regime if they return and become UK resident. Irrespective of their actual intentions, such an individual will be treated as UK domiciled for tax purposes on their return to the UK.

The technical note on these proposed changes indicates that affected individuals who did not have a domicile of origin in the UK at birth will not be subject to UK tax on income and capital gains arising to offshore trusts that were established before they become deemed domiciled in the UK unless they receive income, capital or benefits from these trusts. These reforms mean that the £90,000 remittance basis charge payable by those who have been resident for 17 out of 20 years will be redundant as such persons will be taxable on an arising basis after 15 years. The £30,000 and £60,000 remittance basis charges remain unchanged and despite previous announcements to the contrary, the Government will not be implementing a minimum claim period for the remittance basis.

The technical note mentions that the Government will consult on the effect of the changes in relation to certain old estate duty cases. It is not clear yet what this consultation will cover but this may imply some review of the treaties which can give UK IHT relief to people who are domiciled in India, Pakistan, France or Italy.

A consultation document will be published after the summer recess to seek views on the best way to deliver these reforms.

Mike Walker

T: +44 (0)20 7311 8620
E: mike.walker@kpmg.co.uk

Rob Luty

T: +44 (0)161 246 4608
E: rob.luty@kpmg.co.uk

Francesca Power

T: +44 (0)161 246 4683
E: francesca.power@kpmg.co.uk

Changes to IHT on UK residential property owned through offshore companies

Individuals

All UK residential property held through non-UK companies owned by non-UK domiciled individuals, or their trusts will be brought into IHT.

Where non-UK domiciled individuals (non-doms) currently own UK residential property through a non-UK company, the value of the property is outside the scope of inheritance tax (IHT). This treatment can also extend beyond the individual acquiring a UK domicile for IHT purposes if the company has first been settled on trust.

From April 2017, the Government intends to bring the value of all UK residential property held through offshore companies of non-doms or their trusts into the scope of IHT in the same way as if the property were owned personally. This will apply regardless of the value of the property and whether the property is occupied or let.

Shares in such companies would no longer be 'excluded property' for IHT purposes. As a result IHT charges could arise to the owner of the shares, whether an individual or a trust, in the same way as if UK assets were held. This could include:

- on the death of the individual (wherever resident) who owns the company shares;
- a gift of the company shares into trust; or
- for a trust, the ten year anniversary of the trust or the transfer of shares out of the trust.

Complications will arise where companies own assets other than the UK property in question. HMRC intend to address this and other complexities in the proposed new rules in a consultation document to be published after the summer recess.

The Government introduced the Annual Tax on Enveloped Property (ATED) regime in April 2012 in order to encourage the 'de-enveloping' of UK 'high-value' residential property. The proposed new rules will apply more widely as there is no de minimis value. The addition of these new changes might be more successful than ATED has been by itself in achieving the Government's policy objective of encouraging de-enveloping.

The consultation document will seek views on the best way to deliver these reforms, which will include consideration of the tax costs associated with 'de-enveloping' where individuals no longer wish to continue to hold properties through such companies.

Mike Walker
T: +44 (0)20 7311 8620
E: mike.walker@kpmg.co.uk

Rob Luty
T: +44 (0)161 246 4608
E: rob.luty@kpmg.co.uk

Francesca Power
T: +44 (0)161 246 4683
E: francesca.power@kpmg.co.uk

Changes for individuals letting residential property

Businesses | Individuals

Loan interest relief for individual residential landlords is to be restricted and 'wear and tear' allowance abolished.

Individual owners of residential property are currently normally able to deduct the full interest costs from borrowings in respect of their property business. This is similar to the treatment of interest paid by trading businesses but in contrast to interest paid for an individual's main residence where no deduction is allowed for interest paid.

A restriction on relief will be phased in from 6 April 2017. This will operate as follows:

- *2017/18* – 75% interest full deduction: 25% interest relieved at basic rate of income tax;
- *2018/19* – 50% interest full deduction: 50% interest relieved at basic rate of income tax;
- *2019/20* – 25% interest full deduction: 75% interest relieved at basic rate of income tax;
- *2020/21* – 100% interest relieved at basic rate of income tax.

The basic rate relief on interest will be given as a tax reduction in the individual's tax computation for the year, rather than as a deduction from the rental profit. The tax reduction will be 20% of the lower of the interest affected, the rental profits, and the individual's income (excluding savings and dividend income) for the year. Where the affected interest exceeds the rental profits in a year the excess will be carried forward for potential relief in subsequent tax years.

These changes will affect only those individuals who are liable to higher or top rates of income tax. The proposal indicates that it will apply only to individual property owners and it remains to be seen whether the rules will also apply to properties owned through trusts and other entities which pay income tax on rents. UK companies letting residential property, which are subject to corporation tax on their profits, would not seem to be affected. This creates a potential mismatch in the treatment of loan interest for different forms of property business.

Another key announcement made was the decision to remove the wear and tear allowance from 2016, which provides annual tax relief for residential landlords in respect of the replacement and maintenance of furnishings. Instead residential landlords will claim a deduction for the actual costs borne, instead of being linked to rent, which is the case under the wear and tear allowance. A technical consultation will be published before the summer with a view to introducing legislation in Finance Bill 2016.

Daniel Crowther
T: +44 (0)20 7694 5971
E: daniel.crowther@kpmg.co.uk

Harinder Soor
T: +44 (0)20 7311 2729
E: harinder.soor@kpmg.co.uk

Reform of taxation of dividends

Individuals

There will be a major reform to the taxation of UK dividends from April 2016.

Dividends paid by UK companies are currently paid with an associated 10% tax credit which satisfies any basic rate income tax liability on the dividend received. The effect of the tax credit is that higher rate taxpayers pay an effective tax rate of 25% on the dividend received and additional rate taxpayers 30.5%.

It is proposed that from April 2016 the tax credit will be abolished. A new system will be introduced under which:

- The first £5,000 of dividend income is exempt; and
- Dividend income in excess of the exempt amount will be taxed at rates of 7.5% where this falls within the basic rate income tax band; 32.5% in the higher rate band; and 38.1% in the additional rate band.

The Government believes that most people will pay the same or less income tax on the dividends that they receive, but that those with higher incomes and who receive substantial dividends will pay more income tax. The stated policy intention is to counteract tax planning that uses companies to take advantage of falling corporate tax rates and where profits are extracted as dividends instead of as salary.

Dividends will remain free of tax for ISAs and pension funds.

Little further information has been provided but we would envisage that most discretionary trusts in receipt of dividends will pay tax at the flat rate of 38.1%.

Further detail will be required to determine how the proposed new rules will impact UK residents in receipt of non-UK dividends who are currently entitled to a notional tax credit that is equivalent to the tax credit on UK dividends. It would seem likely that the notional credit will also be abolished.

Dermot Callinan
T: +44 (0)113 231 3358
E: dermot.callinan@kpmg.co.uk

Nick Pheasey
T: +44 (0)161 246 4658
E: nick.pheasey@kpmg.co.uk

Annual Investment Allowance

Businesses

A new permanent level of £200,000 from 1 January 2016 has been confirmed.

As predicted the Chancellor chose this Budget to provide greater clarity around the future of the Annual Investment Allowance (AIA), confirming a new permanent level of £200,000 from 1 January 2016 rather than the £25,000 that was originally scheduled.

This announcement will provide a fantastic boost to small and medium-sized businesses across the UK who require stability and certainty in order to make key investment decisions around plant and machinery. Furthermore, the measure is helpful in the Government's attempts to address the underlying challenges around UK business productivity relative to other advanced economies.

Harinder Soor

T: +44 (0)20 7311 2729
E: harinder.soor@kpmg.co.uk

Andrew Taylor

T: +44 (0)113 231 3216
E: andrew.taylor3@kpmg.co.uk

Taxation of performance rewards to investment managers

Individuals Businesses

With immediate effect the Government will 'make sure investment fund managers pay the full capital gains tax rate on their carried interest'.

In summary, the proposed changes to the taxation of carried interest put an end to what is commonly known as 'base cost shift', with the effect that more capital gains tax will be paid on carried interest. Whilst the notion of taxing carried interest at capital gains rates may not seem particularly controversial, the proposals overturn long-standing practice agreed and accepted by the Government and HMRC and are therefore unexpected.

The pre-existing way in which an executive pays tax on their carried interest is complex: a carried interest recipient would generally hold an interest in the underlying fund (structured as a partnership). They then pay tax on their allocated share of investment returns from the underlying fund partnership.

The notes published alongside the Budget refer to Statement of Practice D12, which is the HMRC guidance which states how capital gains should be treated within a partnership, and gives rise to 'base cost shift'. HMRC state that this can result in 'fund managers being charged to capital gains tax on amounts significantly lower than their actual economic returns' (this long-standing treatment was agreed by the then Inland Revenue and Department for Trade and Industry in 1987). They go on to say that new rules will provide that where an individual performs investment management services for a collective investment scheme, through an arrangement involving one or more partnerships, then any sums received in respect of carried interest will be subject to capital gains tax in full.

The limited information published gives rise to a number of questions – we expect the relevant legislation to be published on 15 July which should provide some clarity on the matter.

HMRC have also launched a consultation on the taxation of certain performance fees which the Government consider should be taxable as income. This is aimed at managers of hedge funds who, instead of receiving a performance fee charged to tax as income, have sought to restructure to receive performance-linked receipts taxable as capital gains. Two options are proposed for a statutory test to distinguish such arrangements from the carried interest arrangements, which would remain able to be taxable as capital gains, in private equity, real estate and similar funds.

Paul McCartney
T: +44 (0)20 7311 6495
E: paul.mccartney@kpmg.co.uk

Graham Taylor
T: +44 (0)20 7694 3310
E: graham.taylor@kpmg.co.uk

Bank Levy reductions and corporate tax surcharge for banks

Businesses

The Budget sets out major changes to the taxation of banking groups.

The Government has responded to concerns raised by the banking sector by announcing major changes to the operation of the Bank Levy. Legislation will be included in the Finance Bill to reduce the rate of the Levy from 0.21% to 0.18% from 1 January 2016 and then by a further 0.01% for each of the following four years. The half-rate applicable to chargeable equity and long-term liabilities will be proportionately reduced over the same period.

From 1 January 2021 it is proposed to further cut the full rate of the Levy to 0.10% and the half-rate to 0.05%, and at the same time to restrict the base of the tax to UK operations.

The reductions in the rate of the Bank Levy will be more than compensated for in Exchequer terms by the introduction of an 8% corporation tax surcharge on banking companies – an idea originally featuring in the Liberal Democrat manifesto.

The surcharge will apply to the total profits of 'banking companies' before taking account of any reliefs (such as losses) arising before 1 January 2016 or group relief from non-banking companies. In many cases this means that the increase in the rate of cash tax payable by affected companies may be rather more than 8%. Double taxation relief should continue to be available in the same way as for corporation tax. Importantly the first £25 million of group profits should be exempt from the surcharge, mitigating the impact on the smallest banks.

Overall the changes are expected to result in a moderate increase in the revenue raised from the banking sector: a net increase of £415 million in 2016-17 falling to £105 million in 2020-21 as the Bank Levy rate reductions are fully implemented. These forecasts will not, however, reflect the cost of changing the levy base to UK balance sheets. Large UK headquartered groups with substantial overseas operations are the potential winners here (but only from 2020-21) with smaller groups not previously subject to the Levy, but with profits above the £25 million surcharge threshold, effectively making up the shortfall.

Andrew Seagren
T: +44 (0)20 7311 6184
E: andrew.seagren@kpmg.co.uk

Paul Freeman
T: +44 (0)20 7694 4121
E: paul.freeman@kpmg.co.uk

Preventing UK losses from being set off against CFC charges

Businesses

It will no longer be possible to set off UK losses and other surplus expenses against a CFC charge on the profits of a CFC.

Until now, it has been possible for a UK resident company to offset UK losses (including group relief and certain brought forward losses) and other surplus expenses against a controlled foreign company (CFC) charge arising on the profits of a CFC. However, for CFC accounting periods which begin on or after 8 July 2015, UK losses and expenses will no longer be available to set off against a CFC charge arising in respect of these periods. For CFC accounting periods which begin before, but end after, 8 July 2015, there will be commencement provisions which apportion the CFC profits (and related CFC charges) on a just and reasonable basis. As a result, CFC profits (and related CFC charges) which arise before 8 July 2015 can still be offset by UK losses and expenses.

Restricting the use of UK losses against CFC charges appears to be aimed at a small number of large multinationals using UK losses to offset the CFC charge on profits arising from offshore financing arrangements. However, the measure has much broader application as it applies to any category of CFC profits.

It has also been announced that changes will be made to clarify that the anti-avoidance provisions introduced in Finance Act 2015, restricting the ability of companies to refresh carried forward losses to shelter current year profits, also apply to relevant arrangements involving the use of such losses against profits apportioned under the CFC rules.

Michael Bird

T: +44 (0)20 7694 1717
E: michael.bird@kpmg.co.uk

Kashif Javed

T: +44 (0)20 7311 1441
E: kashif.javed@kpmg.co.uk

Restriction of CT relief for goodwill amortisation

Businesses

A significant restriction to the relief available for goodwill and customer related intangibles acquired after 8 July 2015.

Where a UK company acquires goodwill or other customer related intangible assets, typically on the acquisition of a business, it has previously been entitled to a corporation tax deduction known as amortisation relief, either in line with the accounts or on a 4% straight-line basis if an election is made.

Amortisation relief will no longer be available for acquisitions of such assets on or after 8 July 2015.

No definition of ‘customer related intangible assets’ is given, but this would be expected to cover assets such as customer lists, and customer relationships and customer contracts to the extent that they would not already be regarded as part of the goodwill.

Where an asset which is within the intangibles regime in Part 8 CTA 2009 is transferred between two UK companies which are members of the same group, the transferee is treated as standing in the shoes of the transferor, so an intra-group transfer on or after 8 July 2015 would not be expected to bring this new rule into effect.

Currently, where a UK company acquires a business as an acquisition of the trade and assets, it can qualify for this relief, whereas if it acquires a business by buying shares, it cannot. The effect of the change therefore may be to make a purchaser less likely to seek a trade and asset deal for tax reasons.

There is a further change to restrict the utilisation of a loss on the disposal ('realisation') of goodwill and customer related intangibles where a business is sold by a trade and asset deal. A debit on disposal will be treated as a non-trading debit, which means in particular that it cannot be offset against a trading profit in a different year. Any profit on disposal will continue to be treated as a trading credit.

HMRC state in their Capital Gains Manual that an unregistered trade mark is an intrinsic part of the goodwill of a business. Thus the registration of a trade mark prior to a sale may improve the corporation tax relief available to the purchaser of such an asset.

Christine Hood

T: +44 (0)121 232 3381
E: christine.hood@kpmg.co.uk

Paul Harden

T: +44 (0)20 7694 5419
E: paul.harden@kpmg.co.uk

Insurance Premium Tax – Increase in standard rate

Individuals | Businesses

The Chancellor has announced an increase in the standard rate of Insurance Premium Tax.

The Chancellor has announced an increase in the standard rate of Insurance Premium Tax (IPT) from 6% to 9.5%. The higher rate is to remain at 20%.

The increase in the standard rate will take effect from 1 November 2015 for those insurers on the cash accounting scheme. For those using the special accounting scheme, there will be a four month concessionary period ending on 29 February 2016, during which premiums received that relate to policies entered into before 1 November 2015 will continue to be liable to VAT at the lower rate. From 1 March 2016, all premiums will be taxed at the new rate of 9.5%. Legislation will be introduced in the Summer Finance Bill 2015.

The standard rated rise is not unexpected. The old 6% rate was one of the lowest of all IPT rates across Europe. Further rate rises cannot be ruled out, given the 9.5% rate is marginally lower than the average European IPT rate. This rise will inevitably result in a premium increase for insured persons, with the consequence being that some may fail to take out or renew essential, and often compulsory, insurances.

It is estimated that the increase in the IPT rate will raise in excess of £1.5 billion a year.

Adrian Smith

T: +44 (0)20 7311 2427
E: adrian.smith@KPMG.co.uk

Neil Smith

T: +44 (0)20 7311 5417
E: neil.smith4@KPMG.co.uk

VAT on services used and enjoyed in the UK

Businesses

The Budget confirmed extension of use and enjoyment to repair services from next year, and will consider a wider review of 'offshore avoidance' in VAT exempt sectors the following year.

The Summer Budget Report makes reference to the widening of the UK's 'use and enjoyment' provisions. Use and enjoyment provisions allow Member States to tax supplies where they are consumed or used and enjoyed. However, this only applies where the place of supply is within the EU and their goods or services are used and enjoyed outside the EU or vice-versa. The UK currently applies use and enjoyment to telecommunications services, broadcasting services, electronically supplied services (for business customers), hired goods and hired means of transport.

For example, if under normal rules the place of supply is outside the EU, but the goods or services are used in the UK, the use and enjoyment provisions would subject the supply to UK VAT.

Few further details are given other than in the 'Summer Budget 2015: policies costings' document, which estimates revenue raised of £5 million per year from 2016/17.

There have been a number of recent cases which may have triggered this announcement. In 2013 the Supreme Court gave Judgment in WHA Ltd & Others. The taxpayer implemented a structure with the aim of enabling UK repair services to be bundled up into a supply of claims handling to an insurer established outside of the EU avoiding irrecoverable UK VAT. However, the Supreme Court found in favour of HMRC on the basis the repair services were supplied to the insured customers.

The Budget Report goes on to add that it will consider a wider review of off-shore based avoidance in VAT exempt sectors with a view to additional use and enjoyment measures such as advertising.

It will be interesting to see more details when they emerge. Historically, EU VAT law limited the use and enjoyment to certain supplies, but this was significantly widened with the 2010 VAT changes. Until now the UK has not sought to widen its application.

Richard Iferenta

T: +44 (0)20 7311 2837
E: richard.iferenta@KPMG.co.uk

Kevin Carletti

T: +44 (0)20 73112383
E: kevin.carletti@KPMG.co.uk

Travel and subsistence expenses when working through employment intermediaries

Individuals | Employers

The Government has launched a consultation on proposals to restrict tax relief on travel and subsistence expenses for individuals engaged via employment intermediaries

Currently, tax relief is not generally available for home-to-work travel and subsistence expenses of workers who are employed directly or through temporary work contracts.

The intention is to prevent temporary workers, who are engaged through employment intermediaries, and their employers, from benefiting from tax relief for such expenses.

The consultation will include a series of roundtables over the summer with stakeholders and will run until 30 September 2015, with HMRC's response and draft legislation expected at the Autumn Statement 2015.

The definition of the term 'employment intermediaries' for the purposes of the proposed measure remains wide, and as proposed will incorporate umbrella companies and personal service companies (PSCs).

Where a payment is made to a worker, engaged through an employment intermediary, for travel between their engager's workplace and the worker's home (or another place the worker visits for non-work reasons), and the worker is under the supervision, direction or control of any party, then these payments will be treated as earnings from employment and will be subjected to income tax and National Insurance Contributions (NICs).

The key points from the consultation process will be:

- To identify any professions which would be significantly impacted by the proposals;
- To ascertain whether the current broad definition of 'employment intermediary' would cause practical difficulties;
- To consider the inclusion of powers that will transfer any outstanding liability to the end user, where a worker is engaged through an intermediary and tax relief for travel and subsistence has been incorrectly given; and
- To explore the parameters of the supervision, direction and control test, and whether they would give rise to any particular difficulties.

The proposals run the risk of adversely affecting individuals who provide their services as contractors. Care needs to be taken to ensure that any restriction of relief is limited to the instances the Government wishes to address, and that 'collateral damage' is kept to a minimum.

These proposals are separate from a wider ongoing review of the travel and subsistence rules, where a further consultation is expected shortly.

Colin Ben-Nathan
T: +44 (0)20 7311 3363
E: colin.ben-nathan@kpmg.co.uk

Mike Lavan
T: +44 (0)20 7311 1437
E: mike.lavan@kpmg.co.uk

Desiree Miller
T: +44 (0)20 7311 3232
E: desiree.miler@kpmg.co.uk

Business Tax: An overview

Business Tax: An overview

Size is important

This time, the Chancellor's speech had so much 'give and take' in it that it was hard to see at a first glance whether, when you put it all together, UK corporates would be better or worse off.

So, was it a good budget for corporates?

The answer to this question lies in an analysis of the Government's costing data.

This reveals that the impact will largely depend on a company's size. Because whilst this was a tax raising budget overall, the largest chunk of corporate tax being raised (by a huge margin) comes from the plans to bring forward the tax payment dates for companies with profits exceeding £20 million. This measure (which is forecast to raise £4.5 billion in 2017/18 alone) is what pays for the giveaways to companies.

And so, whilst small and medium sized businesses, unaffected by this change in payment date, get to keep the upsides without suffering the downside, their larger counterparts are not so lucky.

Headlines

The headlines focus on the corporate tax rate reduction, and George Osborne's determination to offer the lowest rate in the G20. Currently the UK is a 'joint winner' with a rate of 20%. But the UK rate will be reduced to 18% in two stages: down to 19% in April 2017 and then 18% from April 2020. That affects all companies, regardless of their size.

Similarly, the measures intended to promote investment into business infrastructure and machinery are available to all: corporate groups in the UK can each get immediate relief on up to £200,000 of capital expenditure from the beginning of next year. However, the smaller you are, the larger this gift appears, and so in terms of proportionate benefit, the little guys win again.

So, what about the new payment regime which is funding all this? The existing quarterly instalment regime applies to companies or groups with profits greater than £1.5 million. The changes introduce a different quarterly payment structure for large companies or groups with profits greater than £20 million and mean that, from April 2017, those instalments will each be brought forward by four months so that all of a large company's tax will be payable before its year end (rather than four months later, as is currently the case). So, large companies are going to have to get better at forecasting their tax results if they want to avoid the interest effects of 'getting their tax wrong'. They are also going to have to swallow some pretty unwelcome adverse cashflow effects in the form of additional corporation tax payments in their first accounting period beginning on or after 1 April 2017.

The effects of the Budget will also be somewhat sector dependent, in that companies operating in sectors in which a large proportion of employees earn the minimum wage, such as the retail and care sectors, will feel the effects of the Chancellor's plans to introduce the National Living Wage more acutely.

R&D

One area in which there is a benefit to larger companies comes through the R&D tax credit regime. This is because the new expenditure credit available for innovative large companies, is subject to tax. With lower tax rates in the pipeline, they are now set to keep more of those valuable cash credits. SMEs claiming cash credits will be unaffected by the changes, although those SMEs which use R&D tax credits to create larger losses will lose out, because future profits will be subject to lower rates of tax in any case, making the losses less valuable now. Universities and charities will also not benefit as, from 1 August 2015, they will no longer be able to claim the R&D expenditure credit.

Corporate acquisitions

Another interesting change relates to corporate acquisitions. Until now, corporates have enjoyed tax relief on the 'goodwill' they buy when they acquire the trade and assets of another business. But that has changed for acquisitions on or after 8 July 2015, bringing trade and asset purchases onto a similar footing to share acquisitions (upon which relief is not generally available).

Consultations

Alongside these structural changes to the ebbs and flows of corporate tax, the Chancellor announced a whole host of consultations, the most interesting of which relate to yet more measures aimed at tackling aggressive tax avoidance.

Again, large businesses are the ones upon which attention is being focused. HMRC's Large Business Directorate (which deals with the 2,100 largest UK businesses) is being given additional resources to tackle perceived aggressive tax planning, avoidance and evasion. There will also be consultation on new measures to increase compliance and tax transparency in relation to large businesses. The ideas under consultation include the introduction of a 'special measures' regime to tackle businesses which adopt highly aggressive behaviours in relation to tax planning. And there will be a voluntary Code of Practice defining the standards which HMRC expects large business to meet in this area.

None of this will overly concern the large businesses which HMRC currently regard as 'low risk'.

Other areas of consultation relate to proposals for:

- a tax geared penalty regime to apply to tax planning covered by the General Anti Abuse Rule; and
- changes to be made to the taxation of corporate distributions.

An area that has already been subject to extensive consultation are the rules for loan relationships and derivative contracts where changes are generally coming into effect for accounting periods beginning on or after 1 January 2016. However, it has now been confirmed that certain provisions which originally had earlier commencement dates are being deferred and will now apply from Royal Assent.

Another previous area of consultation is a proposal to allow HMRC to refer specific issues on an enquiry to the First-tier Tribunal without having to issue a closure notice. The Government has now indicated that a response will be issued by HMRC during the summer. Many respondents are likely to have regarded this proposal as one-sided and to have suggested that the taxpayer should have an equivalent right to refer.

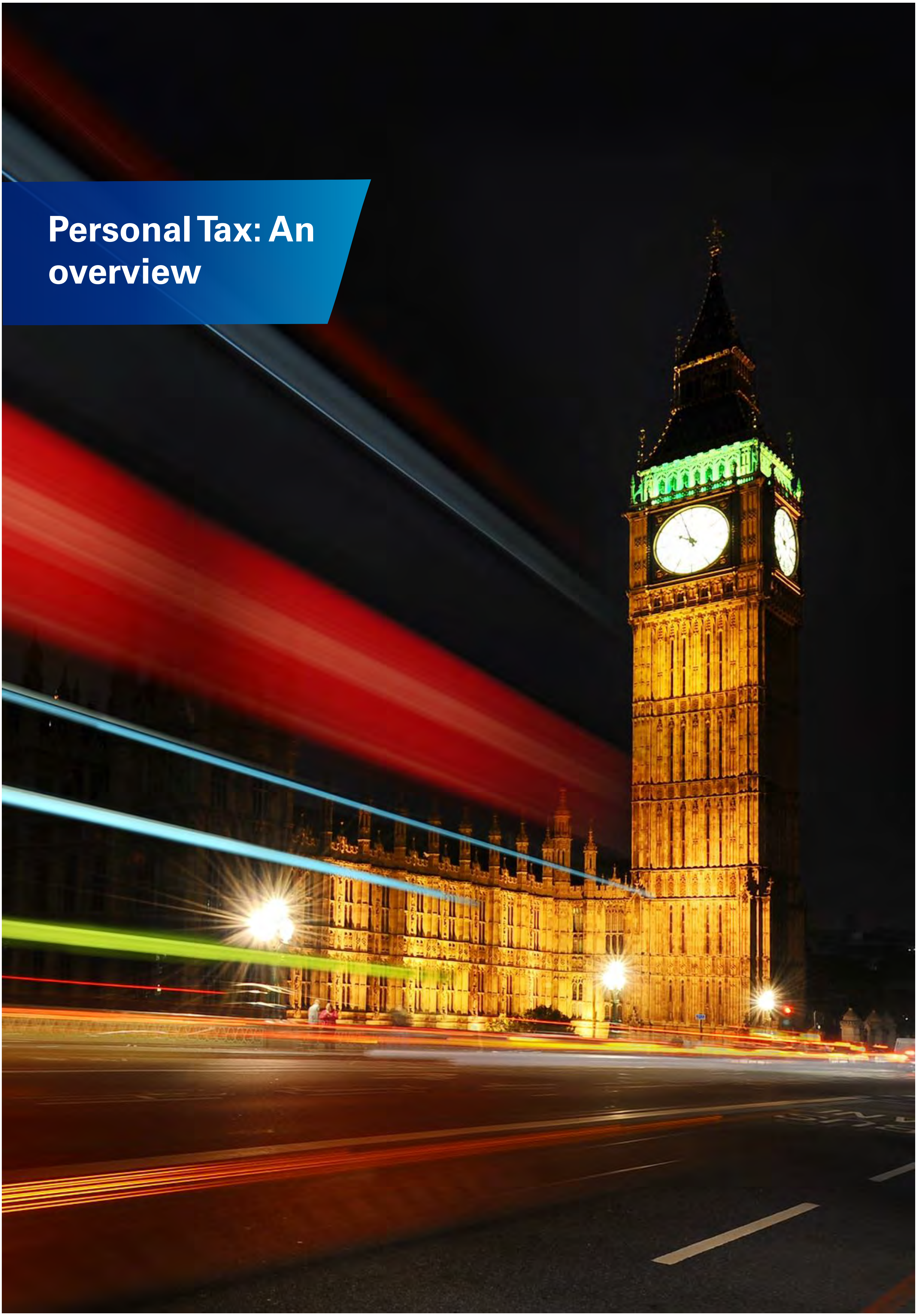
Business Tax Roadmap

If you want to know what else you can expect from George Osborne between now and 2020, then your luck is in. The Government has promised to produce a Business Tax Roadmap by April 2016, setting out its plans for business taxes over the rest of this parliament. Does that mean that future Budgets will bring fewer surprises? Well, probably not. And whilst UK businesses put 'certainty' at the top of their wish list, Budget Day just wouldn't be the same without a few unexpected revelations.

Samantha Day
Partner

T: +44 (0)20 7311 8072
E: samantha.day@kpmg.co.uk

Personal Tax: An overview



Personal Tax: An overview

In a summer Budget said to be aimed at rewarding working individuals the Chancellor has accelerated previously announced increases to the personal allowance and threshold at which 40% tax becomes payable to £11,000 and £43,000 respectively from April 2016. See *Rates, allowances and thresholds* above for more details.

Investment and savings

From April 2016 those earning above £150,000 will have the amount of tax relieved pension contributions they can make each tax year tapered away to a minimum of £10,000 – the Government will also consult on wider reform of pension tax relief where all pension contributions would be paid out of taxed income but the growth of the fund and the final pension would be exempt. See *Pensions annual allowance restriction for higher earners* and *Reforming pensions tax relief – Green Paper* above for more details.

There is to be a fundamental reform of the way in which dividends are taxed, with the aims of simplification, reducing incentives to incorporate particularly in view of the reducing rate of corporation tax, and increasing taxes for a wealthier minority of taxpayers. The dividend tax credit is to be abolished from April 2016, and replaced with a new dividend tax allowance of £5,000. Dividend income above the allowance will be taxed at considerably higher rates than previously. See *Reform of taxation of dividends* above for more details.

The Government confirmed their intention to permit Peer to Peer (P2P) loans to be held in a separate ISA (the Innovative Finance ISA) from 6 April 2016 and there is a new consultation on further extending the list of ISA qualifying investments to include debt securities and equity acquired via crowdfunding platforms. In addition, following the announcement of the Personal Savings Allowance and the corresponding removal of the withholding arrangements on savings income for banks in March, the Government have confirmed their intention to consult on whether changes are required to other deduction arrangements currently in place for savings income.

HMRC have now provided definitions for some of the Enterprise Investment Scheme/Venture Capital Trust measures announced in the March 2015 Budget, including the definition of knowledge-intensive companies and when an investor would be classed as being independent prior to making an investment.

UK Property

There is confirmation of the £1 million exemption from IHT for couples with an estate which includes a main residence passing on death to children or grandchildren. It is however noted that there is a taper reduction in the additional allowance of £1 for every £2 over this threshold for estates with a value of £2 million or more. See *IHT nil rate band and residential property* above for more details.

Income Tax (IT) relief for loan interest (and other finance costs) paid by individual landlords letting out residential property will be restricted to the basic rate of tax. To give landlords time to adjust, this change is to be introduced gradually from April 2017 over four years. See *Changes for individuals letting residential property* above for more details.

There are also changes proposed to the wear and tear allowance, with the allowance being abolished in favour of taxpayers simply claiming a deduction for costs as they are incurred.

Rent a Room Relief, which provides for tax-free income from renting out a room in an individual's home is to be increased to £7,500 per year (currently £4,250) from April 2016. Also increased is the level of relief if an individual rents out rooms in a guest house, bed and breakfast or similar, providing that it is their main residence.

Non – UK domiciles (non dom) individuals

The Government has issued a technical note on a new 'deemed domicile' rule for non-doms who have been UK resident for 15 of the last 20 years. From April 2017 such individuals will no longer be able to claim the remittance basis and will be taxed on worldwide income and gains as they arise. This will also apply for IHT purposes.

In addition a new rule is proposed to ensure that people with a UK domicile at birth who have lived abroad for a number of years and who under general law have acquired a domicile in another country, will be treated as UK domiciled if they resume residence in the UK. See *New definition of domicile for tax purposes* for more details.

It is intended that these changes will form a part of the 2016 Finance Bill.

There are also proposals to include UK property held indirectly by non-doms via offshore structures and the trustees of excluded property trusts within the IHT rules. See *Changes to IHT on UK residential property owned through off-shore companies* for more details.

The existing £30,000/£60,000 remittance basis charge (RBC) will continue, but the previously announced proposal for a £90,000 RBC for longer term residents becomes redundant. A previous proposal for a three to five year fixed term claim period for the RBC is not to be taken forward at present.

IHT and trusts

Having been omitted from the March 2015 Finance Bill, changes as a result of the ongoing consultation on the simplification of IHT and trusts are once again moving forward with legislation now expected in the summer.

In the March 2015 Budget the Coalition Government announced a review of the use of Deeds of Variation for tax purposes. There appears to be no mention of this review in the summer 2015 Budget.

Farmer's averaging

Following the March 2015 Budget announcement recognising that farmers need additional assistance in managing fluctuating profits which are caused by factors they are unable to control such as the weather, disease outbreaks and fluctuating market prices, the Government has now issued a consultation on the design and implementation of the proposals which will operate from April 2016. The proposals will extend the period for which self-employed farmers and market gardeners can average their profits for IT purposes from two years to five years.

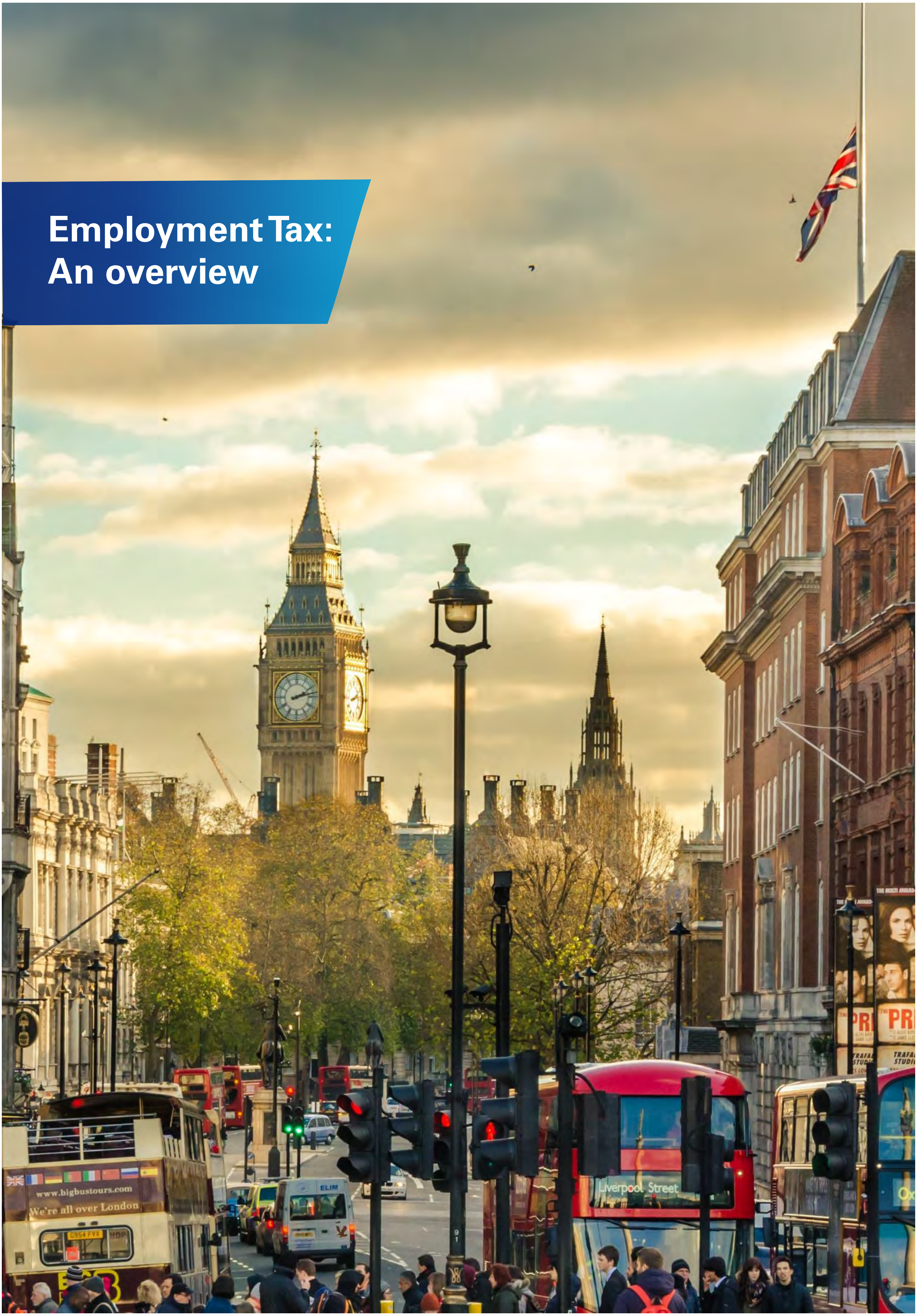
Fund managers

From 8 July legislation will be introduced to ensure sums arising to fund managers by way of carried interest are charged to the full rate of CGT, with only limited deductions permitted See *Taxation of performance rewards to investment managers* for more details.

Dermot Callinan
Partner

T: +44 0113 231 3358
E: dermot.callinan@kpmg.co.uk

Employment Tax: An overview



Employment Tax: An overview

Introduction

It is probably true of all Budgets that an employment taxes view is dependent on the type of employees, the level of remuneration and the remuneration structures utilised. This Budget is no exception, with 'salary sacrifice' and proposals such as the review of domicile being of no interest to some but highly relevant to others. One that will be relevant to all, due to the introduction of auto enrolment, is the consultation on future changes to pension taxation which includes a radical proposal to tax all pension contributions. The Chancellor, with his legislative changes, consultations and anti- avoidance measures, has kept the Financial Secretary's promise (at the Chartered Institute of Taxation's (CIOT) Parliamentary reception) 'to keep tax advisors busy'.

A number of the Chancellor's proposals are summarised below.

Pensions and Pension Contributions

Despite the large number of changes to the pension tax regime following its simplification in 2006, the Government has announced a consultation on whether a new system should be introduced where pension contributions are taxed, but the growth in the fund and the final pension are exempt. See *Reforming pensions tax relief – Green Paper* and *Pensions annual allowance restriction for higher earners* above

The Government is also going to consult on 'tackling the use of unfunded EFRBS (Employer Funded Retirement Benefits Schemes) to obtain a tax advantage in relation to remuneration'. Unfortunately further details are not available at present, though we would hope more detail will be forthcoming over the course of the summer.

Travel and Subsistence

The Government has launched a consultation on proposals to restrict tax relief on travel and subsistence expenses for individuals engaged via employment intermediaries from 6 April 2016. Tax relief is not generally available for home-to-work travel and subsistence expenses.

The intention of the proposed changes to the legislation is to prevent temporary workers, who are engaged through employment intermediaries, and their employers, from benefiting from tax relief for such travel expenses. See *Travel and subsistence expenses when working through employment intermediaries* above for more details.

Salary Sacrifice

Employers with salary sacrifice arrangements in place will be pleased to know that the Government has not (despite speculation) abolished 'salary sacrifice'.

Unfortunately this does not mean that none of the rules have changed, or that there will not be further changes in the future. We already knew that the business expenses exemption, which will replace the system of dispensations from 6 April 2016, will not apply where 'expenses are paid as part of a salary sacrifice arrangement'. The Government has now additionally said that salary sacrifice schemes 'are becoming increasingly popular and the cost to the taxpayer is rising. [It] will actively monitor the growth of these schemes and their effect on tax receipts'**.**

Benefits in kind

Primary legislation allowing for the introduction of an exemption for qualifying business expenses discussed above, as well as the abolition of the £8,500 threshold for benefits in kind and the voluntary payrolling of benefits was included in Finance Act 2015. Draft secondary legislation has now been published, the most significant of which is around voluntary payrolling, where the scope has been extended to include all benefits in kind other than accommodation, beneficial loans and credit tokens and vouchers. Please note that additional reporting requirements for employers who choose to payroll company cars will be introduced from April 2017.

The Government has confirmed that the exemption for trivial benefits, dropped from the pre-election Finance Bill, will be introduced with effect from 6 April 2016.

Employment Allowance

The Employment Allowance is being increased from £2,000 to £3,000 per year with effect from 6 April 2016. The allowance will no longer apply to companies where the director is the sole employee. This allowance is set against an employer's Class 1 NIC liability.

OTS reviews and recommendations

The Government has confirmed it will consult on the Office of Tax Simplification (OTS) recommendations for simplifying the tax and NICs treatment of termination payments.

The OTS has previously suggested a greater alignment of income tax and NICs. The government has now asked the OTS to review the 'impacts costs and benefits of closer alignment'. This is described as a new type of review for the OTS as it is to focus on the issues and the impacts rather than making specific recommendations. Whilst many would agree that if the current system was being designed from scratch today it would look very different, there is little agreement on how any transition to a new regime should be implemented.

There was no Government response to the review of employment status published earlier this year, though a review of the IR35 provisions will be taking place later this year.

Real Time Information

It had been hoped that the Budget might tell us more about the promised post-implementation review of Real Time Information (RTI) reporting, but, as in March, the Government was silent on the point. This is disappointing, as getting the right payroll data on HMRC's systems will play a vital role in underpinning both the forthcoming Digital Tax Accounts and the ongoing rollout of Universal Credit – and that is without mentioning the ongoing issues some employers are facing with RTI reporting.

Employers should, though, take some comfort from HMRC's recent commitment to 'continue to monitor the employer experience of reporting PAYE in real time to make sure the improvements we have made are effective, and identify where future developments would be beneficial'. Employers have a part to play here too: if you encounter issues, please raise them with us or directly with HMRC: in the continued absence of a formal review, ongoing engagement, on all sides, is vital.

Going Digital

The Government is pressing ahead with its digital agenda. We have had some more details about the Digital Tax Accounts replacing tax returns. Later this year the Government will publish a roadmap setting out the policy and administrative changes. A new payment process to support the use of Digital Tax Accounts which will allow tax and National Insurance contributions to be collected outside of Pay As You Earn and Self-Assessment will, subject to consultation, be legislated in the next Parliament.

We hope that lessons are learnt from both the implementation of RTI and the introduction of the on-line filing of share schemes. Both were rushed implementations and issues remain. The deadline for filing the on-line equivalent of Form 42 has had to be extended as the system crashed before the filing date of 6 July and is not expected to be available until at least 13 July. There is a danger that the Government is underestimating the complexity and the resources required to implement the Digital Tax Accounts.

Employers of globally mobile employees.

The following measures are primarily of interest to employers of globally mobile employees:

Domicile

Ahead of the general election, the Conservative manifesto promised that, if elected, the party would increase the remittance basis charge and 'continue to tackle abuses of [non-domicile] status'. The Chancellor has now made it clearer what this means in practice. See *New definition of domicile for tax purposes* for more details. It is unfortunate that the review does not seem to cover the rules regarding 'Overseas Workday Relief'. These rules are overcomplicated and should be reviewed and reformed.

Short Term Business Visitors

There has been for many years an easement of the requirement to operate PAYE in respect of Short Term Business Visitors (STBVs) whose earnings qualify for exemption from UK taxation under a treaty. At HMRC's Joint Forum on Expatriate Tax and NICs (Expat Forum) meeting on the morning of the Budget, an administrative simplification was announced regarding the operation of PAYE for STBVs who do not qualify for treaty relief. This will involve the submission of an annual return under RTI in respect of employees who work up to 30 days in the UK. The final form of the agreement will be issued shortly but we understand that it should simplify the administration for employers with such STBVs and these employers should consider implementing an agreement for this tax year.

Please see our Flash alert on this subject or contact your normal KPMG advisor for more details.

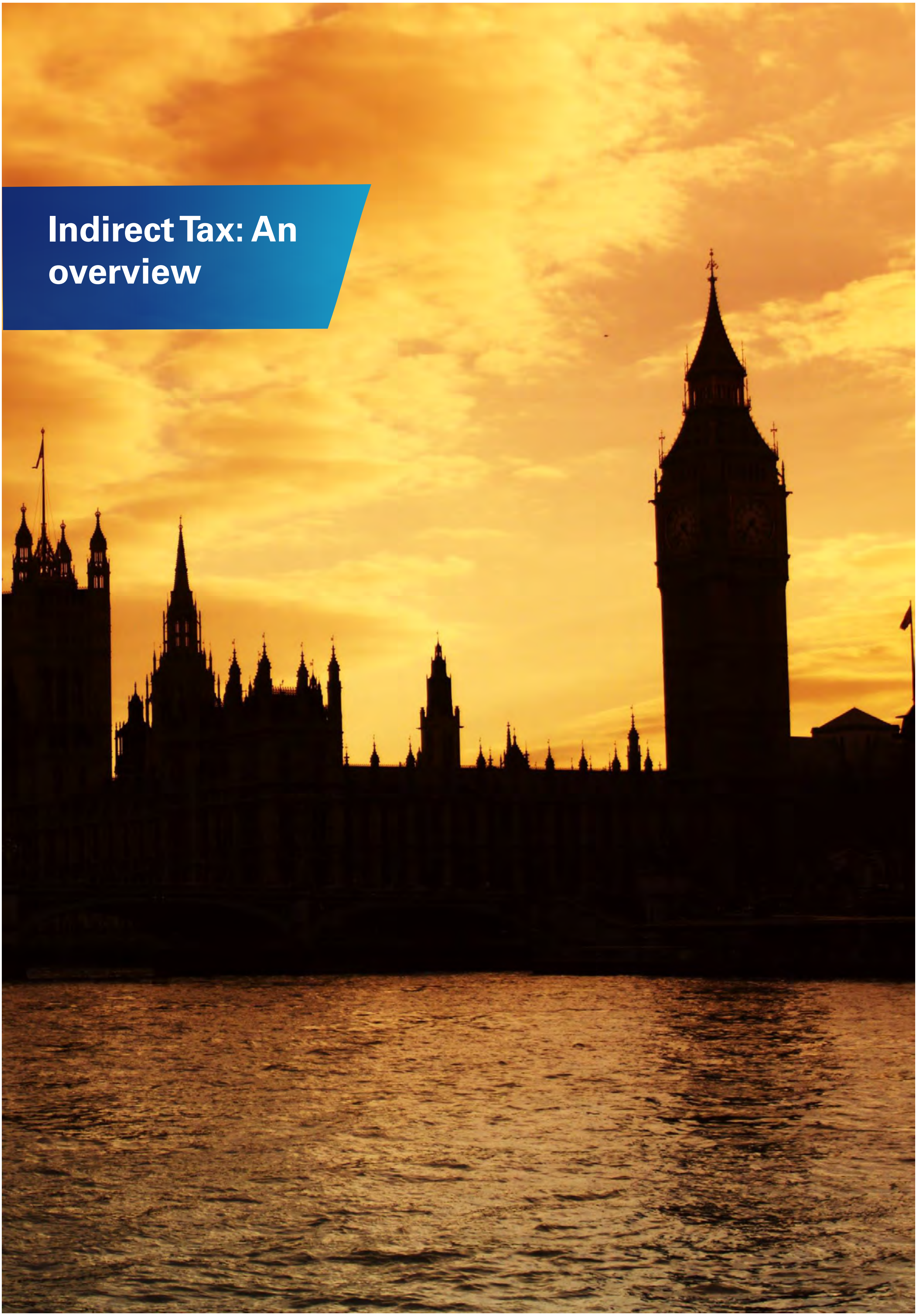
Sale of residential property by non-residents

Although not immediately obvious as an employment taxes issue, the interaction of the new (introduced with effect from 6 April 2015) Capital Gains Tax charge on the sale of residential property by non-residents should concern employers with assignees abroad. This is because there is a mismatch between the rules for qualifying for non-residence on the basis of full-time work abroad and the rules regarding qualifying for Principal Private Residence relief for periods of absence. Under the former the individual can work 30 days in the UK whilst to qualify for absence relief no days can be worked in the UK. It was disappointing that no further detail was announced in the Budget but at the expat forum HMRC acknowledged that they had received a lot of representations on aligning these rules and are actively considering the position.

Colin Ben-Nathan
Partner

T: +44 (0)20 7311 3363
E: colin.ben-nathan@kpmg.co.uk

Indirect Tax: An overview



Indirect Tax: An overview

Introduction

From an indirect tax perspective, the tax which had the most airtime in the Chancellor's speech was the Vehicle Excise Duty (VED). The band reforms from 2017 are projected to see a gradual increase in revenue to over £1.4 billion by 2020/2021. The cost to the motorist was softened by the promise of the funds from 2020/2021 going to a road fund to ensure sustained investment in the strategic road network. Looking at some of other key areas:

Insurance

This was certainly the worst affected sector with the increase in the standard Insurance Premium Tax (IPT) rate from 6 to 9.5% from November (see *Insurance Premium Tax – Increase in standard rate* above for more details). This was one of the taxes that the Chancellor had not previously ruled out increasing and the existing 6% rate is one of the lowest of all IPT rates across Europe. The only question was when the rate rise was coming but, as expected, the estimated £1.5 billion per annum in revenue was too hard to resist.

In the Summer Budget Report it was announced that the Government would apply 'use and enjoyment' provisions, so that all UK repairs made under UK insurance contracts are subject to UK VAT. Little detail is provided and the projected revenue is only £5 million per annum. However, this signals that this is a sector that HMRC will be looking at even more closely going forward.

'Exempt' Sector

Following the specific reference to use and enjoyment in the insurance sector, a more general comment was made referring to a 'wider review of off-shore based avoidance in VAT exempt sectors' with a view to further broadening of the use and enjoyment measures such as advertising. It will be interesting to see how significant the changes are and how 'avoidance' is defined.

Excise

Despite confirming the decision not to proceed with a tobacco levy, the Budget reaffirmed the Government's intention to push ahead with a number of initiatives:

- Control of raw tobacco (Finance Bill 2016);
- Taking illicit tobacco abroad;
- Tackling illicit tobacco; and
- Tackling illicit alcohol.

These are all part of a wider Government initiative aimed at putting more investment into targeting serious criminal activity whilst placing additional burdens on business to satisfy themselves that they are participating in legitimate supply chains.

Environmental Taxes

The surprise announcement in terms of environmental taxes is removal of the Climate Change levy exemption for renewably sourced electricity from 1 August 2015. There will be a transitional period from 1 August 2015 during which the exemption can still be claimed for qualifying electricity generated before 1 August 2015.

VAT refunds for Shared Services

This measure was in the draft Finance Bill released as part of the Autumn Statement back in December 2014, but did not make it into the final Finance Act 2015. Our understanding is that whilst the measure is unchanged, the legislation was not finalised. It is now confirmed that this will be included in the Finance Bill 2016.

Gary Harley
Partner, Indirect Tax

T: +44 (0)20 7311 2783
E: gary.harley@kpmg.co.uk

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