bright grahame murray

CHARTERED ACCOUNTANTS

AUTUMN STATEMENT 2013

Highlights

There were a few surprises among the array of consulted and well-trailed announcements in the Chancellor's speech:

- The personal allowance will increase to £10,000 in 2014/15.
- The higher rate (40%) tax threshold will increase by £415 to £41,865.
- A transferable tax allowance of £1,000 will be introduced for married couples and civil partners from April 2015.
- From 6 April 2015 employers will no longer pay Class 1 national insurance contributions on earnings paid up to the upper earnings limit to any employee under the age of 21.
- In October 2015 a new class of voluntary NICs (3A) will be introduced to allow pensioners who reach state pension age before 6 April 2016 to top up their Additional Pension entitlement.
- The overall annual individual savings account (ISA) subscription limit for 2014/15 will rise to £11,880, of which £5,940 can be invested in cash.
- The final exemption period for private residence relief will be halved to 18 months from April 2014.
- From April 2015, capital gains tax will apply to future gains on residential property owned by non-resident individuals.
- Legislation to block venture capital trust (VCT) enhanced buyback schemes will take effect from April 2014.
- New 'simplified' IHT rules for trusts will be introduced from April 2015, following further consultation.

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"A responsible recovery, where we don't pretend we can make this nation better off by writing cheques to ourselves, and instead make the hard choices."
George Osborne

- The 2014 business rates increase will be capped at 2% and small business rate relief will be extended for another year to April 2015.
- The investment limits for share incentive plans will rise to £3,600 for 'free' shares and £1,800 for 'partnership' shares from April 2014. The SAYE limit will double to £500 per month.
- A raft of specific employment anti-avoidance measures were announced, mostly aimed at arrangements designed to disguise employment.

The 2013 Autumn Statement was more of an economic statement than its predecessors. In part this was because, for once, the Chancellor was able to say that his spring Budget forecasts had been too pessimistic.

Politics was also an important factor in the statement, with the next election now just 18 months (and two Budgets) away. Overall, the Chancellor's actions will not alter the government's tax take, although achieving that balance requires over £1.5bn to be raised in 2014/15 from the proposed new measures against avoidance, fraud, error and debt.

ECONOMIC BACKGROUND

Nine months ago, George Osborne presented his Budget against a decidedly chilly background. Not only were there snow flurries around, but the economic climate looked close to freezing too, with talk of a triple dip recession unless growth reappeared in the first quarter of the year. The Office for Budget Responsibility (OBR) reflected the wintry gloom in its forecasts: 2013 economic growth of a mere 0.6% and £120m underlying government borrowing for the third successive year.

Fast forward nine months and, while it is not all sunshine, the economic and fiscal climate is much more comfortable. As the Chancellor said, the triple dip recession never occurred. Even the earlier double dip recession was revised away during the summer by fresh data from the Office for National Statistics (ONS). The third quarter of 2013 alone saw GDP growth of 0.8%, a figure that was not on any economist's radar in March.

The unexpected growth has meant that the latest forecast from the OBR has been significantly revised. The OBR now expects growth in 2013 to be 1.4% and has increased its 2014 forecast from 1.8% to 2.4%. However for 2015/16–2017/18, the OBR has cut its growth forecasts by 0.1% a year. This reflects its view that the 2013 spurt of growth has been cyclical rather than structural, i.e. a bringing forward of future growth rather than a new source of growth.

Better growth helps the government's borrowing numbers. The OBR has shaved £8.6bn off its estimate for underlying borrowing in 2013/14 (to £111.2bn) and £12.4bn from next year's figure (to £96bn). The reductions continue to the point that by 2017/18 the OBR now projects borrowing of £23.4bn – little more than its March estimate. The OBR is now expecting a surplus of £2.2bn in 2018/19, but as we have already seen, OBR numbers are subject to change.

""This Statement shows the plan is working. It's a serious plan for a grown up country."

George Osborne

PERSONAL TAX

Income tax 2014/15

People born after 5 April 1948 will be entitled to a basic personal allowance for 2014/15 of £10,000 as announced in the 2013 spring Budget. The tax rates and bands will be as previously announced.

Transferable allowance for married couples

The Chancellor confirmed that a spouse or civil partner who is not liable to income tax or not liable above the basic rate for a tax year will be entitled to transfer £1,000 of their personal allowance to their spouse or civil partner from April 2015. The recipient of the transfer must not liable to income tax above the basic rate. The spouse or civil partner who receives the transferred allowance will be entitled to a reduction in their income tax liability of up to £200. In future years the transferable amount will be uprated in proportion to the increase in the personal allowance.

Class 3A national insurance contributions (NICs) for enhanced state pension

A new class of voluntary NICs (Class 3A) will be introduced from October 2015. This will give those who reach state pension age before 6 April 2016 an opportunity to boost their Additional State Pension (i.e. the State Second Pension).

Abolition of employer NICs for under 21s

From 6 April 2015 employers will no longer be required to pay Class 1 NICs for any employee under the age of 21 on their earnings up to the upper earnings limit.

"But it's not right that those who live in this country pay capital gains tax when they sell a home that is not their primary residence – while those who don't live here do not."
George Osborne

CGT annual exempt amount

The Chancellor confirmed that the CGT annual exempt amount will be £11,000 for 2014/15. It will then be £11,100 for 2015/16.

Capital gains tax (CGT) private residence relief

The final period CGT exemption for main residences will be reduced from 36 to 18 months from 6 April 2014. This CGT exemption applies to a property that has been a person's private residence at some time. The property owner can benefit from the exemption even if they are not living in the property when they dispose of it and they may be claiming private residence relief on another property at the same time.

CGT non-residents and UK residential property

A CGT charge will be introduced on future gains made by non-residents disposing of UK residential property from April 2015.

Employee share schemes annual subscription limits 2014/15

There will be an increase in the individual limits on the 'free' shares under share incentive plans (SIPs) for 2014/15. The increase will be from £3,000 to £3,600 a year. The individual limits on the 'partnership' shares employees can buy will also be increased from £1,500 to £1,800 a year (or 10% of an employee's annual salary).

For save as you earn (SAYE) schemes, the amount that employees can save and apply towards the purchase of shares for 2014/15 will be increased from £250 to £500 a month.

Employee ownership

The government will introduce three new tax reliefs to encourage and promote indirect employee ownership:

- From April 2014, disposals of shares that result in a controlling interest in a company being held by an employee ownership trust will be relieved from CGT.

- Transfers of shares and other assets to employee ownership trusts will also be exempt from inheritance tax providing certain conditions are met.
- From October 2014, bonus payments made to employees of indirectly employee-owned companies which are controlled by an employee ownership trust will be exempt from income tax up to an annual cap of £3,600.

Tax simplification of employee share schemes

There will be a package of tax simplifications for non-tax advantaged ('unapproved') employee share schemes taking effect during 2014.

Individual savings accounts (ISAs), Junior ISAs and child trust funds (CTFs)

The overall annual ISA subscription limit for 2014/15 will be £11,880, of which £5,940 can be invested in cash. The annual subscription limit for Junior ISA and CTFs for 2014 /15 will increase from £3,720 to £3,840.

The government is exploring whether to increase the number of retail bonds eligible for stocks and shares ISAs by reducing the minimum remaining term to maturity from the current five years.

Exchange traded funds (ETFs)

The stamp duty and stamp duty reserve tax charge on purchases of shares on UK domiciled ETFs will be removed from April 2014.

BUSINESS TAX

Social investment tax relief

The government will introduce a new tax relief for equity and certain debt investments in social enterprises with effect from April 2014. Charities, community interest companies and community benefit societies will be eligible.

Venture capital trusts (VCTs) changes

VCT investments will not qualify for new tax relief if they are conditionally linked to a VCT share buy-back or have been made within six months of a disposal of shares in the same VCT. This change will take effect from April 2014.

"I am introducing a new reoccupation relief that will halve the rates for new occupants."
George Osborne

Business rates

There will be a cap of 2% on the increase in business rates from 1 April 2014.

A business rates discount of £1,000 will apply to retail and food and drink premises with a rateable value below £50,000 and up to the state aid limits for two years from 1 April 2014. A 50% business rates relief will apply for 18 months up to the state aid limits for businesses that move into retail premises that have been empty for a year or more. Businesses that move into empty premises between 1 April 2014 and 31 March 2016 will be eligible for the relief.

The doubling of the small business rate relief (SBRR) will be extended for a further year from 1 April 2014. The SBRR rules will be relaxed with effect from 1 April 2014. Businesses receiving SBRR and taking on an additional property will be allowed to retain SBRR on the first property for a year.

With effect from 1 April 2014, businesses will be allowed to pay their business rates over 12 months rather than ten months.

TAX AVOIDANCE AND EVASION

The government has announced five measures to help tackle tax avoidance from 5 December 2013:

- Changes to the debt cap provisions.
- Profit shifting and controlled foreign companies (CFCs).
- Partnerships with mixed memberships.
- Avoidance schemes using total return swaps.
- Double taxation relief avoidance schemes.

Charities established for tax avoidance purposes

Charities will be prevented from claiming charity tax reliefs if tax avoidance is one of the main purposes of establishing the charity.

High risk promoters

A new information disclosure and penalty regime will be introduced for high risk promoters of avoidance schemes. There will be objective criteria for identifying high risk promoters and a higher standard of reasonable excuse and reasonable care. Clients of these promoters will also have certain obligations, including identifying themselves to HMRC.

Penalties in failed avoidance schemes

Where HMRC has defeated a tax avoidance scheme in a tribunal or court hearing in another party's litigation, other users of the scheme will be required to concede their position to reflect the decision. HMRC will then issue a notice to all users of the scheme requiring them to amend their return, or advise HMRC why they believe they should not. A tax-geared penalty will be charged if the users fail to amend their return and it is subsequently found that the avoidance scheme they have used has failed on the same point of law. Taxpayers will be able to appeal against the penalty.

Accelerated tax payment in avoidance cases

There will also be a requirement introduced by the 2014 Finance Bill to pay the tax in dispute in a tax avoidance enquiry when HMRC issues an 'avoidance follower penalty notice'. At present taxpayers in most cases can hold on to the disputed tax during an investigation. This can take a number of years, and some taxpayers may enter into avoidance schemes primarily for the cash flow benefit. The government will also consult on possible wider criteria for issuing a payment notice in avoidance enquiries.

Onshore intermediaries – false employment

From April 2014 there will be provisions to prevent the use of intermediaries to avoid employment taxes and obligations by disguising employment as self-employment.

Dual employment contracts

Legislation will be introduced in Finance Bill 2014 to prevent non-domiciled individuals from avoiding tax by creating an artificial division of the duties of one employment between contracts in both the UK and overseas. These are commonly known as 'dual contracts'.

"People should expect to spend up to a third of their adult life in retirement."
George Osborne

OTHER MEASURES

State pension age (SPA)

Future changes to the SPA will be driven by a guiding principle that people should expect to spend, on average, up to a third of their adult life in receipt of the state pension. This implies that the increase in SPA to 68 could come forward to the mid-2030s, and the SPA could increase further, to 69, by the late 2040s.

Uprating of the basic state pension

In April 2014 the basic state pension will rise by 2.7%, representing a rise of £2.95 a week.

Simplification of trusts

The government will simplify the filing and payment dates for IHT relevant property trust charges. Income arising in such trusts will be treated as part of the trust capital when calculating the ten-year anniversary charge if it remains undistributed for more than five years. The government will consult on splitting the IHT nil rate band available to multiple trusts. The intention is to make this change in 2015, together with the simplification of trust calculations.

Vulnerable beneficiary trusts

The CGT 'uplift' provisions that apply on the death of a vulnerable beneficiary will be extended from 5 December 2013. From 2014/15 the range of trusts that qualify for special income tax, CGT and IHT treatment will be widened.

Corporate gift aid for community amateur sports clubs (CASCs)

Corporate gift aid on gifts of money will be extended to include qualifying donations of gifts by companies to CASCs. The legislation will be included in 2014 Finance Bill 2014.

Stamp duty land tax (SDLT): charities relief

There will be legislation to make it clear that partial relief from SDLT is available where a charity purchases property jointly with a person who is not a charity. The charity will be able to claim relief from SDLT on the proportion of the purchase that is attributable to it. The changes will take effect from the date on which Finance Bill 2014 receives Royal Assent.

MAIN INCOME TAX RATES AND ALLOWANCES

Main income tax allowances	2013/14	2014/15
Personal allowance	£9,440	**£10,000**
Personal allowance reduced by 50% if total income exceeds	£100,000	**£100,000**
Personal if born between 6/4/38 and 5/4/48	£10,500	**£10,500**
Personal if born before 6/4/38	£10,660	**£10,660**
Personal if born before 6/4/48 reduced by 50% if income exceeds	£26,100	**£27,000**
Married couples/civil partners (minimum) at 10%*	£3,040	**£3,140**
Married couples/civil partners (maximum) at 10%*	£7,915	**£8,165**
Blind person's allowance	£2,160	**£2,230**

* Where at least one spouse/civil partner was born before 6 April 1935.

Income tax rates	2013/14	2014/15
Starting rate of 10% on savings income up to*	£2,790	**£2,880**
Basic rate of 20% on income up to	£32,010	**£31,865**
Maximum tax at basic rate	£6,402	**£6,373**
Higher rate of 40% on income	£32,011–	**£31,866–**
	£150,000	**£150,000**
Tax on first £150,000	£53,598	**£53,627**
Additional rate on income over £150,000	45%	**45%**
Dividends for:		
• basic rate taxpayers	10%	**10%**
• higher rate taxpayers	32.5%	**32.5%**
• additional rate taxpayers	37.5%	**37.5%**

* Not available if taxable non-savings income exceeds the starting rate band.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 (Employees)

Not Contracted-out of State Second Pension (S2P)

	2013/14	**2014/15**
Employee	No NICs where earnings are up to £149 pw	**No NICs where earnings are up to £153 pw**
	12% NICs on £149.01–£797 pw	**12% NICs on £153.01–£805 pw**
	2% NICs over £797 pw	**2% NICs over £805 pw**
Employer	No NICs on the first £148 pw	**No NICs on the first £153 pw**
	13.8% NICs over £148 pw	**13.8% NICs over £153 pw**

Employment allowance	2013/14	**2014/15**
Deduction from Class 1 employer's NICs	n/a	**£2,000 per employer**

Earnings limit or threshold	2013/14 Weekly	**2014/15** Weekly
	£	**£**
Lower earnings limit	109	**111**
Secondary earnings threshold	148	**153**
Primary earnings threshold	149	**153**
Upper accrual point	770	**770**
Upper earnings limit	797	**805**

Contracted-out S2P rebate	2013/14	**2014/15**
Reduction on band earnings*	£109.01–£770 pw	**£111.01–£770 pw**
Employer rate reduction	3.4%	**3.4%**
Employee rate reduction	1.4%	**1.4%**

*Salary related schemes only.

Class 1A (Employers)	2013/14	**2014/15**
Most taxable employee benefits	13.8%	**13.8%**

Class 2 (Self-Employed)	2013/14	**2014/15**
Flat rate	£2.70 pw £140.40 pa	**£2.75 pw £143.00 pa**
Small earnings exception	£5,725 pa	**£5,885 pa**

Class 4 (Self-Employed)	2013/14	**2014/15**
On profits	£7,755–£41,450 pa 9%	**£7,956–£41,865 pa 9%**
	Over £41,450 pa 2%	**Over £41,865 pa 2%**

Class 3 (Voluntary)	2013/14	**2014/15**
Flat rate	£13.55 pw £704.60 pa	**£13.90 pw £722.80 pa**

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