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Budget 2015

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OUR TOP TEN HIGHLIGHTS

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The end of the tax return as we know it?

In an attempt to "modernise" the tax system the government have signalled an end to the archaic tax return replacing it with digital tax accounts for millions of individuals and small businesses. One of the biggest-ever changes to the way people manage and pay their taxes.

The "digital accounts" will make smarter use of the data HMRC holds (such as bank interest, employment income and benefits) using this information to populate digital accounts automatically. This will mean that millions of people will no longer have to complete a tax return at all – whilst those with more complex tax affairs will be able to use their account to declare income and pay tax in year.

By early 2016, five million small businesses and ten million individuals will have access to their own digital account with it fully being implemented by the end of the next parliament.

FD's view:

Although we welcome proposals that simplify the self-assessment regime, it is unclear how the system will work especially for individuals with complex tax affairs and capital gains to report.

It is also very optimistic for the government to aim to have the new system fully implemented by the end of the next parliament – experience says it will take much longer!

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Personal tax rates announced

FD's view:

The increases in the basic rate band and new savings allowance are welcome given the squeeze on middle-income earners in recent years.

The abolition of Class 2 NIC is good news from an admin perspective, but we await further detail on changes to Class 4 NIC (in case the savings are clawed back).

The **personal allowance** will increase as follows:

- **£10,800 for 2016/17 £11,000 for 2017/18**

The **basic rate threshold** is also increasing – a measure no doubt to placate the "squeezed middle" – as follows:

- **£31,900 for 2016/17 £32,300 for 2017/18**

Further good news for savers is that from April 2016 there will be a new tax-free **personal savings allowance** of £1,000 (or £500 for higher rate taxpayers). Any income received over and above the limit will be taxable in the usual way after the £1,000 (or £500) has been deducted.

Finally, the £2.75 weekly Class 2 NIC payable by self employed individuals or partners who earn in excess of £5,885 will be abolished in the next Parliament.

Pensions – further reforms and modifications

In the 2014 Budget George Osborne launched a pensions revolution, giving individuals greater freedom. Those who already had annuities did not benefit from these changes.

As a consequence the government plans to free up the rules on annuities from April 2016 so that these can be sold to third parties in exchange for a capital sum. If the money is then drawn down it will be subject to income tax at the individual's marginal tax, rather than the current punitive 55% charge. The annuity has to be held personally (i.e. occupational schemes are excluded).

There are no changes to the annual allowance which remains at £40,000pa, and individuals can still obtain relief at higher rate. The Labour Party has indicated that they would restrict relief to basic rate if they get elected.

The Lifetime Allowance, however, has been further restricted to £1 million after 5 April 2016 from its current level of £1.25 million.

FD's view:

Essentially pensions can now be used as a tax-exempt "piggybank" with the ability for individuals over 55 to draw down all the monies in the scheme if they wish (25% tax-free lump sum, with the remainder taxed as income at the individual's marginal rate).

Not so long ago the lifetime allowance stood at £1.8 million. Reducing the limit has severely curtailed the use of pensions as a savings vehicle for high earners. Nevertheless they still remain beneficial in view of the tax breaks that are on offer.

ISAs – two exciting new changes!

FD's view:

Allowing people to benefit from the tax free status even if they have to withdraw monies on a short term basis during the year is particularly welcome.

The new "help-to-buy ISA" is good news for first time buyers wanting to get on the housing market.

A new "help-to-buy ISA" will see the Government add 25% to the amount first-time-buyers put away towards a deposit on a house, for the next 4 years from the Autumn. There is no minimum monthly deposit – but a maximum of £200 per month applies. The government bonus is capped at £3,000 and is contributed when the house is acquired.

The accounts are limited to one per person rather than one per home – meaning couples can receive a double bonus. The relief applies to homes costing up to £250,000 (or £450,000 in London).

Meanwhile, new rules will be introduced to allow the freedom to withdraw and replace money in a tax year. without it counting toward the annual ISA subscription limit for that year, as long as repayment is made in the same tax year as the withdrawal. In the past, money taken out of an ISA lost its tax free status.

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Entrepreneurs' Relief – new rules

Nothing major has changed here and in headline terms there is still a lifetime allowance whereby up to £10M of qualifying gains are taxed at a low 10% rate. The main changes are as follows:

- ER will no longer be available on shares in a company that is not a trading company or holding company of a trading group in its own right. Previously it was possible to set up a holding company for management to benefit from ER where they would not otherwise meet the 5% shareholding requirement. This is no longer possible from today.

- Up until now it has been fairly easy to benefit from ER in respect of personally held assets used by a company which would qualify for ER. The rules required a 'withdrawal from the business' but there was no de minimis limit for this. As of today the 'withdrawal' needs to comprise a disposal of at least 5% of the shares or a 5% share of partnership assets.

FD's view:

These changes will affect relatively few individuals and we are pleased that ER has largely been untouched.

There are still various other planning opportunities we can advise upon for shareholders who will not meet the 5% shareholding condition.

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AIA – limit will reduce … but not by as much

FD's view:

This is welcome news for any businesses planning to invest in new equipment, although we hope that clarity is given over the actual investment limits sooner rather than later.

Given that the AIA is likely to decrease in some form or another, businesses may want to consider accelerating expenditure before 31 December 2015. If cashflow is an issue, our recent Tax Bite gives some possible solutions to take advantage of the relief.

The Annual Investment Allowance provides a 100% First Year Allowance for businesses in respect of investment in qualifying plant and machinery.

The limit is currently set at £500,000, but had been planned to reduce to £25,000 from 1 January 2016.

The Chancellor has now said that the limit will not fall by that much, although he has yet to announce the actual figure.

Inheritance Tax ("IHT")

No changes were announced to inheritance tax rates or allowances. The amount that can be passed tax-free remains at £325,000 with the ability to transfer any unused amount on death to the surviving spouse.

The Chancellor briefly mentioned a consultation process to review inheritance tax generally and this is expected to propose a specific additional exemption that can be applied to the value of the family home on death. Documents leaked to the press indicate a further £175,000 allowance per person which could mean a couple's home worth £1m can be left to the next generation without tax. Any such changes would not take place until at least April 2016.

FD's view:

Whether the proposed increased allowance is simply a pre-election tactic is uncertain. The previous Conservative plans to increase the nil rate band threshold to £1m were blocked by the Liberal Democrats. The proposed consultation could simply be to embarrass Ed Miliband on the restructuring of his father's Will, as there is little mention elsewhere in the Budget documents!

CGT for Non-residents

FD's view:

This is a new tax and there are bound to be teething problems, especially as they aim to collect from individuals who are not physically present in the UK. There are complicated interactions with other taxes affecting UK residential property too.

As part of the attack on UK residential property, new rules were introduced in the pre-budget in December 2014 to tax non-UK residents who dispose of such property. HMRC have released a summary of how this tax will be applied and collected from 6 April 2015.

Principal private residence relief will be available to relieve the gain for any particular year, provided the property is occupied by either spouse for at least 90 nights during that tax year. Care must be taken as time spent in the UK can be a connecting factor under the statutory residence test and could bring someone into the UK tax regime on worldwide income and gains.

The collection of the tax will be either through the usual self-assessment return or within 30 days of the title being conveyed (completion) but in all cases a separate tax return to report the disposal must be completed within this 30 day period.

EIS/VCT investments

Investors can receive income tax and CGT relief by investing in EIS or VCT companies. New rules will apply from 6 April 2015:

- The company must be less than 12 years old when it receives its first EIS or VCT investment, except where it leads to a substantial change in the company's activity.
- A cap will be introduced on the total amount invested in the company of £15 million (£20 million for "knowledge-intensive companies").
- The employee limit for certain "knowledge based companies" will increase from 249 to 499.
- Currently 70% of the funds raised under SEIS must be spent before EIS or VCT funds can be raised. This requirement will be removed from 6 April 2015.
- All investors must be independent from the company at the date of the first share issue.
- From 6 April 2015, companies that receive substantial subsidies for the generation of renewable energy will be excluded from benefitting from EIS, SEIS and VCTs.

FD's view:

In general, these changes continue to encourage investment in these types of companies and we welcome the removal of the 70% spending requirement for SEIS companies looking to qualify for EIS/VCT status.

Where the new rules are likely to have a negative impact investments should be made in companies before 6 April 2015.

Tax enquiries and schemes

FD's view:

Clients and their advisers who are in receipt of APN's, or have used tax schemes in the past, should seek specialist advice on how to approach HMRC. Wherever possible, settlement opportunities should be considered now, as over time HMRC are becoming less minded to offer concessions.

We have helped a number of taxpayers to disclose irregularities in their tax affairs and conclude HMRC enquiries on favourable terms.

The Chancellor announced that he expects to collect an extra £3.1bn from those who have avoided or evaded tax.

A significant part of this will be raised by tripling the issue of "Accelerated Payments Notices" ("APNs") – demands forcing users of tax avoidance schemes to pay any disputed tax upfront rather than when HMRC are successful with any challenge.

HMRC is also bringing to a close the various disclosure facilities. The main items of interest are:

- The current Employee Benefit Trust settlement opportunity closes to new entrants on 31 March 2015.
- The closing date for making disclosure of offshore irregularities via the Liechtenstein Disclosure Facility will be brought forward from 2016 to the end of 2015, to be replaced with a new "last chance" disclosure facility offering less generous terms.