Autumn 2014

inside

Baxter&Co
CHARTERED CERTIFIED ACCOUNTANTS

Autumn Statement 2014

In this newsletter we cover some of the key tax measures included in the Autumn Statement delivered on 3rd December 2014. Full details of the Autumn Statement can be found on our app, which can be downloaded free of charge for iTunes or Google Playstore, just search under: Baxter & Co. Or for more information, please contact us direct.

ON COURSE, OFF COURSE, OF COURSE...

At the end of his Autumn Statement to the House of Commons, George Osborne insisted that Britain is 'on course to prosperity' under his guidance. However, net borrowing is forecast to still be 4% of GDP next year, and so the deficit will continue to increase, meaning the Government has not met its fiscal objectives laid out at the start of this parliament.

But does that matter? Although the overall deficit continues to increase, it is now estimated to peak at over 81% of GDP in 2015/16, rather than 70% in 2013/14, the economy is growing, unemployment is down and borrowing remains cheap, which, of course, allows the Government to continue to afford the deficit.

There is cause for concern; wage and productivity growth are stubbornly slow, leading to reduced tax receipts, which is further exacerbated by the increases in personal allowance, taking more people out of income tax and shifting the burden of taxation up the income scale. The Chancellor's focus remains on reducing the deficit, which given tax policy means a continuing attack on public spending. With much of spending protected, the health and education budgets and spending on pensions which makes up by far the largest part of welfare expenditure, the room for manoeuvre is limited.

In the circumstances, the Chancellor had little to give away, but he certainly attracted some good headlines. This newsletter outlines the main taxation proposals and their likely impact. Some are very sensible and long overdue, such as the reform of Stamp Duty Land Tax on houses. Some are more controversial, such as a power for HMRC to take money directly from a debtor's bank account. Some come into effect immediately, such as the closure of an opportunity to save tax on incorporation of a business. And some may only come into effect if Mr Osborne is returned to his job in order to put all his proposals into legislation. Although Labour, objects to the Government's approach to the economy, in reality this is more a matter of emphasis. There is probably very little to object to in the actual tax measures announced.

If you would like more detail on any of the changes, please call your usual contact or Mark Wildi. Up to date tax and financial information is always available from our app which can be downloaded free of charge from iTunes or Google Playstore, just search under: Baxter & Co.

STAMP DUTY OVERHAULED

Stamp Duty Land Tax on property has always been charged at a single rate on the whole purchase price: this meant that a house costing£250,000 was charged at 1% (£2,500), while one costing £1 more bore £7,500 at 3%. This anomalous rule has finally been changed. From 4 December 2014, SDLT on residential properties will be charged on bands of value in the same way that income tax is calculated – nil on the first £125,000; 2% up to £250,000; 5% up to £925,000; 10% up to £1.5m; and 12% above that. It is estimated that 98% of house purchases will see a reduction in the SDLT cost, representing an overall tax cut of £760m in 2015/16. Above £937,000 the total tax increases. Anyone in the middle of a transaction on 3 December – with contracts exchanged but not completed – will be able to choose the old or the new calculation, so the change will not unfairly increase the cost on a purchase in progress.

PENSION FREEDOM

One of the most striking announcements in the March 2014 Budget was the proposal to allow members of money-purchase pension schemes to access their funds in the manner of a bank account, rather than having to purchase an annuity. Since then there has been a consultation on the operation of this system, and announcements of important details. Some of these were confirmed in the Chancellor's speech, but no new proposals were brought forward.

Holders of money-purchase policies will be allowed to draw 25% of their funds tax-free. They will be able to leave the remainder in the fund, where it will still enjoy tax exemption, or draw it out, paying their marginal rate of income tax in the year in which they draw it. The present 55% charge on any remaining funds when the pensioner dies will be abolished: instead, the beneficiaries will generally be treated as receiving taxable income when they draw out the money. If the pensioner dies before taking any benefits, the fund may pass free of all tax.

The Chancellor did confirm another recent announcement affecting joint-lives annuities. Where someone has purchased such an annuity and dies before the age of 75, the beneficiary will receive the remainder of the annuity free of income tax.

The new rules are not yet finalised, although no further major changes are expected.

GOODWILL CANCELLED

When a sole trade or a partnership transfers its business to a company (Incorporates), the owners are treated as disposing of any assets that the company takes over. This can create a charge to capital gains tax, if the incorporation tax relief is not taken. This was not such a bad thing, as the disposal of business assets can benefit from Entrepreneurs' Relief and so suffer CGT at only 10%. By selling 'goodwill' – the intangible value of business contacts and reputation – and crediting the value to a loan account, a business owner would pay 10% CGT 'now' and draw the money out in the future with no further tax to pay. The alternative of paying out salary or dividends would be charged to income tax at rates well above 10%. In some circumstances, the company could also claim tax relief against profits for the cost of the goodwill.

This planning opportunity has been closed down with effect for incorporations from 3 December 2014 onwards. Where a company acquires goodwill from a 'related individual or partnership', there will now be no Entrepreneurs' Relief for the transferor, meaning CGT could be charged at 18% or 28%, and no CT relief for the company. There may still be a tax saving, because the CGT is still less than top income tax rates – but the saving will be much lower.

ISA CHANGES

In July 2014, the annual investment limit for tax-free ISA investments went up from £11,880 to £15,000. There will be a further increase on 6 April 2015 to £15,240. The whole amount can now be invested in cash.

The tax-free status of an ISA has up to now been personal to the original investor. If that person dies, the account can be left in a will free of inheritance tax (IHT) to a spouse or civil partner, but the income and gains become taxable from that point onwards. The Autumn Statement included the announcement that a spouse or civil partner will be able to inherit their late partner's ISA tax advantages.

Note that an ISA that is left to someone other than a spouse or civil partner is subject to IHT on the value, as well as becoming chargeable to tax on future income and gains.

CHEAPER HOLIDAYS

Air passenger duty is a substantial addition to the cost of a plane ticket – the rate for an economy long-haul journey (over 2,000 miles from London to the capital city of the destination country) in April 2015 is set to be £71. The Chancellor has announced that, from 1 May 2015, children under 12 will be exempt from that charge; from 1 March 2016, the exemption will apply to children under 16. The exemption is only for 'the lowest class of travel', not for business or first class.

R&D GOES UP

The uplift in expenditure for small and medium companies claiming R&D tax credits will rise from 225% to 230% with effect from 1 April 2015. The 'above the line' credit for large businesses will rise from 10% to 11% from the same date.

Eligibility for credit will no longer extend to any expenditure on the costs of materials incorporated in products that are sold.

The Government will launch a consultation in January 2015 with the objective of making it easier for small businesses to claim R&D credits, and an advance assurance scheme will be introduced for small companies making their first claim.

ENVELOPED HOUSES

Despite the Chancellor's rejection of a 'mansion tax', there Is already such a tax on properties held by a company or other non-natural person, 'enveloped houses'. The use of such 'envelopes' to hold a residential property indirectly has in the past reduced the cost of stamp taxes on transfers of the property The 'annual tax on enveloped dwellings' (ATED), which was introduced from 2013, counteracts that occasional saving by imposing a charge every year. This scheme turned out to be even more lucrative than the Government suspected when they introduced the tax, it raised five times what they expected in its first year. Not surprisingly It is being extended.

ATED is currently charged in four bands, the highest rate in 2014/15 being £143,750 for houses worth over £20m. In the March 2014 Budget, the Chancellor announced that ATED will be extended down to houses valued above £1m from April 2015, and above £500,000 from April 2016. The Chancellor has now decided that the rates of ATED will increase by 50% above the rate of inflation for houses valued at over £2m in 2015/16.

RATES AND ALLOWANCES

The 2015/16 tax-free personal allowance was announced in the March 2014 Budget – £10,500, up by £500 from 2014/15. The Chancellor has decided to increase it further, to £10,600, and to raise the threshold for 40% tax to £42,385. These changes will reduce income tax for a basic rate taxpayer by £120 and for a 40% taxpayer by £224. The benefit of personal allowances is still reduced for anyone earning over £100,000, and will be withdrawn altogether once taxable income reaches £121,200.

The higher 'age' allowance for those born before 6 April 1938 remains £10,660. Those born before 6 April 1948, who used to qualify for higher allowances, are now on the same rate as people born later. Other allowances rise broadly in line with inflation.

Apart from the new starting rate for savings income described below, the rates of income tax remain unchanged, and the threshold for the 45% rate will still be £150,000.

SMALL BUSINESS RATE RELIEF

The Chancellor has extended the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2015. Over half a million small businesses are expected to benefit, with 385,000 paying no business rates at all until April 2016. The business rates discount for shops, pubs, cafes and restaurants with rateable values up to £50,000 rises from £1,000 to £1,500, and the 2% cap on the RPI increase in the business rates multiplier will be extended to April 2016.

The Government will carry out a review of the future structure of business rates, to report by Budget 2016. The Autumn Statement acknowledges a need to respond to calls by business for clearer billing, better information sharing and a more efficient appeals system.

FOREIGN DOMICILIARIES

Foreign domiciled individuals can claim not to pay tax in the UK on their foreign income and capital gains until, and unless, they bring the money to the country (the 'remittance basis'). For several years, anyone who has been resident here for 7 years has had to pay a flat rate tax charge of £30,000 if they want to claim the remittance basis; the charge increases to £50,000 for someone who has been resident in the UK for 12 of the last 14 tax years.

From 2015/16, the £50,000 charge will increase to £60,000, and a new £90,000 charge will be introduced for someone who has been resident here for 17 of the last 20 years.

TACKLING AVOIDANCE

The Chancellor announced a further clampdown on tax avoidance, evasion and aggressive tax planning. One particular measure that will have immediate effect is preventing the use of artificial transactions to create 'miscellaneous losses' that could be set against taxable income. Such losses created by tax avoidance arrangements entered into from 3 December will not be allowable.

At the other end of the scale, international businesses that use cross-border transactions to shift profits generated in the UK so that they are not taxable here will be caught by a new 25% tax. That is higher than the 20% corporation tax rate that will apply to profits they leave here from 1 April 2015.

WHO'S BEEN IN MY ACCOUNT?

Another measure that was announced some time ago and has been hotly debated since is Direct Recovery of Debt (DRD). This is a new power for HMRC to recover tax and tax credit debts from the bank and building society accounts and ISAs of people who have failed to settle their debts. After many representations, the Government has agreed to include further safeguards, but still intends to introduce the measure after the election.

There will be a guaranteed face-to-face visit to everyone considered for DRD 'to identify vulnerable debtors to provide them with appropriate support'. The system will start 'on a small, targeted basis' in the first year to gain experience and feedback. There will be a right of appeal to the County Court.

CHILD BENEFIT

RATES	2015/16	2014/15
First child rate	£20.70	£20.50
Rate for additional children	13.70	13.55

EMPLOYEE CAR BENEFITS

FUEL	2015/16	2014/15
Car fuel benefit multiplier	£22,100	£21,700
Van fuel benefit	594	581

WHAT WASN'T ANNOUNCED

In recent years, it has become common for the Chancellor to make announcements that will take effect one, two or more years later. Some of the important points that were not mentioned in the Autumn Statement, but as far as we know are still coming in, include:

From April 2015:

- the 0% taxable benefit for electric cars will end – they will be charged on 5% of the initial list price. There will be a number of other increases in the charging of car and fuel benefits.
- there is a new income tax 'starting rate' of 0% for up to £5,000 of savings income (interest). This will not apply if a person has more than £5,000 of taxable non-savings income – among the likely beneficiaries are pensioners with interest-bearing investments, but it will complicate their tax computations.
- the main rate of corporation tax will become the same as the long-standing small profits rate – 20%.

From January 2016, the annual investment allowance for capital allowances will fall from the current £500,000 (since April 2014) back to £25,000.

The nil rate band for inheritance tax, £325,000, is expected to remain fixed until April 2018.

TAX EFFICIENT INVESTMENTS

ANNUAL LIMITS	2015/16	2014/15
INDIVIDUAL SAVINGS		
Accounts (ISA)	£15,240	£15,000
Junior ISA	4,080	4,000
Child Trust Fund	4,080	4,000
Enterprise Investment Scheme	1,000,000	1,000,000
Venture Capital Trust	200,000	200,000
Seed Enterprise Investment Scheme	100,000	100,000
Registered Pension Schemes		
General limit	*40,000	*40,000
Reduced limit	**10,000	N/A

* or 100% of earnings; in some circumstances unused relief of the previous 3 years can justify current contributions.

** for individuals who have flexibly accessed a pension from 6 April 2015

INCOME TAX RATES AND ALLOWANCES

ALLOWANCES ALLOWED AT TOP RATE OF TAX	2015/16	2014/15
Personal Allowance	£10,600	£10,000
Personal Allowance (born 6/4/38 – 5/4/48)*	10,600	10,500
Personal Allowance (born before 6/4/38)*	10,660	10,660
Blind Person's Allowance	2,290	2,230

ALLOWED ONLY AT 10%		
Married Couple's Allowance (born before 6/4/35)*	8,355	8,165
Income limit for age-related allowances	27,700	27,700

*Age allowances are reduced £1 for every £2 by which income exceeds the income limit, until the age allowance is reduced to the normal allowance. Personal allowance is reduced before married couple's allowance. MCA is reduced to a minimum of £3,220 (2014/15: £3,140). Personal allowances will be withdrawn at £1 for every £2 by which total income exceeds £100,000. There will therefore be no allowances if income is £121,200 or more (2014/15: £120,000).

RATE BANDS	2015/16	2014/15
Starting (within basic rate band)*	£5,000	£2, 880
Basic	31,785	31,865
Higher	31,786-150,000	31,866-150,000
Additional	over 150,000	over 150,000

* There is a 0% (2014/15: 0%) starting rate for savings income only. If general taxable income exceeds the starting rate limit, the 0% (2014/15: 0%) rate is not available for savings income.

RATES

RATES DIFFER FOR GENERAL, SAVINGS AND DIVIDEND INCOME WITHIN EACH BAND:

	2015/16			2014/15		
	G	S	D	G	S	D
Starting	N/A	0%	10%	N/A	10%	10%
Basic	20%	20%	10%	20%	20%	10%
Higher	40%	40%	32.5%	40%	40%	32.5%
Additional	45%	45%	37.5%	45%	45%	37.5%

General income (salary, pensions, profit, rent) uses starting, basic and higher rate bands before savings income (interest). Dividends are taxed as the 'top slice' of income.

NATIONAL INSURANCE CONTRIBUTIONS

Rates and limits for 2015/16

CLASS 1	WEEKLY	MONTHLY	YEARLY
Lower Earnings Limit (LEL	£112	£485	£5,824
Primary Threshold – employees (PT)	155	672	8,060
Secondary Threshold – employers (ST)	156	676	8,112
Upper Accrual Point (UAP)	770	3,337	40,040
Upper Earnings Limit – employees (UEL)	815	3,532	42,385

EMPLOYER'S CONTRIBUTION	CONTRACTED IN	CONTRACTED OUT
On earnings up to ST	Nil	Nil
On earnings between ST and UAP	13.8%	10.4%
On earnings above UAP	13.8%	13.8%

EMPLOYEE'S CONTRIBUTION

Contracted in: 12% on earnings between PT and UEL, 2% above UEL.
Contracted out: 10.6% on earnings between PT and UAP; 12% from UAP to UEL; 2% above UEL.

Earnings over LEL qualify for benefit, and must be reported under PAYE, but no NICs are payable until earnings reach PT.

The reduced Class 1 rate payable by certain married women and widows is 5.85% for earnings between PT and UEL, 2% above UEL.

Class 2 (Self-employed)	Earnings over £5,965 per year	£2.80 per week
Class 3 (Voluntary)	No limit applicable	£14.10 per week
Class 4 (Self-employed)	Profits between £8,061 and £42,385	9%
	Profits above £42,385	2%.

We are here to help so please contact:
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