Budget 2014

In presenting this year's budget the Chancellor clearly had the upcoming election in his mind with a focus on 'makers, doers and savers'.

The key measure of note is the change to pension provision, specifically the ability to access funds upon retirement. Other significant changes have largely already been announced and from a tax perspective there continues to be a focus on tackling aggressive avoidance. We have outlined below some of the main tax changes.

Pensions

Mr Osborne announced the most significant overall of the UK pensions regime since it was introduced. The intention of these measures is to increase pension flexibility and will remove the requirement to purchase annuities. Initially the measures will provide a greater number of people with the flexibility to access their pension savings and so with effect from 27 March 2014 the limits and restrictions in relation to benefits, drawdowns and taxed lump sums are being eased.

In addition, HMRC is aiming to tackle pension fraud whereby schemes are used to liberate pension funds before individuals reach retirement. HMRC is being given increased powers to refuse to register a pension scheme, to deregister a pension and the power to request more information.

Future reliefs and relaxations have been tabled and will be consulted on and will form separate legislation.

Tax rates and allowances

The personal allowance limit (currently £9,440) is increasing to £10,000 starting from the 2014/15 tax year and increasing to £10,500 in the following year. The higher rate band for income tax (currently £41,450) is also being increased; this results in taxable income starting to be taxed at 40% when over £41,865 in the 2014/15 tax year, rising to £42,285 in the 2015/16 tax year.

The 10% income tax starting rate applied to savings income is being abolished; this band of income will not suffer any tax in the future and is to be increased to £5,000 for the 2015/16 tax year.

Currently ISAs are split into two categories, Cash and Stocks & Shares ISAs. The two are going to be merged into one new more flexible ISA with an increased limit of £15,000 per year.

From April 2014 the Annual Investment Allowance is set to double to £500,000 per annum until 31 December 2015, falling back to £25,000 thereafter. Therefore up to £500,000 of expenditure on eligible capital items will receive a 100% first year deduction instead of the ongoing writing down allowance in the relevant tax computation.

The Seed Enterprise Investment Scheme (SEIS) relief which was introduced as a temporary relief from 6 April 2012 is to be permanently extended from 2014-15.

Payment of tax and disputed arrangements

There are two measures which may impact the payment of tax for 'avoidance' schemes that come into effect on the date of royal assent. HMRC will be able to issue a 'notice to pay' to a taxpayer with an open enquiry or where the matter is under appeal for arrangements that are disclosed under the DOTAS regime or have been counteracted through the use of the GAAR. The notice requires the taxpayer to pay the tax in dispute broadly within 90 days.

The second measure enables HMRC to issue a "follower notice" to a taxpayer where there is an open enquiry or appeal on an arrangement the courts have found to fail. The notice will require the taxpayer to amend their return or agree to resolve the dispute in line with the court's ruling. A 'notice to pay' can also be issued to taxpayers where the arrangement used is the same or very similar to an arrangement the courts have found to fail.

Partnerships

There was very little update on the partnership consultation in the budget apart from confirming that the measures will come into force in April 2014. We are still expecting further guidance on the mixed member partnership rules.

There was an indication that some of the measures referred to in the partnership review undertaken by the Office of Tax Simplification would be implemented. The immediate measures are short term fixes relating to clarification and administration including the production of a consolidated partnership manual.

Changes to the Annual Tax on Enverloped Dwellings (ATED) and SDLT

Two new bands have been introduced for Annual Tax on Enveloped Dwellings (ATED). Previously the initial band applicable started from property values over £2 million. The first band applies to residential properties worth over £1 million to £2 million, where an annual tax charge of £7,000 is imposed. The second band applies to residential property worth more than £500,000 to £1 million with an annual tax charge applicable of £3,500.

After 20 March 2014 a 15% rate of SDLT will apply to the acquisition of properties valued above £500,000 by non-individuals (largely corporates). Transitional provisions in place will ensure that the existing threshold will continue to apply on contracts entered into before 20 March 2014 but completed on or after that date.

R&D tax regime improvements

From 1 April 2014 the rate of R&D payable tax credit for loss making small SMEs will be increased from 11% to 14.5%. This will be particularly attractive to businesses in the start-up phase with a scientific/technology focus that are yet to generate sufficient profits to fully utilise the relief.

Employment intermediaries

Following consultation, legislation will be introduced to strengthen obligations from 6 April 2014 to ensure the correct income tax and NIC are paid by offshore employment intermediaries. Additionally, as announced in the Autumn Statement, legislation will be introduced from 6 April 2014 to prevent employment intermediaries being used to avoid employment taxes and obligations by disguising employment as self-employment including introducing a Targeted Anti-Avoidance Rule.

Artificial use of dual contracts by non-domiciles

As announced in the Autumn Statement, legislation will be introduced to prevent high earning non-domiciled individuals from avoiding tax by artificially dividing the duties of a single employment between a UK and an overseas contract.

Overseas employment income will be taxed on the arising basis where tax is not payable on the overseas contract at a rate broadly comparable to UK tax rates. Following technical consultation, legislation has been revised to prevent charges arising on dual contracts which are not motivated by tax avoidance. The legislation will be amended to prevent charges arising on directors with less than a 5 per cent shareholding in their employer; it will clarify that an income tax charge cannot arise on income related to employment duties performed in tax years prior to 2014-15, and the legislation will also take into account employments held for legal/regulatory reasons.

Finally, the threshold in the comparative tax rate test will be reduced from 75 per cent to 65 per cent of the UK additional rate. These changes will have effect from 6 April 2014. Non domiciled individuals with a combination of both UK and non UK employments should consider the potential impact on long standing arrangements.

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