ICAEW TAX FACULTY

BUDGET REPORT MARCH 2013

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BUDGET REPORT MARCH 2013

The 2013 Budget was delivered on 20 March 2013.

This summary of the Budget measures has been produced by the Tax Faculty's technical team and edited by Jane Moore.

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The Tax Faculty produces a range of technical information. All items published since January 2000 and selected items prior to that date, can be viewed on the website at icaew.com/taxfac where the information can be found under the heading 'Faculty Publications'.

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Printed by: Hobbs the Printers Ltd, Totton, Hampshire

Published by
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01. BUDGET OVERVIEW

COULD THIS BE A BUDGET FOR GROWTH?

The economic news continues to be bad and the *Financial Times* headline on Budget morning suggested that it would be a 'bleak budget'. In the end the Chancellor made the best of a very difficult situation and he may finally be able to bring about some of the growth that has so far proved elusive for this Government.

We are less optimistic about the public finances which we think may turn out to be in worse shape in the future than the Chancellor is currently projecting.

The Centre for Business and Economic Research (CEBR) with which ICAEW produces its economic forecasts thinks that the medium-term economic growth forecasts announced by the Office for Budget Responsibility (OBR) look unreasonable and are unlikely to be achieved, and the borrowing figures are going to be, potentially, much higher than the Chancellor is currently anticipating. This could start to cause serious problems if the interest rates that the Government has to pay to service the public debt also rise in the future.

There was much to applaud in the Chancellor's announcements including a further reduction in the headline rate of corporation tax to 20% from 2015 onwards, which means the same rate applies to all companies and the existing complexity caused by the small profits rate of tax and marginal relief will no longer exist.

One innovative measure is the employment allowance which will provide up to £2,000 per year for all businesses and charities to offset against their employers' NIC bills from April 2014. It is intended that this will be easy to administer, and the Government will be consulting with ICAEW and other organisations on the detailed design. If this succeeds in overcoming the difficulty of growing businesses taking on employees then it will be a very beneficial change. The estimated cost of this measure starts at £1.25bn in 2014/15 so it is anticipated that it will have a significant impact.

The increase in the personal allowance to £10,000 is being introduced a year earlier than anticipated and will come in from April next year. When there is a rise in the personal allowance this usually means the Chancellor lowers the threshold for the higher rate of tax, so that

'The Chancellor said that he wanted to help to create 'an aspiration nation' and he has made a bold attempt to do so.'

it only benefits people on lower incomes. The increase in the personal allowance is taking people out of income tax but not out of National Insurance, and it would be nice to feel that at some stage in the future a Chancellor will take up the challenge of aligning the two.

On the income tax front there is also going to be a new benefit of £1,200 towards childcare vouchers. This new scheme was announced the day before the Budget. Although help with childcare costs is welcome, we are concerned about the somewhat piecemeal approach of the Government in this area.

There is also going to be a new Help to Buy scheme which, in its title, is clearly designed to remind the electorate of Mrs Thatcher's Right to Buy which allowed council tenants to buy their own homes in the 1980s. The scheme will offer mortgage guarantees to prospective house-buyers. We have a number of concerns about this, from both an economic and accounting perspective. On the economy: will this simply inflate the housing market further? From an accounting perspective, will this be off-balance sheet lending? After all, giving an interest-free loan for five years does cost the Exchequer something, and there would have to be a provision for expected losses. There are other costs that the Government does not accrue for, such as student debt that will eventually need to be written off, and also pension liabilities.

Tax avoidance remains a key concern for the Government and the various measures announced by the Chancellor are anticipated to bring in more than £1bn per year once they are fully operational from next year. The major money spinners are the deals with the UK offshore islands concerning undeclared income in accounts in those countries. There are also going to be moves to stop the exploitation of corporation tax losses and the 'misuse' of partnerships. The legislation to stop the former will be in FB 2013, while there will be consultation on the latter with a view to legislation next year.

'There was much to applaud in the Chancellor's announcements including a further reduction in the headline rate of corporation tax to 20% from 2015 onwards.''

The introduction of a General Anti-Abuse Rule (GAAR) is now in the finishing straight, having been started by the Graham Aaronson study which began in late 2010. The amount of tax that the GAAR will bring in is expected to be about £50m, as it was always intended that it would only target the most egregious of schemes and not mainstream tax planning.

Finally, the Government is going ahead with proposals to prevent businesses getting government contracts if they have been involved in non-compliance. There was a Parliamentary announcement about this last September by the Chief Secretary to the Treasury but a formal consultation only took place over a two-week period last month. We were critical of a number of the proposals and we are delighted that the Government has listened to our concerns and modified them in a number of important respects: non-compliance has been more narrowly defined, only procurement contracts in excess of £5m will be affected, there will be no retrospection and the policy will be reviewed after 12 months.

The Chancellor said that he wanted to help to create 'an aspiration nation' and he has made a bold attempt to do so. With a 1p drop in the cost of a pint of beer there will be many raising their glasses to his potential success.

02. BUDGET DOCUMENTS AND LEGISLATION

The main Budget documents are the Red Book and the *Overview of Tax Legislation and Rates*. The Treasury has published a full transcript of the Chancellor's speech. And a new, and welcome, item this year from HMRC is an Index of every item on the HMRC Budget pages.

The Red Book summarises the Budget announcements and policy decisions, and includes the forecasts from the Office for Budget Responsibility. *The Overview of Tax Legislation and Rates* (the Overview Document) contains all the detailed tax information. The first two chapters provide short summaries of all the measures. The contents of the Overview Document are:

- Chapter 1 – details of all the tax measures which will be legislated in Finance Bill 2013 (FB 2013) or will otherwise come into effect in 2013/14.
- Chapter 2 – proposed tax changes announced in Budget 2013 to be legislated in future.
- Annex A – Tax Information and Impact Notes (TIINs) which give more detail of individual tax measures.
- Annex B – tables of tax rates and allowances.

The Tax Faculty's Budget summary refers to the numbered paragraphs in Chapters 1 and 2 of the Overview Document.

This year's Finance Bill (FB) will be published on 28 March 2013. Much of the FB 2013 material has been published in draft and consulted upon beforehand. In many cases the legislation which will be included in the Bill has not changed since it was published in draft. The Budget material contains nothing new about these measures and we have not covered them in our summary. A full list of them is in para 1.69 of the Overview Document.

03. RATES AND ALLOWANCES

The main rates and allowances for 2013/14 are summarised in the table on pages 6–7.

There is also a comprehensive list of rates and allowances at Annex A of the Overview Document.

This section highlights changes announced in the Budget, including those which will apply for 2013/14 and subsequent years.

PERSONAL TAX RATES AND ALLOWANCES (PARA 2.2)

The headline Budget announcement was that the basic income tax personal allowance will be £10,000 in the tax year 2014/15.

This change had been widely rumoured in advance, and fulfils the Government's stated aim of increasing the allowance to £10,000 before the end of the current parliament: in fact, it is being enacted a year sooner than expected. This represents a very considerable increase over the £6,475 personal allowance in 2010/11, when the Coalition Government came in.

The basic personal allowance is available to people born on or after 6 April 1948. In the current year, 2012/13, it is £8,105; in 2013/14 (as previously announced) it will be £9,440. Once the personal allowance has reached £10,000 in 2014/15, it will then increase in line with inflation based on the Consumer Prices Index (CPI) in future years, starting from 2015/16.

Those born before 6 April 1948 are currently entitled to higher, age-related personal allowances. As previously announced, from 2013/14 these allowances are being frozen at their 2012/13 levels until they align with the basic personal allowance. The age-related allowances are £10,500 for those born after 5 April 1938 and before 6 April 1948, and £10,660 for those born before 6 April 1938.

There have been no changes to income tax rates. The basic, higher and additional rates will be 20%, 40% and 45% for 2013/14. The basic rate band will be £32,010. The 10% starting rate applies to savings income falling within the first £2,790 of taxable income.

As announced in the 2012 Autumn Statement, the higher rate income tax threshold, which equals the sum of the personal allowance and the basic rate limit, will be increased by 1% to £41,865 in 2014/15. Therefore the basic rate limit will be £31,865 in 2014/15.

A Budget Tax Information and Impact Note explains more about the changes to these allowances.

CAPITAL GAINS TAX

The annual exempt amount in 2013/14 will be £10,900, increased from £10,600 in 2012/13. The exemption for most trustees will be £5,450.

There are no changes to capital gains tax (CGT) rates.

CORPORATION TAX (PARA 1.21)

The main rate of corporation tax is already scheduled to decrease to 23% from 1 April 2013. From April 2014 it will go down to 21%, and from April 2015 to 20%. The small profits rate remains at 20% and thus both rates will be aligned from 2014.

VAT (PARA 1.57)

The annual turnover threshold for VAT registration will go up from £77,000 to £79,000 from April 2013. The deregistration turnover limit will go up from £75,000 to £77,000.

RATES AND ALLOWANCES 2013/14

INCOME TAX RATES

Basic rate	20%
On income up to	£32,010
Higher rate	40%
On income between	£32,011–£150,000
Additional rate	45%
On income over	£150,000
Starting rate for savings income	10%
On income within first	£2,790
Lower dividend rate	10%
Higher dividend rate	32.5%
Additional dividend rate	37.5%
Trust rate	45%
Trust rate on dividends	37.5%

INCOME TAX ALLOWANCES

	£
Personal allowance (born before 5 April 1948)	9,440
Personal allowance (born between 6 April 1938 and 5 April 1948)	10,500
Personal allowance (born before 6 April 1938)	10,660
Married couple's allowance	7,915
Married couple's allowance minimum	3,040
Income limit for personal allowance	100,000
Income limit for age-related allowances	26,100
Blind person's allowance	2,160

PENSIONS

Annual allowance	£50,000
Lifetime allowance	£1.5m

NATIONAL INSURANCE

Rates are per week unless stated

Lower earnings limit, primary Class 1	£109
Upper earnings limit, primary Class 1	£797
Upper Accruals Point	£770
Primary threshold	£149
Secondary threshold	£148
Employees' primary Class 1 rate	
Between PT and UEL	12%
Above UEL	2%
Employee's contracted-out rebate	
Salary-related schemes	1.4%
Married women's reduced rate	5.85%
Employers' secondary Class 1 rate	13.8%
Employers' contracted-out rebate	
Salary-related schemes	3.4%
Class 1A rate on employer-provided benefits	13.8%
Class 2 rate	£2.70
Class 2 small earnings exception (year)	£5,725
Special Class 2 rate for share fishermen	£3.35
Special Class 2 rate for volunteer development workers	£5.45
Class 3 rate	£13.55
Class 4 lower profits limit (year)	£7,755
Class 4 upper profits limit (year)	£41,450
Class 4 rate between lower and upper profits limit	9%
Class 4 rate above upper profits limit	2%

TAX CREDITS

Working tax credit	£
Basic element	1,920
Couple and lone parent element	1,970
30 hour element	790
Disabled worker element	2,855
Severe disability element	1,220

Childcare element of the WTC	
Maximum eligible cost	
For one child	£175 per week
For two or more children	£300 per week
Eligible costs covered	70%

Child tax credit	£
Family element	545
Child element	2,720
Disabled child element	3,015
Severely disabled child element	1,220

Income thresholds and withdrawal rates	
First income threshold	£6,420
First withdrawal rate	41%
Second withdrawal rate	41%
First threshold for those entitled to CTC only	£15,910
Income disregard	£5,000
Income fall disregard	£2,500

CORPORATION TAX

For financial year 1 April 2013 to 31 March 2014	
Main rate	23%
Small companies' rate	20%
Upper profits limit	£1.5m
Lower profits limit	£300,000
Effective marginal rate	23.75%
Marginal rate fraction	3/400

CAPITAL GAINS TAX

Standard rate	18%
Higher rate and trust rate	28%
Annual exemption	
For individuals, PRs and some trustees	£10,900
For most trustees	£5,450
Entrepreneurs' relief rate	10%
Entrepreneurs' relief lifetime limit of gains	£10m

INHERITANCE TAX

Rate	40%
Lower rate where 10% or more of estate is left to charity	36%
Nil rate band	£325,000

VAT

Standard rate of VAT	20%
Reduced rate	5%
Registration threshold	£79,000
Deregistration limit	£77,000
Threshold for annual accounting and cash accounting	£1.35m
Threshold for flat rate scheme	£150,000

04. PERSONAL TAXES

NEW CHILDCARE SCHEME

Just before the Budget the Government announced a scheme to provide more help for the cost of childcare, worth up to £1,200 per child each year, to be phased in from autumn 2015. In the first year, all children aged under five will be eligible, but it will build up eventually to include all children under 12.

Interestingly, the scheme is to be available to families where both parents work, with each having earnings of less than £150,000, the current point at which the highest rate of tax, 45% from April 2013, becomes payable. This contrasts with last year's change to child benefit, which is now lost in part by those with income over £50,000 and completely where income exceeds £60,000.

We presume that earnings means 'taxable income' and so would include all income such as from savings and letting income, but the detail will come later after a period of consultation. One further condition will be that the family does not already receive support through tax credits or universal credit (the replacement for tax credits, being brought in over the next two years).

It seems that the scheme will operate as an online system, so continuing the Government's move to being Digital by Default. Parents will open an online voucher account with a voucher provider and have the amounts they contribute topped up by government. For every 80p contributed by parents, an additional 20p will be added by government, being equivalent to the current basic rate of income tax. We are pleased to note that there is no mention of employers having to operate this scheme for participating employees. With the current burdens being placed on employers who will have to operate Real Time Information (RTI) from April 2013, together with the plans for pension auto-enrolment which will affect them soon, this will come as a great relief.

The proposal is that these voucher accounts will then be used to pay for any Ofsted regulated childcare in England, or regulated by the equivalent bodies in Scotland, Wales and Northern Ireland.

The current scheme of employer-supported childcare (ESC) will continue for those already in the scheme, but no new members will be allowed to join. Existing participants will be able to choose whether they want to stay in or move to the new scheme. The outline of the new scheme, as suggested so far, promises that for a family with two children, the new relief will be worth more than double the amount of a single claim for ESC and be available to five times as many families.

We do not yet know much of the detail, but this is definitely focused on those who work, which we hope will include the self-employed.

There is to be consultation on how to support families within the new universal credit so that they will also be able to benefit to the same extent, but that will not come in until after April 2016.

ATHLETES COMPETING IN GREAT BRITAIN (PARAS 1.11 AND 1.69)

Following on from the exemption given to athletes competing in the London Olympics, any income received by non-resident sportspeople as a result of their performance at the London Anniversary Games, or of any activity carried out between 22 and 29 July 2013 where the main purpose is to support or promote the London Anniversary Games, will be exempt from UK income tax.

A similar measure announced in January 2013 for the Glasgow 2014 Commonwealth Games is confirmed.

STATUTORY RESIDENCE TEST (PARAS 1.3–1.4)

As previously announced, FB 2013 will include a new statutory residence test and remove as far as possible the concept of ordinary residence.

OVERSEAS WORKDAY RELIEF SP1/09 (PARA 1.5)

The relief for overseas workdays for employees who are UK-resident but not ordinarily resident is given via Statement of Practice (SP) 1/09. In consequence of the introduction of the statutory residence test with effect from 6 April 2013 and removal of the concept of ordinary residence, the statement of practice will be incorporated in legislation.

There have been consultations in connection with the introduction of the statutory residence test with a specific consultation on SP1/09 to which we responded, TAXREP 62/12. The legislation will preserve the administrative easement allowing eligible employees to calculate their tax based on the total transferred and remitted over the year from a nominated account rather than on a transaction-by-transaction basis.

AMENDMENTS TO THE TRANSFER OF ASSETS ABROAD LEGISLATION (PARA 1.15)

It is necessary to change the existing legislation in order to be EU-compliant. Proposals were offered up for consultation in 2012 (our responses can be found in TAXREP 53/12 and TAXREP 11/13). We were of the opinion that the draft legislation produced in December 2012 was still not EU-compliant so we await the publication of FB 2013 to see if appropriate amendments have been made.

The legislation is being revised to partially exempt income from charge when the income is attributable to a transaction where part is genuine and part is not. The change will have retrospective effect from 6 April 2012. The proposed changes to clarify the 'matching rules' (the rules governing the calculation of the income chargeable when an individual other than the transferor receives a benefit following the transfer of an asset) have been postponed pending further consultation and legislation will be introduced in FB 2014.

05. PENSIONS

LIFETIME ALLOWANCE (PARAS 1.12 AND 2.10)

The changes announced in the Autumn Statement 2012 are confirmed.

The standard lifetime allowance, the total tax relieved pension savings that an individual can have in their lifetime, is reduced from £1.5m to £1.25m from 6 April 2014.

As with previous reductions individuals will be able to claim fixed protection if they think their pension rights will be in excess of £1.25m at the time they take their pension. The Government will also offer an individual protection regime in addition to the fixed protection, and will consulting on the detail of this.

ANNUAL ALLOWANCE (PARA 1.12)

In addition, the annual allowance for pension contributions will be reduced from £50,000 to £40,000 for the 2014/15 tax year onwards.

PENSIONS DRAWDOWN POLICY (PARA 1.13)

As announced in Autumn Statement 2012, legislation in FB 2013 will increase the capped drawdown limit for pensioners of all ages from 100% to 120% of the value of an equivalent annuity.

Following consultation, the legislation has been revised to remove the rule requiring the maximum drawdown pension to be recalculated after a pensioner with transitional protection from the Finance Act 2011 rules transfers to another scheme, so ensuring that transfers do not affect the capped drawdown limit. These changes will have effect from 26 March 2013.

ABOLITION OF CONTRACTING-OUT (PARA 1.14)

Tax legislation is being brought into line with Department of Work and Pensions legislation which abolished contracting-out through a defined contribution pension scheme from 6 April 2012. Following consultation, the legislation has been revised to clarify the types of payment that would be considered a 'member's contribution' for the purposes of a short service refund lump sum.

06. SAVINGS AND INVESTMENT

SEED ENTERPRISE INVESTMENT SCHEME (PARAS 1.6–1.7)
Budget 2013 has made two proposals which will be welcome to those seeking to use the Seed Enterprise Investment Scheme (SEIS) which is available for investments made on or after 6 April 2012. CGT relief has been extended and a holding company issue affecting formation agents has been resolved.

We are very pleased that the CGT holiday which was introduced originally for gains realised on the disposal of assets in 2012/13 is to be extended for a further year. In 2012/13, the CGT exemption was subject to a £100,000 investment limit (which matches a similar cap on SEIS-related income tax relief).

Gains realised on disposals in 2013/14 that are invested through SEIS in 2013/14 or the following year will be exempt from CGT, but the extension of the relief is only for half the qualifying reinvested amount.

The second change resolves a problem which has affected some companies and investors seeking investment under SEIS. It will amend the ‘independence’ condition to be met by a company hoping to qualify under SEIS, to ensure that companies established by corporate formation agents will not inadvertently be disqualified from taking advantage of the scheme.

The problem concerned the need for the company to be ‘independent’, ie it must not have been controlled by another company at any time from incorporation to the end of the qualifying period for the shares in question.

From 6 April 2013, this rule will be amended so that companies which are established and controlled initially by another company will not be disqualified, providing that that control existed only during a period where the company had issued only subscriber shares and had not yet begun, or begun preparations for, its trade or business.

ENTERPRISE MANAGEMENT INCENTIVES (PARA 1.9)
As announced in Budget 2012, legislation in FB 2013 will remove, for shares acquired through the exercise of a qualifying EMI scheme option, the requirement for a person to hold 5% or more of the ordinary share capital in the company in order to qualify for the entrepreneurs’ relief.

Following consultation, the legislation has been revised to allow the period during which the option is held to count towards the qualifying 12-month holding period requirement. In addition, relief will also apply to the disposal of shares that replace EMI shares following a reorganisation of a company and to certain shares following an exchange for shares in another company.

LIFE INSURANCE QUALIFYING POLICIES (PARA 1.69)
Following consultation on the proposal announced at Budget 2012, tax relief on premiums for qualifying life policies will be restricted to premiums of £3,600.

OFFSHORE FUNDS (PARA 1.30)
A minor change has been made by statutory instrument on Budget Day to put UK investors in offshore funds on the same footing tax-wise as investors in equivalent UK funds (the Offshore Funds (Tax) (Amendment) Regulations 2013, SI 2013/661).

If a disposal of an interest in an offshore fund would give rise to a taxable offshore income gain, then the potential charge cannot be avoided by any merger or reorganisation of the fund. The change is classed as a clarification, putting beyond doubt that the charge cannot be avoided, rather than an amendment. Some further alignments are required with regard to reporting offshore funds and these will be published for consultation.

WITHHOLDING TAX RULES ON INTEREST DISTRIBUTIONS (PARA 1.32)
The Government will consult on a proposal to remove the requirement to withhold tax on interest distributions on UK-domiciled bond funds when sold via reputable intermediaries and marketed only to non-UK investors.

07. EMPLOYMENT TAXES AND NIC

EMPLOYMENT ALLOWANCE (PARA 1.19)

At the end of his speech the Chancellor announced what he described as the largest tax cut in the Budget: an employment allowance for businesses and charities.

From April 2014, all business and charity employers will be able to offset an annual allowance of £2,000 against their secondary Class 1 National Insurance contributions (NICs) liability.

We welcome this measure, but, as ever, the devil will be in the detail, so we are pleased that Government has undertaken to engage with business representative bodies on the details of the design and operation of the new allowance.

The employment allowance is intended to be simple to administer, to encourage maximum take-up. It will be delivered through standard payroll software and HMRC's RTI system. Employers will confirm their eligibility through their regular payroll processes thereby ensuring that £2,000 can be deducted from employer NIC over the course of the year's PAYE payments.

Government estimates that up to 1.25m employers will benefit, with over 90% of the benefit going to small businesses. The scale of the allowance means that 450,000 of the UK's small businesses will no longer pay any employer NICs. On average, employers with fewer than 10 employees over the course of the year will see their employer NICs bill reduced by 80%.

EMPLOYEE SHAREHOLDER STATUS: TAX EXEMPTIONS (PARAS 1.8 AND 2.5)

A new employee shareholder status was announced on 8 October 2012. Employee shareholders will have different employee rights and will receive shares worth between £2,000 and £50,000 in the company for which they work. The new employment status is contained in Clause 27 of the Growth and Infrastructure Bill (currently at Report Stage in the House of Lords).

Employee shareholders will benefit from two tax reliefs with effect from 1 September 2013, when the new status comes into force:

- Gains on up to £50,000 of shares acquired by employee shareholders will be exempt from CGT. Existing share pooling and identification rules will be amended as necessary.
- The first £2,000 of share value that employees receive under the new status will be free from income tax and NIC when they acquire the shares. This will be achieved by deeming an employee shareholder to have paid £2,000 for their shares and will ensure that there is no tax or NIC liability for an employee shareholder who receives the minimum allocation.

In addition, the Government will introduce a new CGT relief in FB 2014 on the sale of a controlling interest of a business into an employee ownership structure. It will also look at further incentives in this area, including measures targeted at employees through indirect ownership models.

BENEFICIAL LOANS (PARA 2.9)

The exempt threshold for beneficial loans by employers to employees will be increased from £5,000 to £10,000 from April 2014. Such loans include low cost and interest free loans, and notional loans arising from the provision of employment-related securities. Employers will no longer be required to report details of loans where the outstanding balance is £10,000 or less throughout a tax year.

CAR AND VAN FUEL BENEFIT (PARA 1.18)

The rate of fuel benefit charge for company cars and company vans, and the benefit charge for company vans, will all increase in line with inflation (based on RPI) for 2014/15. The increase will be based on the September 2013 RPI figure. The changes will be brought in by secondary legislation in the autumn, in time for the normal tax code exercise in January 2014.

COMPANY CAR TAX (PARA 1.17)

From April 2015, two new CCT bands for ultra-low emission vehicles (ULEVs) will be introduced at 0–50 grams/kilometre of carbon dioxide (g/km CO_2) and 51–75 g/km CO_2.

The appropriate percentage of the list price subject to tax for the 0–50 g/km CO_2 band will be 5% in 2015/16, and 7% in 2016/17.

The appropriate percentage of the list price subject to tax for the 51–75 g/km CO_2 band will be 9% in 2015/16 and 1% in 2016/17.

From 6 April 2016 the 3% diesel supplement will be removed

In 2017/18 there will be a 3% differential between the 0–50 and 51–75 g/km CO_2 bands, and between the 51–75 and 76–94 g/km CO_2 band.

In 2018/19 and 2019/20 there will be a 2% differential between the 0–50 and 51–75 g/km CO_2 bands and between the 51–75 and 76–94 g/km CO_2 bands.

In future years company car tax rates will be announced three years in advance. The Government will review these incentives for ULEVs in light of market developments at Budget 2016, to inform decisions from 2020/21 onwards.

EMPLOYEE SHARE ACQUISITIONS: CORPORATION TAX RELIEF (PARA 1.62)

The rules that govern the corporation tax (CT) deductions available where companies grant share options or award shares to their employees will be clarified as follows:

- If relief is given under Part 12, Corporation Tax Act 2009, companies may not claim any other CT deduction in relation to the provision of the employee shares or share options, or in relation to any connected matter, other than where specified.

- Other than in specified circumstances, no CT deductions are available to a company in relation to employee share options, or any matter connected with such an option, unless shares are acquired pursuant to that option.

The measure has effect for accounting periods ending on or after 20 March 2013, irrespective of when shares were awarded or an option was granted. However, the measure will not operate to deny CT deduction in an accounting period spanning 20 March 2013 where the shares are acquired prior to that date or an option to acquire shares lapsed prior to that date

OTS REVIEWS OF SHARE SCHEMES (PARAS 1.10, 2.3 AND 2.4)

Legislation in FB 2013 will implement a number of the recommendations made by the Office of Tax Simplification (OTS) in its review of tax-advantaged employee share schemes. Following consultation, the legislation has been revised to:

- protect the position of current Save As You Earn (SAYE) participants who reach a specified age;

- widen the range of circumstances in which tax-free exercise of SAYE and Company Share Option Plan options or tax free payments for Share Incentive Plan (SIP) shares, will be available on the cash takeover of a business;

- ensure that SIP partnership shares may not be subject to forfeiture provisions;

- allow businesses flexibility to limit the amount of cash dividends that can be reinvested in SIP dividend shares; and

- make a number of minor technical and consequential revisions.

Most of these changes will have effect from the date of Royal Assent to FB 2013, although changes which relate to the reinvestment of cash dividends paid on SIP shares apply from 6 April 2013.

Following a recommendation from the OTS and subsequent HMRC consultation, the Government announced in December 2012 that it would replace the current system of HMRC approval of tax-advantaged employee share schemes with self-certification of schemes by businesses. The Government is developing arrangements for self-certification in consultation with businesses, and will publish details shortly. Legislation will be in Finance Bill 2014.

The OTS also carried out a review of unapproved share schemes. The Government will consult on a number of its recommendations.

08. BUSINESS TAX

SIMPLER INCOME TAX FOR SMALL BUSINESSES (PARA 1.20)

Readers who have been following the progress of the cash accounting proposals will recall that ICAEW has made a number of representations about these and had many meetings with government along the way. The Budget has given advance notice of what we can expect to see when FB 2013 is published next week. This looks better.

While we are still convinced that it would have been better to restrict the scheme to just those smallest businesses recommended by the Office of Tax Simplification (OTS), ie those with turnover less than £30,000 and few fixed assets, stock, debtors or creditors, it seems that the actual rules will at least be amended in line with some of our suggestions. From 2013, unincorporated businesses with income below the VAT threshold (twice the threshold if the owner is claiming universal credit) will be able to pay income tax based on their income actually received less their expenses.

There is an overview of the cash basis proposals before these changes were announced in March 2013 *TAXline*. The Budget 2013 changes to the previous proposals are:

1. Businesses using the cash basis will be able to continue to do so until their business circumstances change so that the cash basis is no longer suitable. The previous plan was to allow unrestricted choice between the cash and accruals bases from year to year. There is no mention of a lock-in period for using one basis rather than another.

2. The rule in *Sharkey v Werner* will not have to be followed. This usually applies where a trader takes stock from his business for private use. For tax purposes, this rule is that the transfer must be dealt with as if it were a sale or purchase at market value. So, goods that a trader takes from his trading stock, eg for the personal use and enjoyment of himself and members of his household, must be credited at market value.

   Instead, where a business is using the cash basis and an individual takes business goods for own use, the business will have to provide for an adjustment on a 'just and reasonable' basis. We will see more about how this will work when we see the legislation and HMRC's guidance.

3. Businesses using the cash basis will not have to use flat rate expense deductions when using a car for business purposes. Instead they will be able to claim capital allowances and relief for a proportion of the actual costs incurred in the usual way. This will make cash accounting more attractive to minicab drivers and others who use their cars a lot for business.

4. The actual legislation will be simplified.

We will have to wait until 28 March to see the draft legislation before we know see what else has changed.

OTS REVIEW OF PARTNERSHIPS (PARA 2.6)

The Government has asked the OTS to carry out a review of ways to simplify the taxation of partnerships. This will include an initial scoping exercise to identify which areas are most complex for taxpayers.

CAPITAL ALLOWANCES: ENERGY-SAVING PLANT AND MACHINERY IN NORTHERN IRELAND (PARA 1.34)

Changes will ensure that plant and machinery in Northern Ireland that qualifies for both the renewable heat incentive (RHI) and the enhanced capital allowances (ECA) for energy-saving technologies is treated in the same way as similar plant and machinery located in the rest of the UK. This will also ensure that should a feed-in tariff scheme be introduced into Northern Ireland at a later date, expenditure on plant and machinery that qualifies for such tariffs will be treated in the same way as the rest of the UK.

Legislation was introduced in Great Britain in Finance Act 2012 (FA 2012) precluding expenditure on plant and machinery that receives feed-in tariffs or RHI payments from also qualifying for ECAs. This took effect from April 2012.

In November 2012 the RHI scheme for Northern Ireland was introduced. As the FA Act 2012 legislation only applies to Great Britain, ECAs and RHI are both still available for plant and machinery that qualify for both types of incentive in Northern Ireland, but not in the rest of the UK.

Generally, the measure will take effect for expenditure incurred on or after 1 April 2013 (for businesses within the charge to corporation tax) or 6 April 2013 (for businesses within the charge to income tax).
For expenditure on combined heat and power equipment (CHP), the change will only apply to expenditure incurred on or after 1 April 2014 (for businesses within the charge to corporation tax) or 6 April 2014 (for businesses within the charge to income tax).

CAPITAL ALLOWANCES: RAILWAY ASSETS AND SHIPS (PARA 1.35)
Investors in railway assets or ships are currently excluded from access to 100% first-year allowances (FYAs). This exclusion is to be removed for qualifying expenditure on railway assets or ships incurred on or after 1 April 2013.

CAPITAL ALLOWANCES: ENERGY-SAVING AND WATER EFFICIENT TECHNOLOGIES (PARA 1.36)
Businesses purchasing designated plant and machinery which uses energy efficiently, reduces water use or improves water quality can claim a 100% first year allowance on the cost. This is particularly beneficial for those businesses that have used up their annual investment allowance (AIA), which for the period 1 January 2013 to 31 December 2014 is £250,000.

Measures in Budget 2013 update the lists of technologies and products covered by the energy-saving and water efficient enhanced capital allowances schemes.

Subject to State aid approval, the changes to the schemes will have effect on and after a date to be appointed by Treasury Order to be made prior to the summer 2013 parliamentary recess.

NICS FOR THE SELF-EMPLOYED (PARA 2.18)
The Government will consult on options to simplify the administrative process for the self-employed by using self assessment to collect Class 2 NICs alongside income tax and Class 4 NICs.

09. COMPANY TAX

CORPORATION TAX RATES (PARAS 1.21 AND 2.19)
In the 2012 Autumn Statement the Chancellor announced that in addition to the 1% reduction previously announced, the main rate of corporation tax was to be reduced by a further 1% to 21% from April 2014. There was no change to the small profits rate.

He has announced in Budget 2013 that the main rate will be cut again, to 20%, for Financial Year 2015.

Financial year (from 1 April)	Main rate	Small profits rate
2012	24%	20%
2013	23%	20%
2014	21%	20%
2015	20%	20%

There will be no more marginal or tapering relief calculations and this provides an opportunity for major simplification. We may need to do some more thinking before we rush in and cross out the associated company rules entirely, but certainly the need for these will be reduced dramatically. Exciting opportunities for reducing the administrative burden lie ahead.

BANK LEVY (PARA 1.22)
In order to ensure that the bank levy raises at least £2.5bn each year the full rate of the levy is to increase from 0.105% to 0.130% from 1 January 2013. In addition, the full rate of the levy is to be 0.142% from 1 January 2014, to ensure that the amount collected from banks is the same as it would have been without the reduction in the headline rate of corporation tax.

R&D TAX CREDIT REFORM (PARA 1.23)
Companies claiming research and development (R&D) tax relief will benefit from a 10% ‘Above the Line’ (ATL) credit for large company R&D activity. They will be able to claim the ATL credit for qualifying expenditure incurred on or after 1 April 2013.

The Government announced at Autumn Statement 2011 that it would introduce such a credit for large company R&D investment in April 2013. In Budget 2012 it confirmed that the ATL credit would be taxable, paid at a minimum pre-tax rate of 9.1%, and be payable to companies with no corporation tax liability. The Tax Faculty has responded to the consultations on this as the proposals were formulated.

The ATL credit scheme will initially be optional and companies will be required to elect to claim R&D relief under this scheme. Companies that do not elect to claim the ATL credit will be able to continue claiming R&D relief under the current large company scheme until 31 March 2016. The ATL credit will become mandatory on 1 April 2016.

EMPLOYEE SHARE ACQUISITIONS: CORPORATION TAX RELIEF (PARA 1.62)

See section 7.

CONTROLLED FOREIGN COMPANIES (PARA 1.28)

In addition to the changes announced in the Autumn Statement there are also going to be four further minor technical amendments in FB 2013 to make sure the new controlled foreign companies (CFC) regime, which comes in from January this year, will operate as intended.

EXIT CHARGES (PARA 1.26)

The UK accepted that its existing law under which tax is charged immediately when a company changes its residence to another EU member state is contrary to the European Treaty. Companies will now be able to defer the payment of the potential charge so that it is either payable over six equal annual instalments or payable when the relevant assets are disposed of.

In the case of intangible assets the useful economic life of each asset will be determined at the point of migration and tax payable in equal annual instalments over that estimated useful economic life.

FOREIGN CURRENCY ASSETS AND CHARGEABLE GAINS (PARA 1.24)

Companies have to calculate the gain or loss on disposal of a chargeable asset by converting the costs and the proceeds into sterling even if they have a functional currency other than sterling. This can give rise to gains/losses attributable to currency fluctuation, which, given that the functional currency is not sterling, does not seem appropriate.

FB 2013 will introduce changes to the computation of chargeable gains for companies with a functional currency other than sterling on the disposal of ships, aircraft, shares and interests in shares. The gain/loss will be calculated in the functional currency and then converted to sterling using the exchange rate at the date of disposal.

REVIEW OF LOAN RELATIONSHIPS AND DERIVATIVES (PARA 2.23)

The Government will consult on modernising the legislation in Parts 5, 6 and 7 of Corporation Tax Act 2009 governing the taxation of loan relationships and derivative contracts. It aims to provide simpler and fairer tax treatment, minimising the scope for abuse, reducing uncertainty and improving structural and legislative clarity as well as reducing administrative burdens. Legislation will be in FB 2014 and FB 2015.

10. CHARITIES

GIFT AID (PARA 2.16)

The Government is looking at options to improve the take-up of Gift Aid on donations through digital channels. It will consult after the Budget on a range of options including enabling donors to complete a single Gift Aid declaration to cover all their donations through a specific channel. The consultation will inform policy changes, and should these require primary legislation, this will be in FB 2014.

PAYROLL GIVING (PARA 2.17)

The Government published a consultation on improving payroll giving on 24 January 2013. It set out a range of options to increase amounts received by charities through payroll giving, including opening up the market to non-charity participants.

COMMUNITY AMATEUR SPORTS CLUBS (PARA 1.38)

As announced on 4 March 2013, powers will be introduced in FB 2013 to allow the Government to change the rules on community amateur sports clubs (CASCs) through secondary legislation. The Government will consult on a range of issues including fees, allowable income, travel expenses and permitting limited payments to players, before laying regulations after Royal Assent to FB 2013.

11. PROPERTY TAX

HIGH VALUE RESIDENTIAL PROPERTY OWNED BY NON-NATURAL PERSONS (PARAS 1.39–1.41)
As announced in Budget 2012 various tax measures are being introduced to tax high value residential properties owned by non-natural persons (NNP).

Consultations have taken place over the past year (for our responses see TAXREP41/12, TAXREP2/13 and TAXREP12/13) which have shaped the draft legislation to be introduced in FB 2013.

In particular, there are now several reliefs available which cover (for example) property development businesses, residential properties open to the public for at least 28 days a year, working farmhouses, and residential properties owned by a charity and held for charitable purposes.

The taxes to be charged are:

- 15% stamp duty land tax (SDLT) payable for property acquired by a NNP for consideration in excess of £2m with effect from 21 March 2012.
- Annual tax on enveloped dwellings (ATED) of between £15,000 and £140,000 depending on the value of the property.
- CGT on disposals after 6 April 2013 for gains accrued on or after 6 April 2013.

ATED is the name now given to what we have been calling Annual Residential Property Tax (ARPT).

12. STAMP TAXES

SDRT: ABOLITION OF SCH 19 (PARA 2.27)
Legislation will be introduced in FB 2014 to abolish the stamp duty reserve tax (SDRT) charge on unit trusts and open-ended investment companies in Sch 19, Finance Act 1999.

STAMP DUTY ON JUNIOR SHARES (PARA 2.28)
The Government intends to abolish stamp duty and SDRT on share transactions in UK companies quoted on small company growth markets such as the Alternativve Investment Market and ISDX Growth Market. Legislation will be in FB 2014.

SDLT ON HIGH VALUE RESIDENTIAL PROPERTY
See section 11 above.

SDLT: LEASES SIMPLIFICATION (PARA 1.44)
As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to simplify the reporting requirements that apply when a lease continues after the expiry of its fixed term and where an agreement for lease is substantially performed before the actual lease is granted. The rules on abnormal rent increases will also be abolished. Following consultation the legislation has been revised to provide clarification of how the provisions apply in certain circumstances. The legislation will have effect from the date of Royal Assent to FB 2013.

13. IHT AND TRUSTS

INHERITANCE TAX AVOIDANCE (PARA 1.60)
An anti-avoidance measure has been introduced to stop certain loans being set off against the value of a death estate for IHT purposes. For most estates where the liability is repaid after death the loan will continue to be allowed as a deduction although there will be less choice as to which asset the loan is deducted from.

Currently there are few rules as to how a liability should be taken into account although a liability secured on a particular asset should be set first against that asset. It is proposed to include provisions in FB 2013 that will be effective from Royal Assent as follows:

- Deduction allowed only to the extent that it is repaid unless there is a commercial reason for not repaying the liability and it is not part of an arrangement designed to give a tax advantage.
- No deduction for a liability to the extent it has been incurred to acquire property which is excluded from charge to IHT (property situated outside the UK which belongs to or was settled by a non-UK domiciliary). If the acquired property is no longer held or the liability is greater in value than the excluded property, the deduction may be allowed.
- Where the liability has been incurred to acquire assets qualifying for business property relief, agricultural property relief or woodlands relief, the liability must be set against the value of those assets first with any excess being set off against the rest of the estate.

The new rules will also apply to settled property.

IHT NIL RATE BAND (PARA 2.13)
Despite saying while in opposition that the nil rate band would be increased to £1m, the Chancellor has confirmed that it will be frozen at the 2009/10 level of £325,000 until 2017/18.

The measure is part of the package to cap the care costs for older people to £72,000 from April 2016 (previously announced as £75,000 from April 2017). By freezing the nil rate band more estates are brought into the IHT net. In the period since 2001/02 the nil rate band has increased by just 34% whereas property prices have risen by over 80%, and if the property market picks up in the next few years to April 2018 even more estates will become liable.

NIL RATE BAND FOR NON-UK DOMICILIARIES
It has been confirmed that the tax-free limit for a transfer to a non-UK domiciled spouse will be increased from its historical rate of £55,000 to the nil rate band threshold, currently £325,000, for transfers on or after 6 April 2013.

It will also be possible for non-UK domiciled individuals with a UK-domiciled spouse or civil partner to elect to be treated as UK-domiciled for IHT purposes. The election has to be made in writing. The electing spouse can choose a date from which the election applies, going back up to a maximum of seven years, although the earliest date is 6 April 2013. Under the original proposals the election could not be backdated; it only applied from the date of election. Elections will be irrevocable but will lapse if the electing spouse is non-UK resident for more than four full consecutive years, increased from three in the original proposal. Elections following the death of an individual have to be made within two years of the death and can only apply to deaths on or after 6 April 2013.

IHT AND TRUSTS (PARA 2.14)
There was a consultation on simplifying the IHT periodic charges on trusts in July 2012 (our response is in TAXREP 50/12) and the result of this consultation together with options for simplifying the charges will be published this spring. The intention is to introduce legislation in FB 2014.

VULNERABLE BENEFICIARIES
Although not in the Budget press releases HMRC has confirmed that the draft legislation for vulnerable beneficiary trusts will be amended to:

- withdraw the clauses that remove the 'power of advancement disregard';
- harmonise the three different versions of the disregard; and
- extend the transitional rules so that trusts created by will can make use of the existing rules where the will was executed prior to 8 April 2013.

See our response to the consultation on the draft clauses, TAXREP13/13 where we pointed out these issues. The legislation will be in FB 2013.

14. VAT

VAT THRESHOLDS FOR REGISTRATION AND DEREGISTRATION (PARA 1.57)
With effect from 1 April 2013:

- The annual taxable turnover threshold, which determines whether a person must be registered for VAT, will be raised from £77,000 to £79,000.
- The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £75,000 to £77,000.
- The registration and deregistration limits for relevant acquisitions from other EU member states will also be increased from £77,000 to £79,000.

The increase in the annual taxable turnover threshold means that a person will have to apply for registration if:

- at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £79,000; or
- at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £79,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £79,000 but HMRC is satisfied that it will not exceed £77,000 in the next 12 months, that person will not have to be registered.

The simplified reporting requirement (three-line accounts) for the income assessment return will continue to be aligned with the VAT registration threshold. For the 2013/14 tax year and onwards, small businesses will be able to use the new simpler income tax cash basis intended to simplify the way in which small businesses can calculate their trade profits. The eligibility conditions for the cash basis will be linked to the VAT registration threshold in place at the end of the tax year.

REVALORISATION OF FUEL SCALE CHARGES (PARAS 1.55–1.56)

A statutory instrument laid on 20 March 2013 will revalorise fuel scale charges with effect from 1 May 2013. The fuel scale charges are published in Annex B of Overview Document.

As announced in Autumn Statement 2012, legislation in FB 2013 will amend the way that VAT law sets out the scale charges and provide for their annual revalorisation. This will bring two concessions into law, simplify the annual revalorisation process and take it out of the Budget. HM Treasury will be given powers to amend the way the annual revalorisation is done, including to change the definition of road fuel and thus the scope of the optional scheme, after a parliamentary debate. A change to the legislation published in December means that a similar power to amend will also apply to the definition of road fuel in the anti-avoidance section of the legislation. This does not affect the way the legislation will operate.

WITHDRAWAL OF EXEMPTION FOR SUPPLIES OF RESEARCH (PARA 1.58)

Subject to the responses received to a recent consultation, it is planned to withdraw the VAT exemption for business research supplied by one eligible body to another on 1 August 2013. The Government will consider the possibility of transitional reliefs.

RETAIL EXPORT SCHEME (PARA 2.35)

There will be a consultation in the summer on options for redesigning the Retail Export Scheme, which allows refunds of VAT on goods bought in the UK by non-EU visitors who export those goods in their personal luggage. The aim is to make the scheme easier to use and understand, reduce the scope for error and improve compliance. HMRC will explore the impact of a range of options, including the potential for introducing a digital scheme.

CHANGES TO ZERO-RATING OF EXPORTS (PARA 2.36)

The Government will consult on secondary legislation on VAT zero-rating of certain supplies of goods for export outside the EU. These changes will treat sales to businesses that are VAT registered in the UK but have no business establishment here as zero-rated where they arrange for the export of the goods to a non-EU destination. Current UK law applies VAT to such transactions and is not compatible with EU law. Following consultation, a statutory instrument will be laid in late summer or early autumn.

CHANGES TO THE PLACE OF SUPPLY RULES (PARA 2.37)

Legislation will be introduced in FB 2014 to tax intra-EU business-to-consumer supplies of telecommunications, broadcasting and e-services in the member state in which the consumer is located. The changes in the VAT treatment of these services, which are currently taxed in the member state in which the business is established, will take effect from 1 January 2015.

To save the need for businesses affected by these changes to register for VAT in other member states, a 'Mini One Stop Shop' will also be introduced from 1 January 2015. This is an IT system that will give businesses the option of registering in just the UK and accounting for VAT due in other member states using a single return.

HMRC has issued a question and answer paper to provide guidance on the changes.

REFUNDS MADE BY MANUFACTURERS (PARA 2.38)

FB 2014 will include a power to make regulations that will allow manufacturers to reduce their VAT payments to take account of refunds they make directly to final customers. These could be adjustments to VAT to reflect refunds made as a result of faulty or damaged products or customer dissatisfaction. There will be consultation to gain a better understanding of industry practices to support the design of the legislation.

REFUND CLAIMS BY HEALTH AUTHORITIES (PARA 2.39)

Following changes proposed in the Care and Support Bill, FB 2014 will add the Health Research Authority and Health Education England within s41, VAT Act 1994. This will ensure that these bodies can continue to claim refunds of VAT.

EXTENSION OF THE EDUCATION EXEMPTION (PARA 2.40)

The responses to the consultation on the VAT treatment of university degree level education supplied by commercial entities have identified a number of significant concerns with the options proposed. The Government is now seeking to develop alternative options, which will also cover possible changes to the exemption for further education, and will consult again on this matter later in the year.

15. DUTIES

GAMING DUTY (PARA 1.45)

The gross gaming yield (GGY) bandings for gaming duty are to be raised in line with inflation (based on RPI). The revised GGY bandings used to calculate gaming duty must be used for accounting periods starting on or after 1 April 2013.

These and other duty rates are published in Annex B of the Overview Document.

TOBACCO DUTY (PARA 1.46)

The duty rates for all tobacco products were raised by 2% above the rate of inflation (based on RPI) from 6pm on 20 March 2013. This adds 26p to the price of 20 cigarettes, 9p to the price of a pack of five small cigars, 26p to the price of a 25g pouch of hand-rolling tobacco, and 14p to the price of a 25g pouch of pipe tobacco.

ALCOHOL DUTY (PARA 1.47)

The duty rates for spirits, wine and made-wine, cider and perry are increased by 2% above the rate of inflation (based on RPI) with effect from 25 March 2013. This adds 2p to the price of a litre of cider, 10p to the price of a bottle of wine and 38p to the price of a bottle of spirits. The duty rates on beer decrease by 6% for low strength beer (less than 2.8% abv), 2% for the standard rate of beer duty (between 2.8% and 7.5% abv) and 0.75% on high strength beer (above 7.5% abv) with effect from 25 March 2013. This reduces the price of an average strength pint of beer by 1p.

FUEL DUTY (PARA 1.48)

FB 2013 will include legislation to reflect the cancellation of the 1 January 2013 fuel duty increases and to amend fuel duty rates to reflect the current effective rates of duty. It was also announced that the fuel duty increase that was due to take effect on 1 September 2013 would be cancelled.

VEHICLE EXCISE DUTY (PARA 1.49)

Vehicle excise duty (VED) rates will be increased in line with inflation (based on RPI) with effect from 1 April 2013. The exceptions to this are VED rates for heavy goods vehicles, buses and other selected vehicles, which will be frozen in 2013/14.

VED: HEAVY GOODS VEHICLES HGVS (PARA 2.31)

Legislation will be introduced in FB 2014 to reduce and restructure VED for HGVs. These changes will have effect from 1 April 2014.

VED: CLASSIC VEHICLES (PARA 2.33)

Legislation will be introduced in FB 2014 to extend by one year the cut-off date from which classic vehicles are exempt from VED. From 1 April 2014, a vehicle manufactured before 1 January 1974 will be exempt from paying VED.

16. ENVIRONMENTAL TAXES

AIR PASSENGER DUTY (PARAS 1.50 AND 2.30)
Air passenger duty rates are to increase in line with inflation (based on RPI) from 1 April 2013 and again from 1 April 2014.

CLIMATE CHANGE LEVY (PARA 1.51)
The rates of climate change levy (CCL) will increase in line with inflation (based on RPI) from 1 April 2014.

CCL: EXEMPTIONS FOR CERTAIN INDUSTRIES (PARA 2.34)
The Government will introduce exemptions from the CCL for energy used in metallurgical and mineralogical processes from 1 April 2014. It will seek views from industry after the Budget, with the intention of introducing legislation in FB 2014.

CARBON PRICE FLOOR (CPF) (PARA 1.52)
The CPF will be introduced in Great Britain from 1 April 2013. Legislation in FB 2013 will set the carbon price support (CPS) rates of CCL for the years 2013/14, 2014/15 and 2015/16, and will exempt Northern Ireland.

Following consultation on draft legislation, FB 2013 will also include minor changes to the CPF:

- all solid fuels that are taxed under CCL will be taxable commodities for CPS, with one rate covering all solid fuels;
- the previously announced reliefs from the CPS rates of CCL for coal slurry and stand-by generators will be clarified; and
- where conditions are met, credit from the CPS rates of CCL will be allowed when fuel which has borne CPS tax, but has not been used to generate electricity, is removed from a power station.

LANDFILL TAX (PARA 1.53)
The standard rate of landfill tax will increase by £8 per tonne to £80 per tonne for disposals of waste made, or treated as made, to landfill on or after 1 April 2014. The lower rate will remain frozen at £2.50 per tonne for 2014/15.

VALUE OF LANDFILL COMMUNITIES FUND (LCF) (PARA 1.54)
The potential value of the LCF will be maintained for 2013/14 at £78.1m of claimable landfill tax credit. This will be achieved by amending the maximum credit that landfill site operators may claim against their annual landfill tax liability for contributions made to environmental bodies enrolled under the LCF from 5.6% to 6.8% from 1 April 2013.

REDUCED POLLUTION CERTIFICATES (RPCS) (PARA 2.32)
Legislation in FB 2014 will remove RPC VED discounts for vehicles within the HGV road user scheme. The discounts for Euro IV–VI vehicles will be replaced with grants, to be provided by the Department for Transport, until 31 December 2016. These changes will have effect from 1 April 2014.

Legislation in a future finance bill will remove RPC VED discounts for Euro I–III vehicles outside the HGV road user levy scheme. These changes will have effect from 1 April 2016.

SHALE GAS: TAX INCENTIVES (PARA 2.21)
The Government will consult on tax measures to encourage the exploration and production of shale gas, including a new shale gas field allowance and the extension of the Ring Fence Expenditure Supplement for shale gas from six to 10 years. Legislation will be in Finance Bill 2014.

17. AVOIDANCE AND EVASION

GENERAL ANTI-ABUSE RULE (GAAR) (PARA 1.59)
As is well known, a General Anti-Abuse Rule (GAAR) is to be introduced in FB 2013. This follows a long period of consultation which started with the study by Graham Aaronson began in late 2010. The aim is to counteract tax advantages arising from abusive tax avoidance schemes. The amount of tax that the GAAR will bring in is expected to be only about £50m annually, which reflects the intention behind the legislation which is to target only the most egregious of schemes and not mainstream tax planning.

HIGH-RISK PROMOTERS (PARA 2.43)

The Government will consult this summer on a package of information powers, penalties and other measures for tackling the behaviour of high-risk promoters of tax avoidance schemes, with a view to bringing forward legislation in FB 2014. The intention is that promoters of aggressive tax schemes should be 'named and shamed'.

NOTIFICATION REQUIREMENT FOR SCHEME USERS (PARA 2.45)

The Government will consult on a proposal to follow up court decisions in HMRC's favour in avoidance cases. This will require taxpayers who have used avoidance schemes which are defeated in another party's litigation to acknowledge to HMRC that the judgment applies to them and amend their returns accordingly, or confirm that they stand by their original return. A tax-geared penalty would be charged subject to safeguards, if they failed to take reasonable care. Legislation will be in FB Bill 2014

OFFSHORE EMPLOYMENT INTERMEDIARIES (PARA 2.41)

The Government will consult on strengthening obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries, with a view to legislating in FB 2014. This is a result of the review announced in Autumn Statement 2012.

It is not unusual for employers to delegate their payroll obligations to intermediaries, some of whom may be based offshore. Some intermediaries account for tax and NICs properly, but others engage in avoidance schemes. The Government's action on this is to be welcomed: not only does the Exchequer lose out, but the workers themselves are at a disadvantage if tax and NICs on their pay are not accounted for.

SDLT AVOIDANCE (PARA 1.43)

Legislation will be introduced in FB 2013 to put beyond doubt that certain SDLT avoidance schemes that abuse the transfer of rights rules do not work. These changes will have retrospective effect to 21 March 2012.

TRADE AND PROPERTY BUSINESS DEDUCTIONS (PARA 1.61)

As announced on 21 December 2012, the Government will introduce targeted anti-avoidance rules (TAARs) to the income tax and corporation tax provisions governing the relationship between the rules prohibiting and allowing deductions, with effect from that date. Legislation will be in FB 2013.

CORPORATE TAX LOSSES (PARA 1.64 AND 1.65)

A number of provisions will be introduced in FB 2013 to prevent 'loss buying' where companies pass the potential to gain access to corporation tax relief to unconnected third parties.

There are also going to be provisions to address arrangements which seek to circumvent the longstanding loss buying rules in Part 14, CTA 2010.

All these changes will have effect from 20 March 2013 and are estimated to bring in more than £1bn over the next five years.

PARTNERSHIP TAX (PARA 2.42)

There is going to be consultation with a view to countering the use of limited liability partnerships to disguise employment relationships and the artificial allocation of profit/loss to secure tax advantages. Legislation with be introduced in FB 2014 and it is estimated that the tax saved will exceed £1bn over the four years from 2014/15 onwards.

CLOSE COMPANY LOANS TO PARTICIPATORS (PARAS 1.63 AND 2.44)

The Government will close three loopholes to counter attempts to avoid the tax charge on loans from close companies to individuals with a share or interest in the company. The measures will have effect from 20 March 2013 and are expected to bring in just under £70m annually in the four years beginning 2014/15.

Later this year the Government will consult on the structure and operation of the tax charge on loans from close companies to their participators. If legislation is needed it will be in FB 2014.

PUBLIC PROCUREMENT TO DETER AVOIDANCE AND EVASION (PARA 2.213 OF RED BOOK)

The Government is going ahead with proposals to prevent businesses getting government contracts if they have been involved in 'non-compliance'. There was a Parliamentary announcement about this last September by the Chief Secretary to the Treasury but a formal consultation only took place over a two-week period last month.

We were critical of a number of the proposals and we are delighted that the Government has listened to our concerns and modified the proposals in a number of important respects. Non-compliance has been more narrowly defined, only procurement contracts in excess of £5m will be affected, there will be no retrospection and the policy will be reviewed after 12 months.

HMRC'S APPROACH TO TAX EVASION

HMRC published two documents on Budget day about its work on tackling tax evasion:

Levelling the tax playing field – HMRC Compliance Strategy: This report highlights the successes HMRC has had in tackling avoidance, evasion, criminal attack and debt since 2010.

No Safe Havens – HMRC Offshore Evasion Strategy: This sets out a framework for HMRC's approach to tackling offshore evasion.

TAX AGREEMENTS WITH ISLE OF MAN, JERSEY AND GUERNSEY

The UK has agreed a comprehensive package of measures with the Isle of Man, Guernsey and Jersey governments to clamp down on those who choose to hide their money offshore. The Isle of Man agreement was published in February 2013 and the Guernsey and Jersey agreements in March 2013.

The agreements include:

- An undertaking to exchange a wide range of financial information on UK taxpayers with accounts in the Isle of Man, Guernsey and Jersey which will significantly enhance HMRC's ability to crack down on those who do not declare their offshore affairs.

- A disclosure facility to allow people to come forward to disclose their previous tax affairs in advance of the information being automatically exchanged.

18. HMRC POWERS AND ADMINISTRATION

PAYE PENALTIES: COMPLIANCE WITH RTI (PARA 1.66)

The PAYE penalty regime is being updated to take account of the introduction of RTI and include:

- new late filing penalties for RTI returns;

- changes to the current late payment penalties to ensure they can be charged in-year; and

- changes to the inaccuracy penalties so they can be charged in a way that minimises the burden on employers and HMRC.

Under the new model for late filing penalties for RTI, penalties will apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme, so that different-sized penalties will apply to micro, small, medium and large employers. Each scheme will be subject to only one late filing penalty each month, regardless of the number of returns due in the month. There will be one unpenalised default each year, with all subsequent defaults attracting a penalty. Penalties will be charged quarterly, and will be subject to the usual reasonable excuse and appeal provisions. Regulations will be used to set the penalty rates.

The main changes to the late payment penalties regime will:

- ensure penalties are based on the number of late payments relating to each tax year;

- ring-fence each penalty so that if further defaults arise earlier penalties do not have to be recalculated; and

- permit a penalty to be amended once it has been issued, rather than having to be withdrawn and reissued.

There will be a relief from late payment penalties where there is only a small discrepancy between the return figures and sums paid over each period by the employer.

The inaccuracy penalties rules will be amended so that the assessment provision allows a tax year to be treated as a tax period for the purposes of Sch 24, Finance Act 2007. This change will reduce the number of separate penalty assessments that have to be issued where errors are found.

DATA-GATHERING FROM MERCHANT ACQUIRERS (PARA 1.68)

HMRC's current data-gathering powers will be amended to allow it to issue notices to card payment processors. The notices will require the processors to provide bulk data about businesses accepting credit and debit cards. This measure will have effect from the date of Royal Assent to FB 2013.

The data that HMRC can require the card payment processors to provide will be information about credit, debit, and charge card sales made by retailers, the retailer's name, address, VAT number if available, and bank account details. It will not identify the details of the credit or debit card holder, just the total sales made by particular businesses in each month. This data will be used in compliance action against businesses that are not declaring their full tax liability. All institutions that settle card payments to businesses are covered.

The safeguards in Sch 23, Finance Act 2011, including the right of appeal, will apply to notices issued to card payment processors as they do to all other types of data-holder. HMRC will discuss the timing and format of the notices with those affected.

INFORMATION POWERS (PARA 1.67)

Following consultation, legislation will be introduced in FB 2013 to bring into effect international agreements to improve tax compliance. Regulations will be issued shortly to implement the UK-US agreement. Further regulations will be introduced to implement any subsequent similar automatic exchange agreements entered into.

DEBT RECOVERY

A package of measures has been announced and more information will be published later in the year:

- **Improving coding out:** The Government will consult on improving its collection of tax debts through the PAYE system (coding out). This will include increasing the size of debts that can be recovered through coding out from those with higher incomes.

- **Increasing the use of charging orders:** HMRC will increase the use of charging orders, used to secure a tax debt against a debtor's assets.

- **Better data on debt:** HMRC will improve its ability to target resources in collecting tax debt by making new connections between the department's datasets.

- A**utomated telephony:** HMRC will update its telephone system to allow tax debts to be paid via an automated process.

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TECDIG10744 04/12