WHITE & CASE

Insight: Taxation

19 March 2014

UK Budget 2014: Highlights

Chancellor of the Exchequer, George Osborne's fifth Budget on 19 March 2014 was an *"I have done it"* speech in many ways. In contrast to his previous four Budget speeches where the Chancellor treaded cautiously, warning the UK electorate that recovery was bound to be slow and painful, this speech had a markedly more confident tone – *"Britain's economy is recovering and recovering more rapidly than anyone imagined".* However, in case anyone thought that this Chancellor's job was done, there was a not so subtle hint to UK voters that there is still a lot of work to be done.

This Budget is largely uneventful insofar as corporate taxation is concerned except for certain anti-avoidance measures. However, there are some significant personal taxation reforms focused on doers, savers and pensioners (including, curiously, tax cuts for Bingo players and alcohol consumers!) which will no doubt grab the headlines in the popular media.

The key points of this Budget are summarised below:

Business Taxation

1. General

- **UK Corporation Tax rates** – The main rate from April 2014 will be 21 per cent (reducing to 20 per cent from April 2015).
- **Abolition of Stamp Taxes for shares on recognised growth markets** – As previously announced, from 28 April 2014 the Government will abolish stamp taxes on shares in companies admitted to trading on "recognised growth markets" (intended to include the Alternative Investment Market) and not "listed" on a "recognised stock exchange" such as the London Stock Exchange.
- **Value Added Tax: changes to the place of supply rules** – As announced last year, the Government will change the rules for the taxation of intra-EU business to consumer supplies of telecommunications, broadcasting and e-services. From 1 January 2015, these services will be taxed in the Member State in which the consumer is located.
- **Seed Enterprise Investment Scheme (SEIS)** – SEIS (which is designed to help small, early stage companies raise equity finance by offering a range of tax reliefs to individual investors) will be made permanent with effect from Royal Assent of the Finance Bill 2014, as will the Capital Gains Tax relief for reinvesting gains in SEIS shares (effective 6 April 2014).

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2. Financial Institutions and Funds

- **Bank Levy redesign** – The Bank Levy rate will be set at 0.156 per cent from 1 January 2014. The Government will consult on the merits of a new charging mechanism for the Bank Levy, whereby banks will be allocated to different bands according to their chargeable equity and liabilities and then charged an amount set for that band. A consultation will be published on 27 March 2014, with any subsequent changes to the Bank Levy's design to apply from 1 January 2015.
- **Corporate debt and derivative contracts** – The Government has been consulting on larger reforms of corporate debt and derivative contracts and, as part of this, the Finance Bill 2014 includes legislation enabling both credits and debits of a company party to a loan relationship or derivative contract to be brought into account when that company leaves a corporate group within six years of the transfer to it of the underlying loan relationship or derivative contract.
- **Code of Practice on Taxation for Banks** – The Government has published an updated list of those banks that have adopted the Code of Practice on Taxation for Banks. The Finance Bill 2014 will provide for HM Revenue & Customs to publish an annual report on the operation of the Code.

3. Real Estate

- **Application of Stamp Duty Land Tax (SDLT) on certain authorised property funds** – The Government will consult on the SDLT treatment of the seeding of property authorised investment funds and the wider SDLT treatment of co-ownership authorised contractual schemes.
- **Taxation of high value UK residential property held by certain non-natural persons** – The Government will extend the package of taxes that affect UK residential properties held by certain non-natural persons to properties worth more than £500,000. This threshold of £500,000 is a significant extension of these rules from the original threshold of £2 million. These taxes include SDLT at the rate of 15 per cent on the acquisition of residential property, the Annual Tax on Enveloped Dwellings and Capital Gains Tax at the rate of 28 per cent on any gain realised on disposal.

Partnership Taxation

- **Changes to taxation of partners** – As has been widely reported, and following consultation, the Government will, with effect from 6 April 2014, introduce legislation to counter:
  - the disguising of employment relationships in relation to salaried members of UK Limited Liability Partnerships (LLPs);
  - tax-motivated allocations of profits or losses in partnerships where the partners include both individuals and companies; and
  - tax-motivated disposals of assets through partnerships.

Personal Taxation

- **Income Tax personal allowances** – The personal allowance for 2014/15 is £10,000 rising to £10,500 for 2015/16. The basic rate income tax limit will reduce to £31,785 from April 2015.
- **Starting rate for savings income** – The starting rate for savings income will reduce from 10 per cent to 0 per cent and the maximum amount of an individual's savings income that can qualify for this 0 per cent starting rate will increase from £2,880 in 2014/15 to £5,000 in 2015/16.
- **ISAs** – The Government has announced a radical reform to the ISA system. From July 2014, the annual investment limit for new ISAs will be £15,000 and will combine both cash and stocks and shares.
- **Capital Gains Tax: non-residents and UK residential property** – As announced in the Autumn Statement 2013 and to have effect from April 2015, Capital Gains Tax will be introduced on gains by non-resident individuals on disposals of UK residential property. A consultation is expected shortly.
- **Pensions reform** – The Government has announced significant changes to the UK pensions system to provide a greater number of people with flexibility to access their pension savings. With effect from 27 March 2014, a number of changes are being made to the drawdown, trivial commutation and small pots limits affecting the benefits that can be taken from a registered pension scheme as drawdown pension income and taxed lump sums.

Anti-Avoidance

- **Accelerated payments (on account)** – Users of tax avoidance schemes which have been notified to HM Revenue & Customs under DOTAS or which are subject to counteraction under GAAR may be required to pay to HM Revenue & Customs the "disputed" taxes pending resolution of the dispute. This takes effect from Royal Assent of the Finance Bill 2014 and closes the "timing" advantage that taxpayers could obtain by using HM Revenue & Customs as a "financier" in relation to tax avoidance schemes and will be a major deterrent to businesses (and individuals) committing funds to borderline tax avoidance schemes.
- **Employment intermediaries** – With effect from 6 April 2014, legislation will be introduced to ensure that the correct amounts of income tax and National Insurance contributions are paid by offshore employment intermediaries. Onshore employment intermediaries will be prevented from being used to avoid employment taxes and obligations by disguising employment as self-employment.
- **Artificial use of dual contracts by non-domiciles** – With effect from 6 April 2014, high earning non-domiciled individuals will be prevented from avoiding tax by artificially dividing the duties of a single employment between a UK and an overseas contract.

Commentary

The Chancellor has delivered a fiscally neutral Budget, no doubt keeping his powder dry for the pre-election Budget next year.

There has been a fine balancing act with taxpayer friendly measures to aid savers and pensioners paid for through further anti-avoidance measures, further reinforcing the twin-pronged policy of "we are all in this together" and "everyone should pay their fair share of taxes".

On the business taxation side, the Government continues its aim to make the UK the most competitive corporate tax jurisdiction in the G20.