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Autumn Statement 2014

Chancellor George Osborne presented the Autumn Statement to the House of Commons on 3 December 2014. This newsletter summarises the main announcements that may affect you, your business and your tax planning. For advice, please contact us.



At a glance

- ▶ Major reform of stamp duty land tax for residential property
- ▶ Small Business Rate Relief extended for another year
- ▶ Removal of 55% 'death tax' on inherited pensions
- ▶ Spouses now able to inherit ISA tax advantages
- ▶ Fuel duty frozen until May 2015
- ▶ R&D tax credit increased for SMEs
- ▶ Significant infrastructure investment confirmed

Stamp duty reforms and business rates feature in pre-Election Autumn Statement

Notwithstanding the mixed economic news, the Chancellor unveiled a number of key measures with the stated aim of bolstering the economy and 'supporting aspiration'.

With tax receipts lower than expected despite strong economic growth, many had predicted that Chancellor George Osborne would have limited room for manoeuvre when presenting his last Autumn Statement before the 2015 General Election.

UK economic growth forecasts have been revised upwards to 3% for the current year, but the Chancellor conceded that the UK deficit 'remains too high' and that further 'very substantial savings' in public spending will be required. Revised forecasts from the Office for Budget Responsibility now predict Government borrowing of £91.3 billion this year, compared with its previous forecast of £86.6 billion.

The headline measure was a complete reform of stamp duty on residential property. The existing system will be abolished, with a new set of graduated rates – including a new 12% rate for the most expensive properties – applying with effect from Thursday 4 December.

The Chancellor's speech also confirmed a package of reforms affecting small and medium-sized businesses, including a £400 million Treasury pledge to extend Government-backed Enterprise Capital Funds, together with plans to back up to £500 million of new bank lending to SMEs under the Enterprise Finance Guarantee. The R&D tax credit will also be increased for SMEs, while

employer national insurance contributions (NICs) for young apprentices will be abolished and the Employment Allowance extended to care and support workers.

Meanwhile, the Chancellor answered calls from leading UK business groups to review the business rates system, with some of the more immediate measures including an extension of the doubling of the Small Business Rate Relief by a further year from 1 April 2015 and extending the 2% cap on inflation-linked increases by another year.

Turning to personal taxation, the Chancellor confirmed plans to allow pensioners to take control of their pension pots from April 2015, adding that from this time the 55% 'death tax' on the annuities of those who die aged under 75 will also be abolished. The income tax personal allowance for 2015/16 will also see an additional increase, rising to £10,600, and will be accompanied by a corresponding increase in the higher rate threshold to £42,385.

In the run-up to the Autumn Statement, the Chancellor had already pre-announced a package of support for the NHS, UK road and rail infrastructure and flood defence schemes.

Other significant announcements included further anti-avoidance measures, an ongoing fuel duty freeze, and the abolition of Air Passenger Duty for under-12s from 1 May 2015.



Business measures

Several measures related to business and business tax were announced.

Business rates

The doubling of Small Business Rate Relief will be extended for a further year from 1 April 2015.

In addition, the business rates discount for retail and food and drink premises with a rateable value of £50,000 and below (the 'high street discount') will be increased from £1,000 to £1,500 up to the State aids limit for one year from 1 April 2015.

The Government will continue the 2% cap on the RPI increase in the business rates multiplier for an additional year from 1 April 2015. It will extend the transitional arrangements for properties with a rateable value of £50,000 and below facing significant bill increases due to the ending of Transitional Rate Relief from 1 April 2015 to 31 March 2017.

There will also be a new Government review of the future structure of business rates, in time for Budget 2016.

Employer NICs for apprentices

In a move designed to further encourage employers to take

on apprentices, from April 2016 employer NICs up to the upper earnings limit for apprentices aged under 25 will be abolished.

Access to business finance

The Government will provide £400 million to extend the British Business Bank's Enterprise Capital Funds programme, to be committed over the next three years, and will enable the Enterprise Finance Guarantee to support up to £500 million of new lending in 2015/16.

Research & Development (R&D)

The rate of the above the line credit will increase from 10% to 11% and the rate of the small and medium (SME) scheme will increase from 225% to 230%. These will take effect from 1 April 2015.

Legislation will be introduced

to restrict qualifying expenditure for R&D tax credits so that the costs of materials incorporated in products that are sold are not eligible. This will be effective from 1 April 2015.

An advance assurance scheme for small businesses making their first claim to R&D tax credits will be introduced along with new guidance. The Government will launch a consultation in January 2015 on the issues faced by smaller businesses when claiming R&D tax credits.

Television and orchestra reliefs

A new corporation tax relief for the production of children's television programmes is to be introduced from 1 April 2015. The relief will be available at a rate of 25% on qualifying production expenditure. In addition, the Government will explore with the industry whether

to reduce the minimum UK expenditure for high-end TV relief from 25% to 10% and to modernise the cultural test, so as to bring the relief in line with film tax relief.

The Government will consult in early 2015 on the introduction of an orchestra corporation tax relief from 1 April 2016.

Late paid interest rules

The Government is to repeal the rules concerning loans made to UK companies by a connected company in a non-qualifying territory.

Devolution of powers

The Autumn Statement confirmed that agreement has been reached with the Welsh Government on full devolution of non-domestic (business) rates policy. A fully devolved regime will be operational by April 2015.

The Government is also in talks to introduce legislation in this Parliament to devolve corporation tax rate-setting powers to the Northern Ireland Executive, subject to various factors.



Tax and property

Stamp Duty Land Tax (SDLT)

SDLT on purchases of residential property is being reformed. Under the new rules, SDLT will be payable at each rate on the portion of the purchase price which falls within each band, rather than at a single rate on the whole transaction value.

The rates and thresholds are also being amended as part of the changes. The new rates of stamp duty are:

| Purchase price of property (£) | New rates paid on the part of the property price within each tax band |
|--------------------------------|---|
| 0 - 125,000 | 0% |
| 125,001 - 250,000 | 2% |
| 250,001 - 925,000 | 5% |
| 925,001 - 1,500,000 | 10% |
| 1,500,001 and over | 12% |

The new rules are effective from 4 December 2014 but individuals who have already exchanged on a property will have a choice about whether to use the old or new rules.

In Scotland the new rates will apply until 1 April 2015, after which the Land and Buildings Transaction Tax will replace SDLT.

HM Revenue & Customs (HMRC) has developed an online calculator to help individuals calculate how much SDLT they will need to pay under the new system. The calculator can be viewed at: www.hmrc.gov.uk/tools/sdl/land-and-property.htm

SDLT: treatment of shared ownership properties

The Government will extend the SDLT multiple dwellings relief to include superior interests in residential property, such as shared ownership. This will apply where the transaction is part of a lease and leaseback arrangement, if acquired from a qualifying body such as a housing association. The change will take effect from the date on which Finance Bill 2015 receives Royal Assent.

Annual Tax on Enveloped Dwellings (ATED)

The annual charges on the ATED will increase by 50% above inflation for residential properties worth more than £2 million for the chargeable period 1 April 2015 to 31 March 2016.

Personal tax

Measures affecting individuals included:

Income tax

At the Autumn Statement, the Chancellor announced that the personal allowance for 2015/16 will be £10,600. The basic rate limit will be £31,785 and the higher rate threshold above which individuals pay income tax at 40% will be increased to £42,385.

ISA and Child Trust Fund limits

The Individual Savings Account (ISA), Junior ISA and Child Trust Fund annual subscription limits will be uprated in line with the Consumer Price Index, with the 2015/16 ISA limit being increased to £15,240, and the 2015/16 Junior ISA and Child Trust Fund limits both being increased to £4,080.

Transfer of ISAs to spouses on death

Currently, the ISA tax exemption ceases on the death of the investor and cannot be passed on to anybody, including spouses, even if they have saved the money together. From 3 December 2014 surviving spouses or civil partners will be able to inherit the ISA tax advantages by means of an additional ISA allowance (in addition to their normal annual ISA limit) equal to the value of that saver's ISA holdings on their date of death, which they will be able to use from 6 April 2015 onwards.

55% tax charge on inherited pensions

From April 2015, beneficiaries of individuals who die under the age of 75 with remaining uncrystallised or drawdown defined contribution pension funds, or with a joint life or guaranteed term annuity, will be able to receive any future payments from such policies tax free where no payments have been made to the beneficiary before 6 April 2015. The tax rules will also be changed to allow joint life annuities to be paid to any beneficiary. Where the individual was over 75, the beneficiary will pay the marginal rate of income tax, or 45% if the funds are taken as a lump sum payment. Lump sum payments will be charged at the beneficiary's marginal rate from 2016/17.

NICs for care workers

From April 2015 the £2,000 annual Employment Allowance for employer NICs will be extended to care and support workers.

Taxation of resident non domiciles – Remittance Basis Charge

Changes were announced to the annual charge paid by non domiciled individuals resident

in the UK who wish to retain access to the remittance basis of taxation. The charge paid by people who have been UK resident for seven out of the last nine years will remain at £30,000. The charge paid by people who have been UK resident for 12 out of the last 14 years will increase from £50,000 to £60,000. A new charge of £90,000 will be introduced for people who have been UK resident for 17 of the last 20 years. The Government will also consult on making the election apply for a minimum of three years.

Social Investment Tax relief (SITR)

The Government will seek EU approval to increase the SITR investment limit to £5 million per annum per organisation up to a maximum of £15 million per organisation and to extend the relief to small-scale community farms and horticultural activities. Subject to State aid clearance, the changes will come into effect on or after 6 April 2015. Special purpose vehicles for subcontracted and spot-purchase social impact bonds will be made eligible for SITR through secondary legislation in Autumn 2015.

The Government will also consult on introducing a social Venture Capital Trust in the future.

Capital gains tax – Entrepreneurs' Relief

The Government will allow gains which are eligible for Entrepreneurs' Relief (ER), but which are instead deferred into investments which qualify for the Enterprise Investment Scheme (EIS) or SITR, to remain eligible for ER when the gain is realised. This will benefit qualifying gains on disposals that would be eligible for ER but are deferred into EIS or SITR on or after 3 December 2014.

Inheritance tax (IHT)

Legislation will be introduced to extend the existing IHT exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services or humanitarian aid workers responding to emergency circumstances. It will have effect for deaths on or after 19 March 2014.

Additionally, from 3 December 2014 the existing IHT exemption for medals and other decorations that are awarded for valour or gallantry will be extended to apply to all decorations and medals awarded to the armed services or emergency services personnel, and to awards made by the Crown for achievements and service in public life.

VAT and Duties

Place of supply rules

Changes to the VAT place of supply rules for broadcasting, e-services and telecommunications were announced at Budget 2013. From 1 January 2015, VAT on these services will be payable where the customer is located, instead of where the supplier is located.

VAT support for hospices and search and rescue

Following the Fair Playing Field Review, the Government will refund the VAT incurred by hospice charities. From 1 April 2015 UK search and rescue and air ambulance charities will also be eligible for VAT refunds on the purchases of goods and services for their non-business activities.

Prompt payment discounts

From 1 April 2015, businesses will be required to account for VAT on the actual consideration received when prompt payment discounts are offered. HMRC will publish a response to the recent consultation shortly.

Air Passenger Duty (APD)

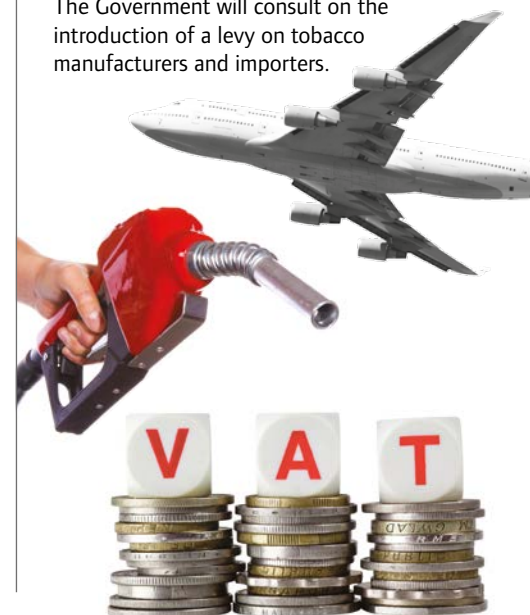
Children under 12 will be exempt from reduced rate APD on economy flights with effect from 1 May 2015, while children under 16 will be exempt from 1 March 2016.

Fuel duty

Fuel duty will remain frozen until the end of the Parliament in May 2015.

Tobacco levy

The Government will consult on the introduction of a levy on tobacco manufacturers and importers.



Anti-avoidance measures

Several measures were announced aimed at tackling tax avoidance.

Incorporation

Individuals are to be prevented from claiming Entrepreneurs' Relief on disposals of the reputation and customer relationships associated with a business ('goodwill') when they transfer the business to a related close company. In addition, the corporation tax relief that a company may obtain for the acquisition of goodwill is to be restricted when the business is acquired from a related individual or partnership. These changes will affect transfers on or after 3 December 2014.

Loss relief

Legislation is to be introduced, with effect from 3 December 2014, to deny loss relief where a miscellaneous loss, or miscellaneous income, arises from relevant tax avoidance

arrangements. Legislation is also to be introduced, with effect from tax year 2015/16, to limit relief to miscellaneous income of the same type as the loss.

Multinational enterprises

A new tax to counter the use of tax planning techniques by multinational enterprises to divert profits from the UK will be introduced. The Diverted Profits Tax will be applied using a rate of 25% from 1 April 2015.

Legislation is to be introduced that gives the UK the power to implement the Organisation for Economic Co-operation and Development (OECD) model for country by country reporting. This will require multinational enterprises to provide high level information to HMRC on their global allocation of profits and taxes paid, as well as indicators of economic activity in a country.

The Government is to consult on the UK's plans for implementing agreed OECD rules for addressing hybrid mismatch arrangements. These rules will aim to prevent multinational enterprises avoiding tax through the use of certain cross border business structures or finance transactions.

Infrastructure and other measures

Long term plans for UK infrastructure

Prior to the Autumn Statement, the Government announced that it will provide funding for a specific set of infrastructure projects under what it calls the 'National Infrastructure Plan 2014'. These include:

Roads

A total of £15 billion has been designated for road improvements, which the Government describes as 'the biggest package of improvements undertaken in the modern age'. This includes: £2 billion for the A303 and A358 to the south west, including a tunnel at Stonehenge; £290 million for dualling the A1 north of Newcastle; £300 million for dualling sections of the A47 to Norfolk and £5.8 billion for local highways maintenance.

Houses

Bicester has been confirmed as the second 'garden city' with Government support for the construction of up to 13,000 homes.

£100 million has been set aside to fund infrastructure and land for up to 15,000 new homes at Ebbsfleet and £150 million has been designated to regenerate London estates, amongst other measures.

Flood defences

£2.3 billion has been allocated as part of a major project to improve some 1,400 flood defence systems, including £196 million for the Thames Estuary, £80 million for the Humber Estuary and £15.5 million to be spent on defences in Somerset, an area which has suffered considerable flood damage in recent years.

Building a 'Northern Powerhouse'

The Autumn Statement revealed that a further £7 billion will be invested to build a so-called 'Northern Powerhouse'. The Government intends to better connect the north of the country by investing £6 billion in the region's roads to ease congestion, introducing new modern trains and 20% more capacity to end

overcrowding, and developing HS3 to make east-west travel faster.

In addition, the Government will double the number of northern cities that will benefit from its superfast broadband programme, while major new science investments will also be delivered across the region.

Science and innovation

The Government has allocated £5.9 billion of science capital funding over the next Parliament. The funding will support a range of projects and institutions, including £95 million for the UK to take the operational lead in the next European mission to Mars. £235 million is also being allocated to a new science research centre called the Sir Henry Royce Institute in Manchester.

Loans for postgraduate masters

The Government will introduce income-contingent loans of up to £10,000 for under-30s to undertake a postgraduate taught Masters course in any subject. The loans are planned to be available from 2016/17.



On course for lower taxes. On course for more jobs. On course for higher growth. On course for a truly national recovery. A long term economic plan, on course to prosperity.

Chancellor George Osborne

He promised to make people better off. Working people are worse off. He promised we were all in this together when he cut taxes for millionaires. Every target missed, every test failed, every promise broken.

Shadow Chancellor Ed Balls

The statement demonstrated what can be achieved with limited room for manoeuvre by focusing on considered tax reforms. We're pleased that the higher rate tax threshold is heading in the right direction.

Director General of the Institute of Directors Simon Walker