# BUDGET

# 2013

A rowdy 'circus crowd' was the description of the deputy speaker of the House of Commons as Chancellor George Osborne stood to deliver his fourth budget speech.

In this Budget special, we want to provide an insightful overview of how the Budget 2013 will affect you, our clients. Not necessarily the immediate effects, for example, the reduction in the duty on beer, but the effects which will impact long term on planning for your family, your business and your future.

As always, if you would like any advice or help on any of the items in this Budget special then please telephone the office and speak to a member of our team.

## Personal Allowance

From April 2013 the personal tax allowance will increase to £9,440 with the basic rate limit falling slightly from the current limit to £32,010, making the 40% rate come into play once your income reaches £41,450.

The date of the expected increase of the Personal Income Tax Allowance to £10,000 has been brought forward to 6th April 2014. The basic rate limit will decrease once again in 2014/15 to £31,865 making the income limit £41,865 for the higher rate of tax to apply.

This change is anticipated to make a £50 gain for over 24.5 million individuals in the UK in 2014/15.

## Employers Allowance

For our clients who are considering taking on more employees, the £2,000 Employment Allowance, a reduction in the amount of Employers National Insurance (NIC), will be a significant boost. Every business will be able to employ one worker on a salary of £22,400 or four employees working full time on the adult National Minimum Wage, without paying any employer NICs at all.

The allowance will be claimed as part of the normal payroll process through Real Time Information (RTI) which comes in for payments made after 6 April 2013.

## Statutory residence test and reform of ordinary residence

The statutory definition of tax residence will be defined and the concept of ordinary residence will be abolished for most tax purposes from 6 April 2013. If you wish to discuss the possible implications of residence for tax purposes, please telephone the office.

## ! are you ready?

If you have not yet discussed your payroll requirements following the move to RTI please speak to a member of our team as soon as possible.

## Tax free childcare scheme

A new tax free childcare scheme will be introduced to support working families with the costs of childcare. Once fully in place, support will be worth 20 per cent of childcare costs up to £6,000 per child each year for children under 12. In real terms this is a saving of up to £1,200 for each child.

This new system will be phased in from autumn 2015, with all children under five eligible from the first year of operation. Disabled children up to age 16 will also be eligible in line with existing employer supported childcare rules.

Tax free childcare will be available to families where all parents are working, who are not already receiving support through tax credits or Universal Credit and where neither parent earns over £150,000 a year. Alongside the new scheme, the current employer supported childcare will be phased out for new applicants from autumn 2015.

The childcare support within Universal Credit will also increase, to improve work incentives and ensure that it is worthwhile to work up to full-time hours for low and middle income parents. An additional £200 million of support for childcare will be provided, which is equivalent to covering 85% of childcare costs for households qualifying for the Universal Credit childcare element where the lone parent or both earners in a couple pay income tax. The details of how to provide this support will be determined as part of the consultation on the tax free childcare scheme, to ensure the two schemes operate effectively together.

**£ saver**

Basic rate will remain at 20% with the higher rate falling as previously publicised from 50% to 45% from 6 April 2013.

## Company car and company car fuel rates

Two new appropriate percentage bands will be introduced for cars with low carbon dioxide ($CO_2$) emissions. Cars emitting 0-50g per kilometre of $CO_2$ will be charged at 5% and cars emitting 51-75g per kilometre of $CO_2$ will be charged at 9%.

The remaining percentages are all increased by 2% for cars emitting more than 75g per km of $CO_2$. Planning for tax efficiently running company cars and car fuel is always one of the key concerns for our clients. A review of the car policy is advisable on an annual basis to plan for any tax savings which can be made. If you would like to review possible car and car fuel tax savings please telephone a member of the team.

**£ saver**

The Budget 2013 confirms that there is no intention to extend National Insurance Contributions (NIC) to savings and dividends for 2013/14.

## Lifetime Allowance (LTA) for pensions contributions

There are limits on how much can be saved in registered pension schemes. There is an annual limit on the total amount of an individual's tax-relieved annual pension savings, including employer contributions. Unused annual allowance from the three previous tax years for the individual can be carried forward and added to the annual allowance.

There is also the lifetime allowance, on the total amount of tax relieved pension savings that an individual can have over their lifetime. For the tax year which is just ending, 2012-13, the standard lifetime allowance is £1.5 million.

From the tax year 2014-15 onwards it was confirmed that the annual allowance will be reduced to £40,000 and the standard lifetime allowance to £1.25 million. There will be a transitional protection regime (fixed protection 2014) for individuals with UK tax relieved pension rights of more than £1.25 million or who think they may have rights in excess of £1.25 million by the time they take their pension benefits.

We will need to notify HM Revenue & Customs (HMRC) on your behalf by 5 April 2014 if you want to rely on fixed protection 2014 and will be entitled to a personal lifetime allowance of the greater of £1.5 million and the standard lifetime allowance.

## Child trust funds

Junior ISAs were introduced from 1 November 2011. A Junior ISA is a type of children's saving account designed specifically to replace the now defunct child trust funds and it is aimed at providing parents, grandparents and any other person or organisation who wishes to contribute with a simple and tax-free way to save for the child's future.

All individuals, including minors, are entitled to their own personal tax allowance. For the year which started on 6 April 2013 this is £9,440, so on an initial glance this tax free opportunity may not look that attractive. However, when the capital invested is from the child's parents then, for tax purposes, interest paid on that capital in excess of £100 is deemed to be that of the parent. Should that parent be an additional or higher rate tax payer this could amount to a significant tax saving which would otherwise be taxed via the parent's self-assessment tax return.

The investment can be either a cash investment or a stocks and shares investment with an annual limit of £3,600 being contributed in total to either account or a combination of the two accounts; but there can only be the two accounts. The government has not set a cap on the minimum contributions required and it is understood that some providers will accept a minimum balance of £1 for a cash Junior ISA and contributions of £10 per month for a stocks and shares Junior ISA. Contributions to the Junior ISA limits will be fixed at £3,600 per annum until April 2013 after which they will start to increase each year in line with the consumer price index.

The accounts are available to children born on or after the 3rd January, 2011, or before 1 September 2002 who missed out on the children's trust fund (CTF). However, unlike the CTF there is no government contribution.

If your child has a CTF then there is currently no possibility of a Junior ISA nor can you or your child transfer the funds from the children's trust fund into a Junior ISA. The Budget announced a consultation on ways in which the savings held in child trust funds can be smoothly transferred into Junior ISAs.

**! think ahead**

Now is the optimum time for us to review pension contributions alongside your IFA. Please contact the office if you would like to discuss this matter.

## Employee Shareholder Contracts

Chancellor George Osborne previously announced a radical new style of employment contract which comes into force by 1 September 2013.

If taken up, new employees will forfeit their rights to redundancy, unfair dismissal, time off for training, the right to flexible working patterns and return from maternity leave will need to be notified 16 weeks in advance and not 8 as is usual practice.

In exchange for this loss of rights, they will be issued with shares in the company worth between £2,000 and £50,000. Should the employee leave or be dismissed, the company will be able to buy back the shares and Capital Gains Tax will not be payable on any profit.

The 2013 budget announced that the first £2,000 of share value that anyone receives under the new status will be free from income tax and NICs. This will be of particular benefit to anyone receiving the minimum amount of shares, as it will ensure that no tax is due when they receive their shares. This will take effect from 1 September 2013, when the new status comes into force.

## Extension of the Capital Gains Tax holiday on Seed Enterprise Investments

The Seed Enterprise Investment Scheme was launched in 2012 and gives a 50% income tax relief on investments made into small, start up and fledgling (Seed) companies. The Budget announced a limited extension of the Capital Gains Tax (CGT) holiday to continue to encourage investors to take up the new scheme. Any investors making capital gains in 2013-14 will receive a 50% CGT relief when they reinvest those gains into Seed companies in either 2013-14 or 2014-15.

### > need help?

If you are planning on disposing of any asset it is essential that the charge to CGT is considered before disposal as we can often structure the disposal so that the minimum amount of tax is payable. Please speak to a member of our team.

## Capital Gains Tax (CGT): annual exempt amount (AEA)

The AEA will increase by 1 per cent in 2014-15 and 2015-16. The AEA will rise to £11,000 in April 2014 and £11,100 in April 2015. The rate of charge to CGT remains at 18% or 28% depending on your level of income. If the asset disposed of is a business asset then the rate of CGT may fall to 10%.

## Inheritance Tax (IHT): nil-rate band

The IHT nil-rate band has been frozen at £325,000 until 2017-18.

## Inheritance Tax for non-domiciled spouses

Should a spouse or civil partner be domiciled outside the UK, from 6 April 2013 they can elect to be treated as domiciled in the UK for the purposes of Inheritance Tax (IHT).

The IHT exempt amount for life time transfers from a UK-domiciled individual to their non-UK domiciled spouse or civil partner is at present capped at a life time limit of £55,000. However, this appears to have fallen foul of the EU regulations and so the changes will mean that rules are equalised between domiciled and non-domiciled spouses and civil partners. The IHT nil-rate band which currently stands at £325,000 will become the upper limit for transfer.

## Stamp duty abolished for shares listed on the growth stock markets

From April 2014, Stamp Duty has been abolished for the shares of companies listed on growth markets including the Alternative Investment Market (AIM) and the ISDX Growth Market. This will directly benefit hundreds of smaller quoted UK firms, lowering their cost of capital investment. It is hoped to encourage more equity investment in small companies.

## The main rate of Corporation Tax (CT) will fall to 20% on 1 April 2015

The process unifies the small profits rate and the main rate so there is a single rate of corporation tax, simplifying the tax system and making the UK rate lower than the US, Japan, France and Germany.

## Research and development (R&D) incentives

R&D tax credits are a valuable incentive which recognises the importance of business investment in new ideas and technologies. The new credit for large company R&D investment will commence from April 2013.

The ATL credit is designed to make R&D relief more visible to those making investment decisions and provide greater cash flow support to companies with no corporation tax liability.

## Help to buy scheme

With a substantial boost for new home builders with the 'Help to buy' scheme, all our clients in house building and associated trades will no doubt feel a little more confident of the support for their industry and if you are looking to move home there will be substantially more help with the deposit loan.

The government will provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold, and will significantly widen the eligibility criteria to ensure as many people as possible are able to benefit, including increasing the maximum home value to £600,000 and removing the income cap constraint.

## Employer provided benefits in kind: beneficial loans

Legislation will be introduced to increase the exempt threshold for the small loans exemption limit from £5,000 to £10,000 for 2014-15 and subsequent tax years. As long as the total outstanding balances on all such loans do not exceed the threshold at any time in a tax year, there is no tax charge.

A negligible number of individuals in the UK will be affected by this change, however for those affected it will mean a substantial reduction in administration time if this is the only benefit in kind to be reported.

## Disincorporation relief

A relief for disincorporation will be introduced for five years from April 2013. The relief will allow a company to transfer goodwill and an interest in land to its shareholders so that no corporation tax charge arises on the company on the transfer. The relief will be available to businesses with total qualifying assets not exceeding £100,000.

Many small firms may see themselves trapped inside a corporate structure, a leftover from the heady days of 0% and 10% corporation tax rates. Small companies and their shareholders can choose to disincorporate and to transfer the business and its assets as a going concern to one or more of the company's shareholders, to continue the business in an unincorporated form.

The measure will make it easier for the owners of a small incorporated business to disincorporate by removing some of the tax charges that arise when assets are transferred by the company to the shareholders who wish to continue the business in an unincorporated form. The measure will allow the business the flexibility to choose the most appropriate legal structure in which to operate, which has been restricted by a number of tax charges and administrative issues that might currently discourage disincorporation.

For disincorporations on and after 1 April 2013 but before 31 March 2018 a joint claim needs to be made by the company and its shareholders to allow qualifying business assets (goodwill and land and buildings used in the business) to transfer at a reduced value for CT and capital gains tax purposes. The joint claim will allow the asset to be transferred at the reduced value so that no CT will be payable by the company on the transfer of the qualifying business assets.

Claims will be restricted to those businesses where the market value of the classes of assets allowed for disincorporation relief does not exceed £100,000. Joint claims must be made to HM Revenue & Customs (HMRC) within two years of the date of the transfer of business assets.

## Small businesses and cash accounting

Eligible small businesses (generally those with receipts not exceeding the VAT registration threshold) will be able to use a simple method to work out their taxable profits. The simple method is based on money-in money-out recording (the 'cash basis'), rather than accounts prepared on an accruals basis.

Businesses using the simple method will not have to make year-end accounting adjustments and other calculations primarily designed for larger or more complex businesses. They will not have to compute figures of debtors, creditors and stock, or generally distinguish between 'capital' and 'revenue' expenditure.

Unincorporated businesses will also be able to use simplified flat rates to calculate certain business expenses.

The measures will apply for the tax year 2013-14 and onwards.

**! need help?**

If you have found the items covered in our Budget special of interest or wish to discuss any one particular item we are always happy to hear from you and want to help you pay the least amount of tax you are legally due to pay.