Budget 2013

"How does the 2013 Budget affect me?"

Full Analysis

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Overview - A Happiness Budget?

George Osborne chose International Happiness Day for his 2013 Budget and like most of his predecessors gave a forceful exposition of as much good news as he could find – truthfully though happiness was fairly thin on the ground this year.

The background to the Budget was some pretty depressing economic forecasts from the Office of Budget Responsibility with growth for 2013 expected to be down to 0.6% reduced from an already disappointing 1.2% announced only 3 months ago in the Autumn Statement.

Borrowing is also expected to be up from previous forecasts to £114 billion this year as is debt as a share of GDP.

Not surprisingly and perhaps not altogether unfairly, he placed much of the blame for this on the international financial situation. Clearly he can't now expect export led growth to get us going again – or at least not from our major markets in the Eurozone.

The deficit has given him very little room for manoeuvre and this is a fiscally neutral Budget – so no net tax cuts. The Bank of England is tasked with being a little more imaginative with monetary policy under the incoming new Governor – but with the same basic target of 2% inflation.

Nevertheless, the economy is expected to stay out of recession for 2013 with employment continuing to rise.

The Budget had fewer headline measures than in some years but the rise in Income Tax allowances to £10,000 by 2014 is dramatic as is the cut in the main rate of Corporation Tax to 20%.

The freeze in fuel duty will also be welcome across the country as oil prices are rising again but, of course, this is particularly important in rural areas without much public transport.

..... and of course with the abolition of the Beer Duty escalator with an additional cut of 1p perhaps more of us will be able to raise a glass in gratitude.

Bob Wheatcroft, Partner and Head of Tax

Personal Tax

Income Tax rate and Personal Allowances

The Chancellor announced that from April 2014, the personal allowance for income tax will rise to £10,000 for those born after 5th April 1948. This means that anyone earning less than £10,000 per annum, will have no tax liability and the prediction is that this will take 257,000 under 67 year olds out of income tax, in 2014/15.

For 2013/14, the personal allowance will increase to £9,440, as announced previously, and further increases to the £10,000 announced today will be made from 2015/16, in line with the Consumer Prices Index (CPI).

The basic rate band limit for 2013/14 (i.e. the amount above which the 40% tax charge arises) will be £41,450 in 2013/14, rising to £41,865 in 2014/15 and £42,285 in 2015/16. This means that the tax free amount for those born between 6th April 1938 and 5th April 1948 will be £10,500, and for those born before 6th April 1938, £10,660.

The availability of the personal allowance will now be by reference to the date of birth rather than an individual's age in the tax year. Allowances for those born before 6 April 1948 will not be increased, and in the long term, it will cease to exist when the personal allowances for those born after 5 April 1948 catch up.

Cap on Income Tax Reliefs

New legislation will cap the following reliefs at the greater of £50,000 or 25% of income. A number of reliefs are affected, but the ones we see as most relevant to our clients are:

- Trade losses offset against general income. So if, for example, you have significant investment income but also a trade loss you will only be able to offset the trading losses up to the limits above. There will be exemptions for losses attributable to Business Premises Renovation Allowances and overlap relief.

- Early year trade losses – currently you can carry back losses in the first four years of trading against other income. This is helpful to recover tax in the early years before your business takes off. The same exemptions as above will apply.

- Qualifying loan interest – this is relief for interest on certain loans such as those taken out to buy an interest in a partnership or company shares.

Following consultation, charitable reliefs will no longer be affected.

Total income for the purpose of the cap will be based on your total income liable to income tax. Adjustments then need to be made so that charitable gifts are added back (increasing available relief) but pension contributions are excluded (decreasing the cap).

It will still be possible to carry losses forward against profits of the same trade and also to offset losses against profits in the previous year without limit.

Seed Enterprise Investment Scheme (SEIS) – Capital Gains Tax Re-investment relief

SEIS was introduced in 2012 to incentivise investment into small early start up companies. It provided both income tax and capital gains tax relief to investors.

Income tax relief of 50% of the amount invested (subject to a maximum investment of £100,000) is available for investments made during 2012/13 to 2016/17. This remains unchanged.

Capital gains tax relief was available on gains realised during 2012/13 to the extent that they were reinvested into SEIS shares. This meant that no capital gains tax would be due on these gains provided an amount equal to the full gain was reinvested into SEIS shares. This relief only applied to gains realised in 2012/13. In his Budget the Chancellor announced that the relief would be extended to gains realised in 2013/14 and 2014/15. The relief will however be limited to just 50% of the reinvested gain.

The rules regarding eligible companies have also been relaxed. Previously a company would not be eligible if it was under the control of another company. Under the new rules, a company which is controlled by another company will qualify provided that this is only the case initially whilst the company issues shares to its investors, this, therefore, includes companies created by formation agents.

In addition to this rule the other main rules regarding qualifying companies include that the company must be an unquoted company which undertakes a qualifying business activity and has less than £200,000 gross assets and 25 employees immediately prior to the issue of the SEIS shares.

Statutory Residence Test ('SRT')

From 6 April 2013 the SRT will replace the current residence guidance. Included in the SRT are three tests to be used to determine whether or not an individual is deemed to be resident in the UK.

The first test is the automatic overseas test. If you meet any of the three criteria of this test for a tax year then you will automatically be deemed non UK resident for that tax year. The criteria are as follows:

- If you have been deemed to be non-resident in all of the previous three tax years and have been present in the UK for fewer than 46 days in the current tax year;

- If you have been deemed to be UK resident in one or more of the previous three tax years and have been present for fewer than 16 days in the current tax year; or

- If you work overseas full time, have worked in the UK for no more than 30 days in the year and have spent no more than 90 days in the UK in the current tax year.

- If you do not meet any of these tests, you next need to consider the automatic UK test. If you meet any of these criteria you will automatically be deemed to be UK resident for the tax year in question. The criteria for this test are as follows:

- If you have been present in the UK for over 183 days in the year;

- If your only or main home is in UK, was available for at least 91 days and was actually used by you for at least 30 separate days; or

- If you work full time in the UK for a period of at least 365 days (subject to certain conditions).

Finally, if you have not met any of the criteria above you will then need to consider the sufficient ties test. This test considers the various ties you may have with the UK including family, accommodation, work, number of days spent in the UK in the previous two tax years, and any country ties. Your residence status in this case will depend on the number of ties you are deemed to have (by meeting the specifications), the number of days you have spent in the UK in that tax year and whether you are leaving or arriving in the UK.

Although the new tests will bring a lot more clarity, the rules surrounding residency status can be complicated. If you would like assistance in determining your residency status, please contact us for further details.

High Value UK Residential Property Held by Non Natural Persons

There has been concern for some time that people have been 'wrapping' high value properties into a company structure in order to minimise exposure to Stamp Duty Land Tax (SDLT). Stamp Duty (SD) on share transfers is only 0.5% of the value of the company, compared to up to 5% for SDLT.

In order to counter this, a staged, three pronged tax attack has been launched. This will catch companies (and partnerships with a corporate member) who hold residential property worth more than £2m. The taxes are:

- SDLT will be charged at 15% when a residential property is acquired
- An annual tax will be charged on properties held in these structures
- Capital Gains Tax at 28% on gains on sale

For each tax there are certain exemptions and reliefs. Reliefs will include, for example, working farmhouses, property development and investment rental/trading business and residential properties held for charitable purposes, or for employee accommodation.

Consultation was launched last year and the 15% SDLT rate has been effective since 21 March 2012. Some further reliefs will be introduced in Finance Act 2013. There is currently a relief for genuine development property companies. These need a two year track record of trading to qualify.

The annual tax comes into force from 1 April 2013. Returns will be required by 31 October 2013 and payment by 31 October 2013. The charge will be levied in bands from

£15,000pa for properties worth £2-£5m up to £140,000pa for properties over £20m. Properties will need to be revalued every five years.

The CGT change will be effective from 6 April 2013. This effectively brings the CGT rate on properties in these structures into line with the highest personal CGT rates. Where the property was acquired pre 6 April 2013 the gain will be prorated and only that arising after that date will be chargeable.

Business Taxes

Corporation Tax

Corporation Tax Rate

The 2012 Budget announced that the main rate of corporation tax would reduce from 24% for the Financial Year 2012 to 23% from April 2013. The 2012 Autumn Statement announced that this would reduce again to 21% from April 2014.

The Chancellor announced in the 2013 Budget that with effect from April 2015 the main rate of corporation tax would reduce by a further 1% to 20% therefore aligning the main corporation tax rate with the current small profits rate. Therefore, from April 2015 there will be just the one rate of corporation tax (for non ring fence profits) at 20% instead of a small profits rate, a higher main rate and an even higher marginal rate.

As well as saving tax for companies this will reduce administration costs for many SMEs in calculating their likely future tax rate.

The reduction in the main corporation tax rate makes our corporate partner strategy even more attractive, since from April 2015 there will no longer be a slight knock back in tax savings once the corporate profit share exceeds £300,000.

Those who were hoping that the creation of one unified corporation tax rate will result in the removal of the associated company legislation from the statute book may be disappointed. There remains the instalment regime for companies with profits in excess of £1.5 million which uses the associated company legislation to guard against corporate fragmentation. It remains to be seen whether this legislation will be further simplified.

Disincorporation relief

Following a report published in March 2012 by the Office Of Tax Simplification, and a consultation period, legislation will be introduced with effect from 1 April 2013 which is intended to apply for a period of five years.

Prior to this date if the shareholders wished to disincorporate a company and transfer its business to a sole trader or partnership business there would normally be a taxable capital disposal of the company's assets of land and goodwill. The new relief is designed to remove that tax charge.

This can be summarised as follows:

A joint claim may be made by the company and its shareholders to allow qualifying business assets to be transferred at a reduced value so that no corporation tax will be payable on the transfer

Shareholders to whom the assets are transferred will inherit the reduced transfer value for capital gains tax and the shareholders must use this value for any subsequent disposal of those assets.

There are various qualifying conditions:

The business must be transferred as a going concern

- All assets of the business (can exclude cash) must be transferred
- Claims will be restricted to those businesses where the market value of goodwill and land & buildings not held for trading stock does not exceed £100,000.
- The relief needs to be claimed by all parties within 2 years from transfer and the claim is irrevocable.

There had been pressure from various accountancy bodies to remove the £100,000 ceiling but HM Revenue & Customs appear to have resisted any proposed changes.

Loans from Close Companies

Loans made by close companies (companies with five or fewer shareholders) to their shareholders or relatives thereof are subject to a 25% corporation tax charge, often known as overdrawn loan account tax.

The Budget will strengthen this legislation in order to capture loans made by a close company to partnerships, LLPs and other intermediaries where an individual is a partner or member and also a shareholder of the company.

This 25% tax charge is repaid to the company when the loan is repaid.

In a further anti-avoidance step, the legislation in this respect will be strengthened such that loans that are repaid in order to avoid or repay the 25% tax charge, closely followed by a subsequent new loan on similar terms, will now be caught and repayment will not be granted or the charge will still stand.

Research and Development Tax Relief – Above the Line

From 1 April 2013 the Government are introducing a new 'Above the Line' tax credit for large companies undertaking qualifying R&D. This is a measure to increase the visibility of large company R&D relief and provide greater cash flow support to large companies with no corporation tax liability. The tax credit was originally going to be at a pre-tax rate of 9.1% but the Government announced today that this would be increased to a pre-tax rate of 10%. This is a great move by the Government to provide even more support to an effective tax relief, further improving the competitiveness for the UK as a location for large company R&D investment.

For more information on R&D tax relief http://www.armstrongwatson.co.uk/research-development

The Patent Box

Although only briefly mentioned in today's budget, 1 April 2013 sees the introduction of a new tax relief entitled 'The Patent Box'. The rules are complex but, broadly speaking, any company subject to UK corporation tax will only pay tax at 10% on their net income received from patents as long as the company is actively involved in the exploitation of the patent. Rather than a simple 10% rate, there will be an 'effective' 10% achieved by applying a calculation to reduce profits to a level where they are effectively 10%.

The relief falls under the Government's "Corporate Tax Road Map" to stimulate the economy by incentivising innovative high-tech companies to locate in the United Kingdom, whilst also rewarding innovative companies already located here.

Although there are some limitations to the Patent Box relief, such as its complexity, it will provide significant tax savings for companies with patents. The government forecasts that the relief will generate tax savings of £500 million in 2013-14, £800 million in 2014-15 and £900 million in 2015-16.

For more information on patent box http://www.armstrongwatson.co.uk/patent-box

Tax Relief for Employee Shares or Share Options

Corporation tax relief is available to companies in respect of employee shareholdings based upon the amount subject to income tax on the individual. If the shares are acquired through a tax approved share scheme, the corporation tax deduction is linked to the amount that would have been subject to income tax, had the option not been granted through a tax approved mechanism.

The new rules which apply from budget day appear to indicate that this corporation tax relief amounts to the entire relief available, and no further relief is available for other expenses, presumably such as legal and professional charges to create such share option schemes.

In other words, corporation tax relief will only be available for shares that are actually acquired, and never for lapsed options.

Despite this, EMI share options are still an excellent way to incentivise and retain key employees, especially as sale of such shares will now qualify for 10% capital gains tax regardless of the size of the shareholding.

Capital Allowances

Enhanced Capital Allowances

Since their introduction in 2001 and 2003 respectively, the energy saving and water efficient schemes allow 100% of the cost of an investment in qualifying plant and machinery to be written off against taxable profits in the period in which the investment is made. The two schemes have been a moveable feast since their introduction with new technologies being added, others taken away, new products being added to the list of qualifying plant and others being removed.

Subject to State aid approval, further changes to the schemes will have effect prior to the 2013 summer parliamentary recess.

A new sub-technology being carbon dioxide Heat Pumps for Water Heating will be introduced. Four existing sub-technologies being Automatic Boiler Blowdown Control Equipment, Condensate Pumping Equipment, Switched Reluctance Drives and Automatic Air Purgers will be removed. The qualifying criteria for 20 technologies will be revised.

A new grey water re-use technology will be added to the water efficient scheme. Two sub-technologies within the water re-use systems technology will be merged. The criteria for water flow meters will be revised and the Shower Flow Regulator sub-technology will be removed.

The lesson for those involved in construction projects is to keep up to speed with the continual changes to these two schemes, or else take appropriate professional advice to ensure that you or your clients do not miss on the tax reliefs available.

Simpler Income Tax for Small Businesses

For many small businesses a key reason for producing accounts each year is to get to a profit figure that can be subjected to tax. The basic outline is income, less expenses, equals profit. However, for various reasons, accounting profits are not necessarily the same as taxable profits. It is usual, for example, to adjust for capital expenditure as depreciation is claimed in the accounts and capital allowances for tax purposes. These adjustments can make it hard for small, often unrepresented businesses, to get their tax right.

Another key feature of this is that accounts are prepared on an accruals basis, which means that income and expenditure have to be included in the year that they are incurred, even if you have not been paid – or paid your supplier yet. For example, if you have done some work and invoiced it during the year, even if you have not yet received the cash, that income needs to be included for tax purposes. This results in the need to include figures for stock, debtors and creditors.

From 2013-14 onwards certain small businesses will be able to use a simpler 'cash basis' method to get to their taxable profit for the year. Qualifying businesses will generally be those sole traders and partnerships that are currently under the VAT threshold.

The cash basis means the net taxable profit is calculated as the cash left, after adding up your income actually received, less the actual payments out on expenses.

The cash basis means that there is no need to account for debtors, creditors or stock. It will also be no longer necessary to adjust for the difference between revenue and capital expenditure e.g. when buying equipment or plant. Capital allowances will only remain for expenditure on cars.

It will also be possible to claim certain flat rate expenses for motoring and use of home for work.

The simplifications are intended to simplify accounting matters and, hopefully, reduce taxpayer error. The system is also designed to fit in with the monthly cash basis reporting of income, required under the new Universal Credit rules.

Employment Taxes

Employment Allowance

A measure which will be welcomed by organisations which employ staff is to be introduced in April 2014.

The Employment Allowance will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 secondary NICs liability. The allowance will be claimed as part of the normal payroll process through the Real Time Information (RTI) system being introduced on 6 April 2013 which requires all payments to employees are reported to HMRC as they are made. Further information on the scheme will be available later in the year.

Company Car Tax Rates

Two new bands will be added to the company car tax schedule from April 2015. Cars with CO_2 emissions exceeding 50g/km but with less than 75g/km will see their tax bracket rise from its current 5% to 9%. This will rise a further 2% to 11% from April 2016. Cars with under 50g/km CO_2 emissions will keep their current 5% tax band from April 2015 although will see a 2% increase to 7% from April 2016. Other low emission cars (76g-94g CO_2 per km) will see a 13% band from April 2015 with a 2% increase for each rise in emissions of 5g CO_2 per km from 95g CO_2 to a new maximum of 37%. The 3% diesel supplement will be removed from April 2016.

The changes ensure that only those cars with the very lowest CO_2 emissions pay the least in tax.

New Childcare Scheme

Autumn 2013 will see the introduction of a new scheme to help working families with the cost of childcare.

The scheme will allow working families to reclaim 20% of the childcare costs back from the government, subject to a limit of £6,000 total childcare cost per child. This scheme gives scope for families to claim back up to £1,200 per child, per year, towards the cost of childcare.

The scheme will be phased in and is intended to replace the existing employer supported childcare voucher scheme as it is phased out. The aim of the scheme is to help families whose income is less than £150,000 per year and who do not receive child tax credits or the universal credit when it comes into force. The scheme will also enable people who are self employed and who cannot currently benefit under the current voucher scheme, or claim tax credits, to benefit from tax free childcare.

When the scheme is introduced it will initially be available for children under the age of 5 but this age limit will increase to 12 when the scheme is fully operational.

Employee Shareholders

There are two new measures introduced in respect of employee shareholders. These are aimed at creating a new 'employee shareholder' status to promote business and employment growth by giving employees a bigger stake in their companies.

The first is to exempt any capital gains made by individuals on the disposal of shares acquired through the adoption of the 'employee shareholder' status. This will be up to a maximum of £50,000.

The second is to reduce the income tax and National Insurance contributions (NICs) due when employee shareholders acquire shares. This is done by deeming that they have paid £2,000 for the shares, ensuring that the first £2,000 is not subject to income tax or NICs.

These changes will apply to shares received through the adoption of the new 'employee shareholder' status on or after 1 September 2013.

Exemption threshold for beneficial loans made by employers

At present, when a loan provided to an employee or director exceeds £5,000 for at least one complete tax month the employer is required to report that loan on form P11D. The employer pays Class 1A National Insurance Contributions (NIC), which are currently charged at a rate of 13.8%, on the value of the benefit based on the official rate of interest, currently 4%. The employee receiving the benefit pays tax on the same value via PAYE or their self assessment tax returns. The current threshold of £5,000 is to be increased to £10,000 from 6 April 2014.

This proposed increase means that loans which do not exceed £10,000 during the tax year will be exempt from both tax and Class 1A NIC.

This increase will not only reduce the costs of the loan for employers and individuals, it will also reduce the administrative burden and P11D preparation costs for some employers each year.

New RTI Penalties

From April 2013 employers are required to submit information about their payroll in real time - the RTI system. Along with these changes there also need to be some new penalty provisions to allow penalties to be charged in year. As ever the purpose of penalties is to encourage compliance.

The new late filing penalties will be introduced from April 2014. New penalties for inaccuracies will come in from Royal Assent of the Finance Bill. Until that time the current rules will remain.

Going forwards the level of penalty will depend on the size of the business, whether micro, small, medium or large. Penalties will be charged quarterly and schemes will be allowed one penalty free mistake a year. Employers can also appeal against penalties on the usual grounds of reasonable excuse.

For more information on RTI http://www.armstrongwatson.co.uk/real-time-information-rti

VAT

VAT – Changes in registration and deregistration thresholds

With effect from 1 April 2013:

• The taxable turnover threshold which determines whether a person must be registered for VAT will be increased 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 threshold for relevant acquisitions from other EU Member States will also be increased from £77,000 to £79,000.

VAT – Fuel scale charges

VAT fuel scale charges will change with effect from 1 May 2013. Details can be found in http://www.hmrc.gov.uk/budget2013/ootlar-main.pdf

VAT – Changes to the place of supply rules

Legislation will be introduced in the Finance Bill 2014 to tax intra-EU business consumer supplies of telecommunications, broadcasting and e-services in the Member State in which the consumer is located. These services are currently taxed in the Member State in which the business is established. The changes will take effect from 1 January 2015 and implement already agreed EU legislation, ensuring that these services are taxed fairly in the Member State of consumption.

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.

Changes to the VAT place of supply rules and the introduction of the Mini One Stop Shop (MOSS) can be found at http://www.hmrc.gov.uk/budget2013/vat-place-supply-rules.pdf

Stamp Duty Land Tax

There have been aggressive SDLT avoidance schemes in existence that have cost the country over £25 million per year through the complicated onward sale of properties, the sale of which are not completed for a number of years. The Chancellor of the Exchequer has promised that he would not hesitate to clamp down on such schemes and has done so in today's budget by making amendments to the 2003 Finance Act. Closing these schemes is expected to save £45 million in 2013/14.

Capital Gains Tax and Inheritance Tax

Capital Gains Tax

From 6 April 2013 the Capital Gains Tax (CGT) annual exemption will increase from £10,600 to £10,900. Any gains over and above this exemption will be chargeable to CGT at 18% or 28% depending on the level of your income. The 10% entrepreneur relief rate remains.

Inheritance Tax Nil Rate Band – remains frozen

The Nil Rate Band is the value of chargeable assets that can pass on death without suffering Inheritance Tax.

In the 2010 Budget the government announced that the Nil Rate Band for Inheritance Tax would be frozen at £325,000 until April 2015, on 11 February this year they further announced that the Nil Rate Band would continue to be frozen at £325,000 until April 2018 and this measure has now been confirmed in the Budget 2013 announcements.

Inheritance Tax treatment for non-domiciled spouses/ civil partners

The Finance Bill 2013 will bring in legislation to reform the treatment of spouses and civil partners where one party is not domiciled in the UK. Domicile is a common law concept and is not defined in statute for tax purposes. Broadly, it is where an individual has their permanent home or intends to settle permanently.

Spouses and civil partners who are both domiciled in the UK can pass assets freely between them without being subject to Inheritance Tax whereas currently if one party is domiciled outside the UK only assets up to £55,000 can be passed to them without being subject to Inheritance Tax. This is because non domiciled persons are only subject to Inheritance Tax on their assets situated in the UK. The reforms will align the present limit of £55,000 to the prevailing Nil Rate Band, currently £325,000.

Furthermore the non-domiciled spouse or civil partner will be able to elect to be treated as domiciled in the UK for Inheritance Tax purposes. Such an election would mean that assets of any value could be passed to them without being subject to Inheritance Tax, not just assets up to the new limit of £325,000.

Interestingly an election can be made by the personal representatives after a person has died, so long as it is made within two years of death. If an election is made either during lifetime or on death it will apply from a specified date within the preceding seven years but no earlier than 6 April 2013. However an election will cease to have effect if the individual becomes resident outside the UK for more than four consecutive tax years.

Inheritance Tax treatment of liabilities

Measures have been announced to take tackle arrangements used to take advantage of the current Inheritance Tax treatment of liabilities to reduce the value of an estate on death. These involve contrived debts which are subsequently not repaid so there is no real reduction in the value of the estate; others involve loans used to acquire assets which are not chargeable to IHT or which qualify for a relief.

Inheritance Tax is normally charged on the net value of a deceased's estate after taking into account liabilities outstanding at the date of death and after deducting any available reliefs, exemptions and the Nil Rate Band. Currently, the deduction is given for the full value of the liabilities due to the creditors, and not for the amount actually paid to them. A liability secured on a particular property is first set against the value of that property.

The proposed changes will mean:

- A deduction for a liability will only be allowed to the extent that it is repaid to the creditor after death, unless a commercial reason for not repaying can be shown

- No deduction will be allowed for a liability if it has been incurred directly or indirectly to acquire property which is excluded from the charge to Inheritance Tax. Where the acquired property has been disposed of, however, or where the liability is greater than the value of the excluded property, the deduction may be allowed provided certain conditions are met

- Where the liability has been incurred to acquire assets on which a relief such as Business Property Relief, Agricultural Property Relief or Woodland Relief is due, the liability will be taken to reduce the value of those assets, regardless of where the debt is secured. The deduction for the loan will be matched against the assets acquired and relief will be restricted to the net value of the assets, with only the excess liability being an allowable deduction against the value of the Estate.

The measure will have effect for deaths and chargeable transfers on or after the date that the Finance Bill 2013 receives Royal Assent.

Financial Services

The chancellor confirmed what he first announced in the Autumn statement concerning annual and lifetime pension allowances. The standard lifetime allowance will reduce from £1.5M to £1.25M and the annual allowance will fall from £50,000 pa to £40,000 pa for the 2014-15 tax year onwards.

A "fixed protection" mechanism was also confirmed which will allow those who think they may have rights in excess of £1.25M by the time they take their pension benefits. In exchange for making no further contributions, if in a defined contribution pension (including personal pensions) accruing no further benefits if in Final salary pension, fixed protection will mean the effective retention of a £1.5M limit.

In a move aimed to increase the competitiveness of the UK asset management industry the chancellor plans to abolish stamp duty reserve tax for UK-domiciled funds.

He said the move would help increase the attractiveness of the UK asset management industry, pointing to its key role in both the Edinburgh and London economies.

Currently, asset managers must pay the 0.5% tax when investors sell their units or shares back to a fund. The move will be widely welcomed by the UK asset management community and will benefit UK investors.

The chancellor also announced the government will extend its Equitable Life compensation payments to cover customers who bought with-profits policies before 1992.

When the £1.5bn Equitable Life Payments Scheme began two years ago, it did not cover this group of policy holders. However, the government will now extend the scheme using some of the savings made through bringing forward the implementation of the state pension and the end of contracting out to 2016. Pre-1992 policy holders will be eligible for a £5,000 compensation payment and policy holders who receive pension credit will be eligible for a further £5,000.

Housing – Help to Buy

An outline of the two schemes are as follows:

Equity loan to help buy a new build home

- This is an extension of the existing scheme for first time buyers, extending it to all
- Applies to new build properties only
- 5% deposit required
- Government lends a further 20%
- You secure a 75% mortgage from a bank/building society
- Available from 1 April 2013 for 3 years
- Maximum house purchase price of £600,000

Mortgage guarantee when you don't have sufficient deposit

- Applies to new and existing homes
- 5% deposit required
- For both first time buyers and existing home owners
- You secure a commercial mortgage
- Government guarantee encourages lender to lend even with only 5% deposit
- Commences January 2014 for 3 years
- Maximum house purchase price of £600,000

General Anti Abuse Rule

Further information was included in the Budget regarding the General Anti Abuse Rule (GAAR). This is due to come into effect after this year's Finance Bill receives Royal Assent which is likely to be sometime in July 2013. The measure is aimed at counteracting abusive tax avoidance schemes entered into after this date.

The Government announced, in last year's Budget, that it had accepted the recommendations of the Aaronson report that a GAAR should be introduced and a period of consultation followed.

The Budget confirms that legislation will be introduced in Finance Bill 2013 whereby the GAAR will provide for the counteraction of tax advantages arising from tax arrangements that are abusive. Counteraction by HMRC must follow certain procedural requirements including, notification by a designated HMRC officer and the opportunity for representations to be made by the taxpayer before the arrangements must be referred to an Advisory Panel, established by HMRC, for its opinion. Counteraction will be on a just and reasonable basis and may take a number of forms depending on the tax concerned. The GAAR will be monitored to evaluate its effectiveness in stopping abusive avoidance schemes.

If you'd like to speak to one of our tax team about anything in the budget, and how it affects your personal circumstances, contact us:

Call: 0808 144 5575

Email: tax@armstrongwatson.co.uk

Visit: www.armstrongwatson.co.uk