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# Autumn statement 2014.

"Low taxes; but taxes that will be paid," was the mantra behind George Osborne's pre-election Autumn Statement which featured significantly more than many predicted in advance of the UK heading to the polls next year. Government tax policy continues to be designed to encourage growth whilst making it clear that anything less than paying a 'fair share' will not be tolerated.

Whilst predictably income tax, corporation tax and VAT were left broadly unchanged, the Stamp Duty Land Tax regime was overhauled and the widely discussed 'Google Tax' was announced to tackle the much heralded lack of tax receipts from international businesses operating in the UK.

As is typical, we do not yet have all the detail, most of which should be within the draft Finance Bill 2015 due next week, but below is a focused summary of the announcements that will impact the UK's investment management and financial services sector.

## The 'Google Tax' and BEPS

From 1 April 2015 the UK will introduce a new tax termed the 'diverted profits tax' (dubbed the "Google Tax" in the media) which aims to target multinational companies who divert profits generated by economic activity in the UK to locations overseas. The diverted profit tax will be applied at a rate of 25% and is expected to raise £1bn over the next five years. With the Treasury department yet to release details on the method of implementation, there is much speculation about how far reaching an impact it will have on international business. Given the progress made on the Base Erosion and Profit Shifting (BEPS) project in recent months, which is seeking to overhaul the international tax system, the timing is somewhat surprising, and perhaps suggests a lack of faith in the BEPS project which has targeted action points focused on the digital economy, transfer pricing and treaty abuse.

Less of a surprise was the Chancellor's announcement to enact the new country-by-country ("CBC") reporting requirements recommended as part of the BEPS project following the UK's commitment to adopt these in September 2014. The timing is still to be confirmed, but the fact that it will feature in the Finance Bill 2015, and tax collection is budgeted in the 2015-16 fiscal period, would suggest that these measures may be implemented from April 2015. Indeed, given that CBC reporting is designed to act as a risk assessment tool for tax authorities with regard to profit shifting, the timing will marry well with the proposed diverted profits tax.

Also announced was a consultation on the proposed hybrid mismatch arrangements developed under the BEPS project. With many more of the 2014 deliverables still to be adopted and a raft of action points to be tackled in 2015, BEPS will increasingly underpin changes to international taxation over the coming year.

## Stamp Duty Land Tax

With so much private wealth invested into property, any changes to the Stamp Duty Land Tax ('SDLT') regime immediately catch the eye. In response to the opposition's heralded 'mansion tax', the Government has sought to overhaul the existing SDLT 'slab' system and replace it with a new progressive system. SDLT will now be payable on each portion of the purchase price which fall into set bands similar to Income tax and will apply to any houses sold on or after 4 December 2014. The table below shows how the new bands will apply to the value of a purchased property.

| **Old system (Rate paid on entire purchase price)** | | **New System (Rate paid progressively on bands)** | |
|---|---|---|---|
| **Price of Property** | **Rate** | **Price of Property** | **Rate** |
| Up to £125,000 | 0% | 0 to £125,000 | 0% |
| Over £125,000 and up to£250,000 | 1% | £125,001 to £250,000 | 2% |
| Over £250,000 and up to £500,000 | 3% | £250,001 to £925,000 | 5% |
| Over £500,000 and up to £1 million | 4% | £925,001 to £1,500,000 | 10% |
| Over £1 million and up to £2 million | 5% | Over £1,500,000 | 12% |
| Over £2 million | 7% | | |

There will be winners and losers but the expectation is that 98% of houses would see a reduction in the amount of stamp duty, leaving only the top 2% of houses subjected to a higher amount of stamp duty.

## Targeted anti avoidance on certain fund managers

Although very light on detail there was an announcement regarding action to prevent fund managers from diverting management fees away from income tax and recharacterising them to be taxed as a capital gain. Although not confirmed, it is thought to focus on the private equity industry.

## Restrictions on incorporating a business

The Government has acted to restrict the availability of corporation tax relief on the writing down of internally generated intangible fixed assets ("IFAs") arising on the purchase of a business from a related individual or partnership. The changes take effect from 3 December 2014 and impact corporation tax deductions that would have matched the accounting amortisation expense in the company's profit and loss account. Additionally, from the same date, individuals will be restricted from claiming entrepreneurs' relief (ER) on their disposal of the goodwill created on the transfer of the business to a related close company. Chargeable gains attributable to goodwill will now be taxed at normal capital gains rates at a maximum of 28%. Disposals of other assets will continue to attract ER.

With many in the financial services sector considering converting from a partnership structure to a limited company structure as a result of the overhaul in the partnership taxation regime from 6 April 2014, these announcements will be of interest but it was always difficult for regulated businesses to consider this type of transaction.

## R&D tax credits

From 1 April 2015 the Government will increase the Research and Development (R&D) tax credit for small and medium-sized companies from 225% to 230% along with an increase in the 'above the line' credit for large companies from 10% to 11%. An "advanced assurance scheme" was also announced for small businesses that are making their first R&D claim and will look to provide new guidance more tailored to them. At present only a minority of those in the industry who potentially qualify (e.g. those heavily reliant on technology or quantitative trading strategies) benefit from the relief, so hopefully this will encourage others who fit the criteria to explore it further.

## Banking loss relief restricted

From 1 April 2015, the amount of profit that a bank (which has received public funding) can offset against losses carried-forward is to be restricted to 50%. Previously these losses could be utilised against 100% of profits, removing the obligation to corporation tax completely. The proposals should lead to an increase in Corporation Tax payments from banks as they return back to their pre-crisis levels. Lloyds and RBS stocks took an immediate dip on the news.

## Annual Tax on Enveloped Dwellings ('ATED')

Since 1 April 2013 residential properties valued over £2m with corporate owners are subject to an annual tax charge calculated on a progressive system with the highest charge applying to properties valued over £20m. Band charges were set to increase in line with the Consumer Price Index (CPI); however, details set out in the autumn statement have confirmed that in addition to the CPI rise the bands will increase by an additional 50%. For a property valued between £2m and £5m this will result in a rise in the annual tax from £15,400 to £23,350, but more significantly, the highest band for properties over £20m will see the annual charge increase from £143,750 to £218,200.

## Non Domiciled Individuals

The annual remittance basis charge paid by non-domiciled individuals resident in the UK has been amended, increasing the amount due for individuals resident for 12 out of 14 years from £50,000 to £60,000. Additionally, there is the introduction of a new charge of £90,000 for any individuals resident for 17 out of the last 20 years. The charge for those who have been resident for seven out of the last nine years will remain at £30,000. The Government has also to issue a consultation paper looking at enforcing the remittance election to apply for a three year period which will limit the planning opportunities, in effect tripling the existing charge for individuals seeking to make an election on a one off basis.

## Personal Tax Thresholds/ISAs/Pensions/Reinvestment of gains subject to ER

With the exception of the non-domiciled persons regime, the changes to the personal tax regime will be welcomed by all, particularly by those saving for retirement.

From 6 April 2015 the individual personal allowance increases from £10,000 to £10,600 and the first increase in the higher rate 40% band for five years will rise to £42,385 up from £41,865. Individual Savings Account ('ISA') limits will increase from £15,000 per annum to £15,240 per annum, in line with the Consumer Price Index. In addition, any individual who inherits an ISA after the death of a spouse or civil partner will have their ISA allowance extended by the value of the deceased's ISA saving.

From April 2015, beneficiaries of individuals who die under the age of 75 will receive any future annuity payments tax free, where they have received no payments before 6 April 2015. Small pots rules in relation to small lump sums withdrawn from pension schemes are to continue as expected, with the age at which individuals can make use of small pots rules to be lowered from 60 to 55 from April 2015.

Additionally it was announced that where capital gains eligible for ER are reinvested into an Enterprise Investment Scheme ('EIS') or are subject to Social

Investment Tax Relief ('SITR') the original ER gain will automatically qualify for ER following a disposal.

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