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Budget 2015

With the UK's general election scheduled for 7 May 2015 the Chancellor of the Exchequer's annual budget statement was even more eagerly anticipated than usual. The coalition government's achievements with the economy were a central theme and of particular note were the employment figures released earlier in the day.

'Britain is working again' was the key statement, backed up by figures suggesting the highest level of employment in Britain's history. George Osborne broadly stuck to his promise of no giveaways or gimmicks, choosing to use the windfalls from lower inflation to pay down the national debt putting 'economic security first'. Most of the headline policies were released in the Autumn Statement in December 2014 and most of the fine detail will be in the draft Finance Bill 2015 to be released on 24 March 2015.

However a summary of the key Budget day announcements relevant to the financial services industry is set out below.

Personal tax rates and allowances

As expected, income tax rates remain unchanged, however there was an increase in the individual personal allowance, rising to £10,800 for the 2016-17 fiscal period and £11,000 in 2017-18. Higher rate tax payers will also benefit with an increase in the higher-rate threshold to £42,700 in 2016-17 and £43,000 in 2017-18.
The government has announced their intention to abolish Class 2 national insurance contributions in the next parliament.

Personal Savings

A new Personal Savings Allowance will be introduced from April 2016 ensuring that the first £1,000 of savings income is tax free for basic rate taxpayers and the first £500 for higher rate taxpayers. It will not be available for additional rate taxpayers. In achieving this, the automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from April 2016.

Individual Savings Accounts (ISA)

First time buyers will be able to invest in a new 'Help to Buy: ISA' to support those saving to buy their first home. The government will match 25% of any contribution made into the ISA up to a maximum of £3,000 annually for those who save £12,000.

Existing ISAs will be granted more flexibility such that savers can withdraw and replace money in the same tax year without losing the tax advantage. Furthermore the range of eligible investments will increase in 2015-16 to include listed bonds issued by a co-operative society and community benefit society and SME securities issued by companies trading on a recognised stock exchange.

Pensions

As announced in the press, individuals already receiving income from an annuity will be able to sell that income to a third party, subject to agreement from their annuity provider, from April 2016. The lifting of restrictions imposed on pensioners will be welcomed by many, but those saving for a pension will be disappointed by the reduction in the lifetime allowance for pensions tax relief to £1 million from April 2016, falling from £1.25m. From 2018 it is expected this limit will increase in line with the consumer prices index .

Annual Tax Compliance

One of the key announcements was that annual tax returns for both individuals and businesses will be replaced by a secure personalised digital tax account. By early 2016 five million small businesses and the first 10 million individuals will be able to access the new system, with a further 50 million individuals and small businesses by 2020.

Precisely how this will differ from the existing online submission system will be of great interest, but it suggests a move away from the current self-assessment system for income tax and corporation tax. Taxpayers will still be able to authorise their agents to manage their tax account but the potential shift in policy regarding tax compliance will need to be monitored closely.

Diverted profits tax

The so called 'Google Tax' announced in the Autumn Statement received only a brief mention in the speech, confirming its introduction from 1 April 2015. Buried in the documentation, it was suggested that the legislation will be revised to narrow the notification requirements imposed on the taxpayer which set a lower threshold than the actual tax imposed. There will also be changes to clarify rules for giving credit for tax paid, the operation of the conditions under which a charge can arise, specific exclusions and the application of the Diverted Profits Tax to companies subject to the oil and gas regime. The detail is expected on 24 March in the draft Finance Bill 2015.

Base Erosion and Profit Shifting (BEPS)

Notable due to its absence, there were no announcements in relation to implementing the Organisation for Economic Co-operation and Development's (OECD) BEPS plan. Although still partly under development, the government could have opted to take forward the 2014 recommendations, particularly given that in September 2014 the UK was the first country to commit to adopting the country-by-country reporting model. The BEPS plan is widely regarded as one of the most significant overhauls in the international tax system ever to be witnessed and ushers in a new era of transparency and fairness.

Disguised fee income

Investment managers within the scope of the proposed disguised fee income legislation due to be implemented from 6 April 2015 will have to wait for the draft Finance Bill 2015 on 24 March to see the anticipated changes to the new regime, with the definitions around co-investment and carried interest most likely to be revisited. Additionally it is to confirm the charge on non-residents is limited to UK duties. However, given the timing there will be a very limited window of opportunity to undertake any remedial action.

Non-residents CGT on residential property

It was confirmed that from 6 April 2015 non-UK resident individuals, trusts, personal representatives and narrowly controlled companies will be subject to Capital Gains Tax (CGT) on gains accruing on the disposal of UK residential property on or after that date. A set of frequently asked questions setting out the regime was released by way of guidance.

Entrepreneur's Relief

There was some concern that this relief could be restricted in the budget. The potential curtailing of entrepreneur's relief was limited to the removal of the relief for 'contrived structures' using joint ventures or partnerships where relief will be denied on the disposal of shares in a company that is not a trading company in its own right. The government will also prevent individuals from claiming ER on the disposal of personal assets used in a business carried on by a company or a partnership, unless they are disposed of in connection with a disposal of at least a 5% shareholding in the company, or a 5% share in the partnership assets. These changes have immediate effect, in the same way the relief relating to disposal of goodwill on the incorporation of partnerships was withdrawn on the same day it was announced in the Autumn Statement.

Banks

There was an increase in the Bank Levy from 0.156% to 0.210% from 1 April 2015. Also announced was an immediate restriction on the relief for compensation payments (such as PPI) that will be treated as non-deductible for corporation tax purposes, a move that is likely to raise nearly £1bn over the next five years

Research and Developments (R&D) Tax Relief

It was announced that the government will introduce voluntary advanced assurances lasting three years for smaller businesses making a first claim from Autumn 2015. It will also take steps to reduce the time taken to process a claim from 2016 and publish new standalone guidance aimed specifically at smaller companies. A roadmap setting out the improvements to the scheme is expected in the summer. This is a welcome practical step for small businesses which will also benefit from an increase in the rate of the SME scheme from 225% to 230% from 1 April 2015.

Avoidance/Evasion

As part of the new era of transparency regulations the government will lay the regulations to implement the UK's Automatic Exchange of Information Agreements and adopt the updated EU Directive on Administrative Co-operation shortly after Budget 2015.

Both the Liechtenstein Disclosure Facility and the Crown Dependencies Disclosure Facilities will close at the end of 2015, earlier than previously published. However, a new disclosure facility will be available in advance of the implementation of the Common Reporting Standard in 2017. The new time limited disclosure facility will run from 2016 to mid-2017 on less generous terms than existing facilities. It was also announced that HMRC will be issuing an additional 21,000 Accelerated Payment Notices over and above the original estimated number, expected to generate an additional £0.5bn in the coming years.

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