



FINANCE BILL DRAFT CLAUSES 2013



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FINANCE BILL

DRAFT CLAUSES 2013

INTRODUCTION

On 11 December 2012 the Government published the draft tax legislation to be included in the 2013 Finance Bill. The legislation will implement certain policies announced in the 2012 Budget and Autumn Statement.

Publishing its draft tax legislation for the third year in a row, the Government hopes to achieve its twin objectives of confirming the majority

of tax changes three months in advance and of creating a tax system that is more transparent, efficient and simple.

The technical consultation period for the draft legislation will run until 6 February 2013.

This guide provides a summary of the draft clauses announced by the Government on 11 December 2012.

IMPORTANT INFORMATION

This report is based on draft legislation issued by the Government on 11 December 2012. These proposals may be amended.

Professional advice should be obtained before acting on any information contained herein.

No responsibility can be accepted as a result of action taken or refrained from in consequence of the contents of this Report.

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the full amount you originally invested.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. E & OE.



THE DRAFT CLAUSES FOR THE FINANCE ACT 2013 WERE PUBLISHED ON 11 DECEMBER 2012 AND AIMED TO PROVIDE DRAFT LEGISLATION TO ENACT THE ANNOUNCEMENTS MADE IN THE 2012 BUDGET AND AUTUMN STATEMENT.

THE MAIN PROVISIONS ARE:

- Income tax thresholds are increased
- Pension tax relief is reduced
- Some minor changes for inheritance tax
- Corporation tax rates are reduced
- Disincorporation relief is introduced
- A new annual property tax is introduced
- A general anti-abuse rule is introduced to combat tax avoidance.

INCOME TAX THRESHOLDS

From 6 April 2013, you can receive taxable income of £9,440 a year before paying income tax. The current allowance is £8,105. This new allowance replaces the figure of £9,205 announced in the Budget. The total increase in the personal allowance will typically save basic rate taxpayers about £22 a month.

From 2014, there is an increase in the threshold at which you start to pay tax at 40 per cent. This threshold increases by a below-inflation one per cent, which means that more taxpayers will pay tax at the 40 per cent rate.



INCOME TAX BANDS UP TO THE 40 PER CENT THRESHOLD FOR RECENT YEARS ARE:

Tax year	Personal allowance	Basic rate band	40% threshold
2010/11	£6,475	£37,400	£43,875
2011/12	£7,475	£35,000	£42,475
2012/13	£8,105	£34,370	£42,475
2013/14	£9,440	£32,010	£41,450
2014/15	n/a	n/a	£41,865
2015/16	n/a	n/a	£42,285

The 2013/14 basic rate band would have been £35,300 if it had been indexed, so these changes represent tax increases in real terms. If the Government sets the 2014/15 allowance at its target figure of £10,000, the basic rate band could further reduce to £31,865.

For older taxpayers, age allowance may be claimed if you were born before 6 April 1948. It should be noted that from 6 April 2013, age allowances depend on the date of birth, not on the taxpayer’s age.

PENSION RELIEF

FROM 6 APRIL 2014, TAX RELIEFS ON PENSION CONTRIBUTIONS ARE RESTRICTED:

Tax years	Annual limit	Lifetime limit
2012/13 and 2013/14	£50,000	£1.5 million
From 2014/15	£40,000	£1.25 million

If you are at or near the lifetime limit, you may be able to claim fixed protection to prevent any retrospective tax charges arising from reducing the lifetime allowance.

If you are a member of a defined benefit pension scheme and receive a pay rise, you could find you unexpectedly breach these limits. You may, however, be able to use any unused annual limits from the previous three years.

There are also some changes for employer’s contributions to family pension plans and bridging plans. Please contact us if you think these may affect you.



INHERITANCE TAX

THERE ARE SOME MINOR CHANGES IN THE INHERITANCE TAX RULES.

The nil rate band has been frozen at £325,000 since 2010. It has now been announced that in 2015 it will rise to £329,000. This below-inflation increase after a five-year freeze means that more estates will be liable to inheritance tax.

Your spouse or civil partner can inherit tax-free from your estate unless they are non-domiciled. In that case, their tax-free limit is £55,000, a figure unchanged since 1982. For transfers from 6 April 2013, this figure becomes the same as the nil rate band, currently £325,000. Alternatively, the spouse or civil partner may elect to give up their non-domiciled status.

BUSINESS TAXATION

THE MAIN RATE OF CORPORATION TAX IS REDUCING AS FOLLOWS:

Tax year from	Main rate
1 April 2012	24%
1 April 2013	23%
1 April 2014	21%

It should be noted that the Chancellor has previously announced further reductions in corporation tax from those previously announced, so the rates from 2013 should not necessarily be regarded as final.

A small profits rate of 20 per cent applies to taxable profits up to £300,000. A marginal rate (currently 25 per cent) applies on profits between £300,000 and £1.5 million. If these rates and thresholds remain unchanged, the marginal rates for 2013 and 2014 will be 23.75 per cent and 21.25 per cent respectively.

A surprise announcement is that the annual investment allowance is to be increased from £25,000 to £250,000 for two years from 1 January 2013. We can discuss with you whether it is appropriate for your business to bring forward or defer any capital expenditure.

There are changes to how tax relief will operate for research and development. There are also some new reliefs for those involved in television and videogames.



SMALL BUSINESSES

THERE ARE TWO SIGNIFICANT CHANGES FOR SMALL BUSINESSES.

First, a new simpler cash-based scheme is introduced for small businesses from 6 April 2013. A business may use this scheme if its turnover is below the VAT registration threshold (currently £77,000). In general, such businesses will not have to distinguish between capital and revenue expenditure. They may also use flat rate expenses for certain items of expenditure. We can provide further details of how the scheme works.

Second, a new disincorporation relief is introduced. This will allow a business to move from a limited company to a sole trader without the company incurring tax on chargeable gains. The relief is limited to £100,000 and will be available between 1 April 2013 and 31 March 2018. We can discuss whether disincorporation could be appropriate for your business.

ANNUAL PROPERTY TAX

A NEW TAX CALLED THE ANNUAL RESIDENTIAL PROPERTY TAX (ARPT) IS TO BE INTRODUCED FROM 1 APRIL 2013.

This applies when a residential property is owned by a company, a collective investment scheme or a partnership with one or more company members. It applies if the property was worth more than £2 million on 1 April 2012. The new tax is designed to discourage the avoidance of stamp duty land tax on high value properties by creating companies to own the property and then transferring the company.

ARPT is payable at four rates depending on whether the property falls into bands from £2 million, £5 million, £10 million or £20 million. We can advise on how this new tax affects you, and whether it remains appropriate to hold residential property under this structure.

GENERAL ANTI-ABUSE RULE

A NEW GENERAL ANTI-ABUSE RULE COMES INTO FORCE FROM SUMMER 2013. IT APPLIES TO ARTIFICIAL TAX SCHEMES ENTERED INTO FROM THIS DATE.

This change does not affect normal tax planning. It is designed to stop artificial schemes that exploit tax law in ways not envisaged by Parliament. This general rule is in addition to many anti-avoidance rules that have been implemented to deal with specific schemes.

To ensure fairness to the taxpayer, HM Revenue and Customs is appointing a designated officer to ensure consistency between taxpayers. There is also an advisory panel to provide HM Revenue and Customs and the taxpayer with an independent view on any scheme.



OTHER CHANGES

CAP ON INCOME TAX RELIEFS

Various forms of tax relief are restricted to the greater of £50,000 and 25 per cent of adjusted total income. This restriction includes loss relief but not charitable donations. We now have the details of the reliefs affected and how to calculate 'adjusted total income'.

STATUTORY RESIDENCY TEST

A new statutory residence test is introduced from 6 April 2013. This introduces, into the legislation, new objective tests on whether a taxpayer is UK-resident. This is based on various factors and can depend on how many days are spent in the UK. As residence can have a significant impact on your liability to UK tax, we suggest you speak to us if you are planning to be overseas for long periods.

ENTERPRISE MANAGEMENT INCENTIVE SCHEME

From 6 April 2013, the twelve month 'qualifying period' for which Enterprise Management Incentive (EMI) scheme shares options must be held in order for an employee to benefit from entrepreneurs relief on the disposal of the shares, will be based on the grant date of the EMI share options as opposed to the exercise date. This change is particularly useful for employees who only wish to exercise their EMI share options on exit given that HM Revenue and Customs announced in March 2012 that the 5 per cent holding requirement would be removed for EMI share options exercised on or after 6 April 2012.

EMPLOYEE SHAREHOLDER STATUS

Details on the new employee shareholder status, under which certain employment rights are foregone in return for shares, have been drafted as part of the Bill. Unfortunately the draft clauses do not contain an exemption on acquisition from income tax and national insurance, although the Chancellor announced in the Autumn Statement an exemption on the first £2,000 of shares was being considered.

WITH THE APPROACH OF THE TAX YEAR END, WE WOULD WELCOME THE OPPORTUNITY TO DISCUSS WAYS IN WHICH YOUR TAX LIABILITY CAN BE MITIGATED FOR THE CURRENT OR ENSUING TAX YEARS.

