Helping business grow to new heights

A guide to Budget 2014

A SIMPLE GUIDE TO THE BUDGET 2014
This is a basic guide, prepared by ACCA's Technical Advisory team, for members and their colleagues or clients. It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

Growth and fairness were the themes of the Budget, you can read the individuals measures below.

HMRC powers extended
The government plans to give HMRC the power to recover tax directly from debtors' bank accounts where they owe more than £1,000 and have previously been contacted 'multiple times by HMRC to pay'. A single aggregate of £5,000 will be left across all accounts, after the debt is recovered.

The Treasury says the new power will bring the UK tax authorities in line with other countries in Europe, which already have this power.

Pensions
From 27 March 2014 to April 2015 measures are being introduced to make withdrawing benefits during this period more flexible. These changes cover the following:

- capped drawdown increasing basis amount from 120% to 150%
- flexible drawdown, minimum income threshold reduced from £20,000 to £12,000
- trivial commutation limit increased from £18,000 to £30,000
- relaxation of rules relating to small pension pots.

Currently people who choose to withdraw all of their defined contribution pension savings at the point of retirement are charged 55% on the amount withdrawn (other than the 25% tax free amount).

From April 2015 an individual will be able to withdraw their savings at a time of their choosing subject to their marginal rate of income tax, which for a basic rate tax payer will be 20%.

Also from April 2015 the government will introduce a new guarantee that everyone who retires with a defined contribution pension will be offered free and impartial face-to-face guidance on their choices at the point of retirement.

Annual Investment Allowance
The Chancellor responded in the Budget 2014 by increasing the annual investment allowance from £250,000 to £500,000 per annum with effect from 1 April 2014 for companies and 6 April 2014 for unincorporated businesses, up to 31 December 2015. This is another temporary increase and the AIA limit will revert back to £25,000 per annum with effect from 1 January 2016.

Research and development tax credit reform

There will be an increase in the repayable R&D tax credit for loss-making small and medium-sized enterprises (SMEs) from 11 to 14.5%. Since 2011 the tax credit movement had been downwards so this reversal is good news for loss making SMEs. The Research and Development tax breaks have been subject to much revision in recent years. To recap, there are two distinct schemes for SMEs and large companies. To qualify as an SME for R&D purposes, the company must not exceed the following limits:

	Limits for expenditure incurred on or after 1 August 2008
Number of employees	< 500
Annual turnover	≤ EUR 100m
Balance sheet total	≤ EUR 86m

Access to finance and export
The Budget 2014 announced a number of initiatives to support access to finance and exports by UK businesses.

The Budget documents also included plans for what appears to be a statutory obligation for banks to refer SMEs to alternative finance providers if they cannot fund them themselves, and a pledge by the banks to process 'deeds of priority' (allowing business borrowers to access additional loan facilities) within seven working days.

In respect of support for exports the government announced that it will:

- double the size of UK Export Finance's (UKEF) direct lending scheme to £3 billion, remove the scheme end date, relax conditions on loan sizes, and lend at the minimum interest rates allowed by international agreements
- work in partnership with the banks to deliver the enhanced lending scheme, ensuring that smaller companies can benefit from the scheme as well as mid-sized and large businesses
- consult on changes to the legislation governing UKEF to allow the organisation to support individual export supply chains and intangible exports.
- undertake a marketing and communications campaign to raise awareness of UKEF's products and services and wider export finance
- commence the operation of UKEF's Export Refinancing Facility by the end of April 2014.

Additionally the government will double the funding of UK Trade and Investment (UKTI)'s Global Entrepreneur Programme and will increase the resources available to promote financial services trade and investment by £2.8m in 2014/15 and £2.8m in 2015/16.

In respect of housing supply, the government will create a £500m Builders Finance Fund, to support SME access to finance, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.

Employee loans
A loan provided by an employer to an employee, that is interest free or low cost, and notional loans arising from the provision of employment related securities are not currently taxed as earnings of employment if they do not exceed £5000. 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. From 6 April 2014, this threshold will be doubled to £10,000.

Child care
The Chancellor confirmed that the Tax-Free Childcare costs cap, against which parents can claim 20% support, will be increased to £10,000 per year for each child. This will mean that eligible parents can now benefit from greater support, worth up to £2,000 per child each year. The Tax-Free Childcare Scheme will also be implemented more quickly than previously announced. From autumn 2015, the Scheme will be available to all eligible families with children under 12 within the first year of the scheme's operation.

Employment Allowance of £2,000 for National Insurance
From April 2014, all business and charities will be eligible for a new £2,000 Employment Allowance to set off against their employers' (secondary) national insurance contributions. Up to 1.25m employers will be affected with 450,000 having their employer NIC fully covered by the allowance.

Partnerships and mixed partnerships
It has been talked about, discussed and written about, and in the Budget it was re-announced that legislation will be introduced in Finance Bill 2014 to change the treatment of a salaried member of a Limited Liability Partnership (LLP) from that of a partner to that of an employee for both income and corporation tax purposes.

The new rules will apply at any time when an individual is a member of an LLP and three conditions are met:

- **Condition A** is that there are arrangements in place under which M is to perform services for the LLP, in M's capacity as a member, and it would be reasonable to expect that the amounts payable by the LLP in respect of M's performance of those services will be wholly, or substantially wholly, fixed, or if variable, variable without reference to, or in practice unaffected by, the overall profits or losses of the LLP ('disguised salary')
- **Condition B** is that the mutual rights and duties of the members and the LLP and its members do not give M significant influence over the affairs of the LLP
- **Condition C** is that M's contribution to the LLP is less than 25% of the disguised salary which it is reasonable to expect will be payable by the LLP in a relevant tax year in respect of M's performance of services for the LLP.

In determining whether the salaried member rules apply any arrangements with a main purpose of circumventing the rules will be disregarded. It is important to remember that all three conditions must be met for a partner to be treated as an employee.

Finance Bill 2014 will introduce legislation in relation to mixed membership partnerships to reallocate excess profits allocated to a non-individual partner to an individual partner where the following conditions are met:

- a non-individual partner has a share of the firm's profit
- the non-individual's share is excessive
- an individual partner has the power to enjoy the non-individual's share or there are deferred profit arrangements in place
- it is reasonable to suppose that the whole or part of the non-individual's share is attributable to that power or arrangements.

Private residence relief
As announced in the Autumn Statement 2013, the government will legislate to reduce the final period exemption from 36 months to 18 months in most cases from 6 April 2014.

Corporation tax
As announced previously, the main rate of corporation tax will be reduced to 21% from April 2014 and 20% from April 2015. The small profits rate of corporation tax will remain at 20% from April 2014.

Upfront payment of tax associated to avoidance schemes
Budget 2014 announced a new measure that will require taxpayers to pay upfront tax disputed under schemes that fall within the Disclosure of Tax Avoidance Schemes (DOTAS) rules or are counteracted under the General Anti-Abuse Rule (GAAR).

Legislation will be introduced in Finance Bill 2014 that will enable HMRC to issue a 'Notice to Pay' to any taxpayer for whom there is an open enquiry, or the matter is under appeal, and who has received a cash flow tax advantage by the use of arrangements that:

- fall to be disclosed under DOTAS
- HMRC counteracts under the GAAR following an opinion of the GAAR Advisory Panel that, in the Panel's opinion, the arrangements are not a reasonable course of action.

The notice will require the taxpayer to pay the tax in dispute within 90 days. If the taxpayer requests HMRC to reconsider the amount of the payment notice a further 30 days will be granted. In the case of a matter under appeal, the new rules will remove the postponement of the disputed tax.

The intended effect of the new rules is that of removing the cashflow advantage enjoyed by the taxpayer of holding onto the disputed tax during an avoidance dispute. There will be no change to the tax liability owed.

Accelerated payments of tax-follower cases
Legislation is to be introduced, that will give HMRC the power to issue a notice to a taxpayer to the effect that a previously decided case also determines their dispute, and that they should therefore settle their own dispute. If the taxpayer does not make upfront payment of the tax in dispute, there will be risk of a penalty.

This measure will affect those taxpayers who have sought tax advantages through tax avoidance schemes, and in particular those schemes marketed to large numbers of people, so that one judicial ruling is likely to have wide application.

Under the self-assessment regime, a taxpayer can usually claim the benefit of the tax advantage created by the scheme as part of their self-assessed tax liability and therefore retain the cash benefit while the dispute is resolved. However this new measure puts these taxpayers on the same footing as those that claim a repayment, because currently repayments can be withheld by HMRC while a dispute is resolved. In future the disputed tax will sit with the Exchequer whether the taxpayer is in a repayment or a liability situation.

It is proposed that these measures will have effect from the date that the Finance Bill 2014 receives Royal Assent, and will be applicable to all cases where there is an open enquiry or open appeal on or after the day of Royal Assent and where there has been or will be a relevant qualifying judgment.

ISA changes
There has been a major change to the ISA limits applicable from 30 June 2014 with transitional measures from 6 April 2014. If you are planning to put money into an ISA, there have been changes to the cash limits and to the flexibility of ISAs.

SEIS
The Scheme was not permanent, but ran from 6 April 2012 to 5 April 2017. Finance Act 2014 will make the Scheme permanent. The investment limit for a qualifying individual in a fiscal year is £100,000 and cannot claim tax relief until the company has spent at least 70% of the money invested.

Simplifying self-employed National Insurance Contributions (NICs)
Following a consultation announced at Budget 2013, from April 2016 class 2 NICs for self-employed will be collected through self-assessment.

Taxation of high value residential property held by non-natural persons
The package of taxes affecting high value residential properties held by non-natural persons is being extended to properties worth more than £500,000 and up to £2m. Some changes, like those to stamp duty, are effective from 20 March 2014 whilst others will come into effect from April 2015.