Budget
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Security in Knowledge

Budget 2013

George Osborne presented his Budget on Wednesday 20 March 2013.

In his opening statement he set the scene for some of the new measures announced, stating 'this is a Budget for people who aspire to work hard and get on'.

Towards the end of last year the Government issued the majority of the clauses, in draft, of Finance Bill 2013 together with updates on consultations. The publication of the draft Finance Bill clauses is now an established way in which tax policy is developed, communicated and legislated.

The Budget updates some of these previous announcements and also proposes further measures. Some of these changes apply from April 2013 and some take effect at a later date, so the timing needs to be carefully considered.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments. If you have any questions please do not hesitate to contact us for advice.

Main Budget tax proposals

- Date set for increase in the personal allowance to £10,000.
- New scheme for tax free childcare.
- Further reduction in the main rate of corporation tax to 20% from 1 April 2015.
- Employee-shareholder contracts will be exempt from income tax and NIC for the first £2,000 of shares received.
- The introduction of an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 NIC liability from April 2014.
- A capital gains tax re-investment relief for gains made in the tax year 2013/14 where the gain is invested in Seed Enterprise Investment Scheme shares.

Significant non-tax measures have been announced to tackle long-term problems in the housing market and are covered in the Other Matters section of this summary.

Previous announcements

Some of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- personal allowance substantially increased for 2013/14
- restrictions in the higher age related personal allowances and their availability
- an increase in the Annual Investment Allowance limit from £25,000 to £250,000
- introduction of a cash basis for reporting profit for the smaller unincorporated business.

Personal Tax

The personal allowance for 2013/14
For those aged under 65 the personal allowance will be increased from £8,105 to £9,440. This increase is part of the plan of the Coalition Government to ultimately raise the allowance to £10,000 which will be achieved from 2014/15.

The reduction in the personal allowance for those with 'adjusted net income' over £100,000 will continue. The reduction is £1 for every £2 of income above £100,000. So, for 2012/13, there is no allowance when adjusted net income exceeds £116,210. For 2013/14 the allowance ceases when adjusted net income exceeds £118,880.

From 2013/14 the higher age related personal allowances will not be increased and their availability will be restricted to people who were born before 6 April 1948.

Comment
Planning should be considered before 6 April 2013 where adjusted net income is expected to exceed £100,000. Broadly, adjusted net income is taxable income from all sources reduced by specific reliefs such as Gift Aid donations and pension contributions. Consider whether these could be made to protect some or all of the personal allowance.
Alternatively, for those running their own company, the timing of dividend receipts from the company should be considered.

Tax bands and rates for 2013/14
The basic rate of tax is currently 20%. The band of income taxable at this rate is being reduced from £34,370 to £32,010 so that the threshold at which the 40% band applies will fall from £42,475 to £41,450 for those who are entitled to the full basic personal allowance.

The 50% band applies in 2012/13 where taxable income exceeds £150,000 but the rate will fall to 45% in 2013/14.

Dividend income is taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. Where income exceeds £150,000, dividends are taxed at 42.5% in 2012/13 and 37.5% in 2013/14.

Comment
Planning should be considered before 6 April 2013 where income is expected to exceed £150,000. Deferring income until 2013/14 or reducing income by specific reliefs such as Gift Aid donations and pension contributions should be considered.

The personal allowance for 2014/15
The personal allowance for people born after 5 April 1948 will be increased to £10,000. The personal allowance will then increase in line with inflation.

Tax bands and rates for 2014/15
The basic rate of tax is currently 20%. The band of income taxable at this rate is being reduced from £32,010 to £31,865 so that the threshold at which the 40% band applies will rise from £41,450 to £41,865 for those who are entitled to the full basic personal allowance.
The additional rate of tax of 45% is payable on taxable income above £150,000.

New scheme for tax free childcare
New tax incentives for childcare have been announced. To be eligible, families will have to have all parents in work, with each earning less than £150,000 a year and not already receiving support through Tax Credits or Universal Credit.

The relief will be 20% of the costs of childcare up to a total of childcare costs of £6,000 per child per year. The scheme will therefore be worth a maximum of £1,200 per child.

The scheme will be phased in from autumn 2015. For the first year of operation, all children under five will be eligible and the scheme will build up over time to include children under 12.

The current system of employer supported childcare will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. Employer supported childcare will continue to be open to new joiners until the new scheme is available.

The Government will consult on the detail of the new scheme but it is expected that parents will be able to open an online voucher account with a voucher provider and have their payments topped up by the Government. Parents will be able to use the vouchers for any Ofsted regulated childcare in England and the equivalent bodies in Scotland, Wales and Northern Ireland.

Comment
The existing system of employer supported childcare is offered by less than 5% of employers and used by around 450,000 families. It provides an income tax and National Insurance Contributions (NIC) relief. The maximum relief is an exemption from income tax and NIC on £55 a week. This relief is per employee so if both parents are in employment the maximum exemption is £110 per week. In the new scheme the limit is per child.

Pensions saving
The annual allowance is an annual limit for giving tax relief on pension contributions. Contributions can be paid in excess of the limit but may give rise to an income tax charge on the member of the pension scheme. For tax year 2014/15 onwards the annual allowance will be reduced from £50,000 to £40,000.

There is also an overall limit, known as the lifetime allowance, on the total amount of tax relieved pension savings that an individual can have over their lifetime. For tax year 2014/15 onwards:

- the standard lifetime allowance will be reduced from £1.5 million to £1.25 million
- a transitional 'fixed protection' regime will be introduced for those who believe they may be affected by the reduction in the lifetime allowance.

Legislation will be introduced in Finance Bill 2013 to make these changes.
The Government has also announced that an individual protection regime will be offered in addition to fixed protection and consultation on the detail of this regime will be undertaken in 2013 and legislation in 2014.

Comment
The Government considers that these measures are expected to affect only the wealthiest pension savers as 98% of individuals currently approaching retirement have a pension pot worth less than £1.25 million which will be the revised level of the lifetime limit from 2014/15.
However the measures may well affect employees in a defined benefit pension scheme as the annual increase in the capital worth of their accrued pension rights can be significant. If this increase exceeds the annual allowance, an income tax charge can arise.

Drawdown limits
The Government has listened to concerns about drawdown limits. The Chancellor has announced that the Government will raise the capped drawdown limit from 100% to 120% giving pensioners with these arrangements the option of increasing their incomes from 26 March 2013.

Individual Savings Accounts (ISAs)
From April 2013 the overall ISA savings limit will be increased to £11,520.
The Government will consult on allowing investment in SME equity markets such as the Alternative Investment Market (AIM) to be held directly in stocks and shares ISAs, to encourage investment in growing businesses.

To further support these companies, the Government will abolish stamp tax on shares for companies listed on growth markets including AIM and the ISDX Growth Market, from April 2014.

Business Tax

Corporation tax rates
The main rate of corporation tax is 23% from 1 April 2013. The Chancellor announced in December that the rate from 1 April 2014, which was planned to be 22%, will be reduced by an additional 1% to 21%.

The Chancellor has now announced that the main rate of corporation tax will be reduced to 20% from 1 April 2015 and unified with the small company rate.

The small company rate will therefore remain at 20%.

Annual Investment Allowance (AIA)
The AIA provides a 100% deduction for the cost of plant and machinery purchased by a business up to an annual limit. The Chancellor announced in December an increase in the limit from £25,000 to £250,000 for a period of two years from 1 January 2013.

Complex legislation provides details of transitional provisions where a business has an accounting period that straddles 1 January 2013:

- the overall AIA limit for the transitional period has to be calculated by reference to old and new annual limits
- there are potential further constraints for the maximum AIA relief in the sub-periods ending before or after 1 January 2013.

Example
A company has a 12 month accounting period ending on 30 June 2013 (which starts on 1 July 2012). The AIA will be £137,500 (£25,000 x ½ + £250,000 x ½).

However for expenditure incurred before 1 January 2013 the maximum allowance will be the AIA that would have been due for the whole of the accounting period to 30 June 2013 if the increase in the AIA had not taken place. This would have meant that the company would have been entitled to £25,000 for the 12 months and so this is the limit for the six months to 31 December 2012.

On 1 January 2015, the AIA will revert back to £25,000. This will mean that the same company will have an AIA in later periods as follows:

Accounting period to 30 June 2014	£250,000
Accounting period to 30 June 2015	£137,500

Comment
The rules for accounting periods straddling 1 January 2013 are complex and this is without the additional complications that arise if part of the accounting period commences prior to April 2012 (as yet another AIA limit needs to be factored in).

Action point
The main point to appreciate is that expenditure incurred after 31 December 2012 may give a full tax write off but expenditure incurred before 1 January 2013 may not give this result.

Also note that it may pay to defer the expenditure until after the end of your current accounting period as the full £250,000 AIA may be available.

Please contact us before capital expenditure is incurred for your business in a current accounting period so that we can help you to maximise the AIA available.

Capital allowances and cars
A 100% first year allowance (FYA) is available on new low emission cars purchased by a business. The current rule is that a 100% FYA is generally available where a car's emissions do not exceed 110gm/km. The availability of a 100% FYA is to continue for purchases as follows:

- for the two years from 1 April 2013 to 31 March 2015 but only where emissions do not exceed 95gm/km and then
- for a further three years from 1 April 2015 to 31 March 2018 but only where emissions do not exceed 75gm/km.

Cars with emissions between 111-160gm/km inclusive currently qualify for main rate Writing Down Allowance (18%). The threshold is to be revised down to 130gm/km for additions from 6 April 2013 for income tax (1 April 2013 for companies).

Comment
There are over 150 models that can be purchased in 2012/13 which qualify for a 100% FYA. If the purchase is deferred to 2013/14, the number falls to less than 30.

100% Capital allowances
100% FYAs on capital expenditure are available for certain classes of assets but exclusions apply. Expenditure on ships and railway assets is currently excluded but this exclusion is removed for expenditure on or after 1 April 2013.

Enhanced capital allowances of 100% are also available on qualifying plant and machinery expenditure under the energy-saving and water efficient technology schemes. Each year the qualifying technologies and products are reviewed and additions and deletions made. All amendments are subject to State aid approval and the lists will be updated by Treasury Order in summer 2013.

The main changes are the inclusion of two new technologies: carbon dioxide heat pumps for water heating and grey water re-use technology. In addition five technologies will be removed and certain criteria for a number of technologies in both schemes will be revised.

Computing taxable profits on a cash basis for smaller businesses
An optional basis for computing taxable profits is to be introduced for small unincorporated businesses for the 2013/14 tax year onwards.

The key aspects of the cash basis are that:

- small businesses would be taxed on their cash receipts less cash payments of allowable expenses, subject to a number of tax adjustments
- it is only available to unincorporated businesses
- it is an optional scheme and requires an election by the owner(s) of a business
- businesses can enter the cash basis if their receipts for the year are less than the amount of the VAT registration threshold (currently £77,000) or twice that (currently £154,000) for recipients of Universal Credit.

In response to feedback on the draft legislation that was issued for consultation in December 2012, HMRC has made some design changes to the legislation including:

- businesses using the cash basis will continue to do so until their circumstances change so that the cash basis is no longer suitable for them
- businesses using the cash basis will not have to use flat rate expense rates for their cars.

No detail has been provided on the circumstances in which a business will no longer be able to use the cash basis.
Special rules apply on the transition to and from the cash basis.

Comment
The cash basis is being introduced by the Government under the banner of 'tax simplification'. However, the main driver for the cash basis is the introduction of Universal Credit. Universal Credit is being introduced by the Government from 2013 and will eventually replace the Tax Credits system and other state benefits. The Government has been clear that income reporting for self-employed claimants must be reported monthly and will therefore be aligned with the 'simple' new cash income reporting system that HMRC are introducing.

Under current proposals, the cash basis may be more complicated than the conventional basis. While the actual accounting treatment may be simpler it will still be necessary to have regard to tax rules for the deductibility of some expenses. There are also the transitional rules to consider for existing businesses wishing to opt into the new system.

Flat rate expenses
As part of the simplification for unincorporated businesses, legislation is being introduced to allow two deductions to be based on fixed rates, rather than actual costs. The rules apply from 2013/14 onwards.

Flat rate expenses will be available for:

- cars, vans and motorcycles. For cars or vans the rate for the first 10,000 business miles is 45p, after which the rate reduces to 25p. For motorcycles the rate is 24p
- business use of a home. Provided certain conditions are satisfied, the following monthly rates will be allowed:

Business use in a month	Deduction
25 hours or more	£10
51 hours or more	£18
101 hours or more	£26

Where a person uses premises both as a home and as business premises, for example a pub, the total expenses of the property need to be adjusted for the private use. Legislation will introduce a fixed scale which can be used for the private use so that the business element of the expenses will be relieved.

Claiming expenses on a flat rate basis will not be open to partnerships which include a corporate partner.

Research and development (R&D) relief
Following consultation, legislation will be introduced to provide an 'Above the Line' (ATL) credit scheme to further encourage R&D investment by large companies. The aim of the ATL scheme is to increase the visibility of large company R&D relief and provide greater cashflow support to companies with no corporation tax liability.

The taxable credit will be 10% of qualifying expenditure incurred on or after 1 April 2013 with the credit, net of tax, being fully payable to companies with no corporation tax liability.

The ATL scheme will initially be optional but will become mandatory on 1 April 2016. Until this time eligible companies that do not elect to claim the ATL credit will be able to continue to claim R&D relief under the current scheme which provides for an additional 30% deduction of any qualifying expenditure to reduce chargeable profits (or increase a loss) but which does not permit a payable credit.

Close company loans to participators
A close company (which generally includes an owner managed company) may be charged to tax in certain circumstances where it has made a loan or advance to individuals who have an interest or shares in the

company (known as participators). Loans and advances are also caught where they are made to an associate of the individual such as a family member. The corporation tax charge is 25% where the loan is outstanding nine months after the end of the accounting period. Three changes to the rules are proposed to tackle avoidance.

- The first change is to put beyond doubt that the charge applies where loans are made via intermediaries such as Limited Liability Partnerships, partnerships and trusts. The charge will apply where at least one participator in the close company is a member, partner or trustee.
- The second change will impose the 25% charge on certain arrangements where value is extracted from a close company and an untaxed benefit is conferred on an individual participator (or associate) other than by way of a loan or advance.
- The third change is to prevent the practise of avoiding the payment of the tax charge by repaying the loan before the tax is due (nine months after the end of the accounting period) and then effectively withdrawing the same money shortly after. This change may also prevent refunds of the 25% tax already paid where loans are redrawn shortly after.

The changes have effect from Budget day.

Action point
These changes may affect a number of owner managed companies so do please contact us if you consider these changes will have an impact on your current arrangements so that the corporation tax position can be accurately reported.

Corporation tax deductions for employee shares
Corporation tax relief may be available in connection with share options and awards granted to employees. The relief is based on the amount that is chargeable to income tax when the shares are acquired by the employee or the amount that would be chargeable if the employee was UK resident or if any relevant tax advantages did not apply. Legislation is to be introduced to clarify the rules that where that relief is claimed any other corporation tax relief cannot be claimed in connection with the same provision of shares other than where specifically stated. The legislation will generally have effect for accounting periods ending on or after Budget day.

Corporation tax exit charges
Certain corporation tax charges known as exit charges can arise on unrealised profits and gains when a company ceases to be UK tax resident or as a consequence of a transfer of their place of management to another EU or EEA member state. The rules also apply when a non UK resident company ceases all or part of its trading operation in the UK. A measure is to be introduced to allow the deferred payment of such charges subject to certain conditions to ensure that HMRC will receive the full payment over time. The deferment is by election and can apply to exit charges arising on or after 11 December 2012.

Closure of 'loss loopholes'
Legislation is to be introduced to prevent certain arrangements for the relief of certain company losses for accounting periods ending on or after Budget day. There are two objectives of the proposals. One is to prevent 'loss buying' where companies seek to pass certain unused losses to unconnected third parties on a change of company ownership. The other relates to a specific aspect of the surrender of losses for group relief.

Employment Taxes

Employer-provided cars
From 6 April 2013 the CO_2 emissions bands used to work out the taxable benefit for an employee who has use of an employer-provided car will generally be reduced by 5gm/km. This will have the effect of increasing the charge for many vehicles by 1% of the list price of the car unless the percentage is already 35% of list price. Zero emission cars remain at 0% and ultra-low emissions cars with emissions up to 75gm/km remain at 5%.

From 6 April 2014 the percentage for cars with CO_2 emissions of more than 75gm/km will be increased by 1% up to a maximum of 35% in 2014/15 so cars from 76-94gm/km will be 11%, 95-99gm/km will be 12%, etc.

Further changes are proposed in 2015/16 and 2016/17 whereby the appropriate percentages of the list price subject to tax will increase by 2% per annum up to a maximum of 37% in both years.

From April 2015 the five year exemption for zero emission cars and the lower rate of 5% for ultra-low emission (1-75gm/km) cars will come to an end.

However, two new bands will provide for a 5% rate for cars with CO_2 emissions of 0-50gm/km and a 9% band for cars with CO_2 emissions of 51-75gm/km. The rate will be 13% for cars with CO_2 emissions of between 76-94 gm/km, 14% for 95-99gm/km, etc.

The existing 3% diesel supplement will be removed from 2016/17.

Furthermore the Budget provides a commitment that in 2017/18 there will be a 3% point differential between the 0-50 and 51-75gm/km bands and the 51-75 and 76-94gm/km bands.
In 2018/19 and 2019/20 there will be a 2% point differential between the 0-50 and 51-75gm/km bands and the 51-75 and 76-94gm/km bands.

Car fuel benefit charge
For 2013/14 where fuel is provided for private purposes in a company car a benefit is assessed on the employee based on a flat rate multiplier of £21,200 multiplied by the appropriate percentage used to calculate the taxable benefit for the car.

Vans
For 2013/14 the private use of a company van will result in a benefit assessable on the employee of £3,000. The charge will not apply to vans which cannot emit CO_2 or if a restricted private use condition is met throughout the year. If fuel for private purposes is also provided, a benefit of £564 will be assessable on the employee.

The benefit charge for the private use of a company van, the fuel benefit charge for a company van and the multiplier for the fuel benefit charge for company cars, will all increase in line with inflation (based on RPI) for 2014/15. The increase will be based on the September 2013 RPI figure.

Enterprise Management Incentives (EMI)
EMI schemes are share option schemes which allow small and medium-sized businesses to grant tax-advantaged share options to employees. In broad terms, a gain made by an employee on the exercise of an option and subsequent sale of shares is subject to capital gains tax (CGT) rather than income tax. The CGT rate however is often 28% and thus can negate much of the tax advantage of EMI schemes.

Legislation will therefore be introduced to extend the 10% CGT rate given to gains qualifying for Entrepreneurs' Relief to EMI shares by removing the 5% minimum shareholding requirement required to obtain Entrepreneurs' Relief.

The options will need to have been granted to the employee at least 12 months before the disposal of shares obtained on the exercise of the option.

Generally, the new rules apply to disposals of shares on or after 6 April 2013.

Employee-shareholder contracts
The Government announced in October 2012 that it intended to introduce a new type of employment contract called an employee-shareholder contract. Under this contract an employee would be given shares in a company in exchange for giving up their rights in respect of unfair dismissal, redundancy, and the right to request flexible working and time off for training. They would also be required to provide 16 weeks' notice of a firm date of return from maternity leave, instead of the usual eight.

Each employee who agrees to this status will receive a minimum of £2,000 and a maximum of £50,000 of shares in the company.

Gains on up to £50,000 of shares acquired by employee-shareholders will be exempt.
The Government has been looking at options to reduce the potential income tax and NIC liabilities which would arise when the shares are issued in the first place. This included a possible exemption from income tax and NIC for the first £2,000 of shares received. The decision to proceed with this option of an exemption for the first £2,000 of shares received was confirmed in Budget 2013.

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

The tax advantages will be subject to anti-abuse rules.

Tax avoidance involving offshore employment intermediaries
The Government will strengthen legislation to block the avoidance of PAYE and NIC by UK businesses using offshore employment intermediaries. The intention is that employment taxes will be payable for all employees in the UK, irrespective of where their payroll is located.

Exemption threshold for employment-related loans
Where an employer provides an employee with a cheap or interest free loan they have to report notional interest on the loan at 4% per annum on the form P11D. Where the balance of the loan is no more than £5,000 throughout the tax year no benefit is reportable.

The exemption applies if the total balance, at any point in the tax year, does not exceed the limit of £5,000 and includes the total of low cost, or interest free, loans or notional loans arising from the provision of employment-related securities.

From 6 April 2014 where the total outstanding balances on all such loans do not exceed £10,000 at any time in the tax year there will not be a tax charge and employers will no longer be required to report the benefit to HMRC.

Comment
The Chancellor said in his statement 'we are going to double to £10,000 the size of the loans that employers can offer tax free to pay for items such as season tickets for commuters'.

National Insurance - £2,000 employment allowance
The Government will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 NIC liability from April 2014. The allowance will be claimed as part of the normal payroll process through Real Time Information (RTI).

The Government will engage with stakeholders on the implementation of the measure after the Budget and is seeking to introduce legislation later in the year.

RTI late filing and late payment penalties
RTI, which is compulsory for the majority of employers from April 2013, requires employers operating PAYE to

report information on employees' pay and deductions in real time to HMRC. Under RTI employers are obliged to tell HMRC about payments they make to their employees on or before the date payments are made. Employers will continue to pay over to HMRC the sums deducted from their employees under the PAYE system generally monthly or quarterly.

HMRC are introducing a penalty regime for RTI which is designed to encourage compliance with the information and payment obligations, whilst ensuring those who do not comply do not gain a significant advantage. The penalty regime will apply from 6 April 2014.

In essence penalties will apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme, so that different sized penalties will apply to micro, small, medium and large employers.

Each scheme will be subject to only one late filing penalty each month, regardless of the number of returns due in the month. There will be one unpenalised default each year with all subsequent defaults attracting a penalty. Penalties will be charged quarterly and subject to the usual reasonable excuse and appeal provisions. Regulations will be used to set the penalty rates.

Changes will be made to the late payment penalty regime which will be based on the number of late payments relating to each tax year.

Capital Taxes

CGT rates
The current rates of CGT are 18% to the extent that any income tax basic rate band is available and 28% thereafter. The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual.

Comment
The Entrepreneurs' Relief limit is very generous and owners of businesses should ensure that they meet all the conditions necessary to secure the relief throughout the twelve months up to the date of a disposal.

CGT annual exemption
The CGT annual exemption will be £10,900 for 2013/14 and will be increased to £11,000 for 2014/15 and £11,100 for 2015/16.

Seed Enterprise Investment Scheme - reinvestment relief
The Seed Enterprise Investment Scheme (SEIS) was introduced in 2012 as a way of encouraging equity investment in small companies. As an extra incentive, an investor who re-invested a capital gain of up to £100,000 made in 2012/13 in SEIS shares in that year is able to claim CGT exemption on that gain. The exemption can be removed retrospectively if the SEIS shares cease to meet qualifying conditions.

It is now proposed to extend this re-investment relief for gains made in the tax year 2013/14. Reinvestment relief of 50% of the matched gain will be available where the proceeds are invested in SEIS shares in either 2013/14 or 2014/15.

IHT nil rate band
It had been intended to leave the IHT nil rate band frozen at £325,000 until 5 April 2015. The band will now remain at that level until 5 April 2018.

Comment
The freezing of the nil rate band will mean that even basic inflationary growth in the value of assets in an estate will increase IHT liabilities. Consideration should be given to making lifetime gifts to reduce liability.

Spouse exemption for non-domiciled individuals
The IHT exemption available to spouses and civil partners is limited in situations in which a UK domiciled individual transfers assets to their non-domiciled spouse or civil partner. The current limit is £55,000 over the lifetime of the transferor. This limit will be increased from 6 April 2013 to £325,000 and will be linked to future increases in the nil rate band.

As an alternative, it will be possible for the non-domiciled spouse to make an election to be treated as domiciled in the UK. This will bring the full spouse exemption into play but at the cost of the worldwide assets of that spouse coming within the scope of IHT (currently only UK assets would be liable). It will be possible to make the election at any time and for its effects to be backdated for up to seven years (although not earlier than 6 April 2013). The election can be made by the executors within two years of the date of death of a non-domiciled individual.

Comment
The election will be particularly beneficial where a non-domiciled spouse does not have significant assets outside the UK.

IHT relief for liabilities on an estate
In calculating the IHT liability on an estate the value of assets is reduced by any liabilities owed by the deceased at the date of death. These provisions are being abused by some tax avoidance schemes and so the rules will be tightened to prevent this abuse.

Taxation of high-value residential property held by non-natural persons
The Government is proceeding with plans to introduce a new annual tax on the value of residential property held by what are termed 'non-natural persons'. These are primarily companies. The charge will apply from 1 April 2013 where the value of the property is over £2 million. The basic charge for a property worth up to £5 million will be £15,000 pa.

A range of reliefs will be available where the property is being used for specified purposes such as to provide residential accommodation for employees, or as an asset in a genuine property development or rental business. Relief will be available for charities where the property is held for charitable purposes.

In addition to the annual charge there will be a capital gains tax charge at 28% on any gain made after 6 April 2013. Where the property was acquired before that date only the gain from that date will be charged.

Comment
The stated purpose of this new tax is to encourage those who currently own their properties through corporate vehicles to remove them from such entities.

Other Matters

Tackling offshore tax evasion
In recent years HMRC has been devoting greater resources to tackling offshore tax evasion. Various disclosure initiatives have allowed evaders to settle past liabilities with a capped level of penalty. Agreements to obtain information from Liechtenstein and Switzerland have yielded significant results in terms of tax collected.

The Government has now announced that agreement has been reached with Jersey, Guernsey and the Isle of Man for the automatic disclosure of information which will further strengthen the hand of HMRC. A new disclosure initiative for investors with accounts in those islands is expected to yield over £1 billion.

HMRC are also committing extra resources in personnel and analytical support to target this area of evasion.

General Anti-Abuse Rule
Legislation is being included in Finance Bill 2013 to introduce a General Anti-Abuse Rule (GAAR). This will provide an additional weapon for HMRC in tackling tax avoidance. At the heart of the GAAR will be a so-called 'double reasonableness test'. Under this test an arrangement would be 'abusive' if entering into or carrying out arrangements 'cannot reasonably be regarded as a reasonable course of action, having regard to all the circumstances.'

HMRC will be able to counter such arrangements on a 'just and reasonable' basis but must follow designated procedures which will include reference to an Advisory Panel.

Other measures on tax avoidance schemes
Consultation will take place on specific measures to counter avoidance in certain LLP structures aimed at disguising employment relationships. HMRC will also be consulting on countering artificial allocation of profits to partners in all types of partnership to achieve a tax advantage.

HMRC also have the promoters of aggressive tax schemes in their sights with plans to improve disclosure of schemes and to 'name and shame' promoters.

Support for the housing market
Major reforms have been announced, including over £5.4 billion of financial help, to tackle long-term problems in the housing market and to support those who want to get on or move up the housing ladder, including the introduction of a new housing scheme, Help to Buy.

From April 2013, the Government will extend First Buy to provide an equity loan worth up to 20% of the value of a new build home, repayable once the home is sold, and widen the eligibility criteria, including increasing the maximum home value to £600,000 and removing the income cap constraint.

The Government will also create a mortgage guarantee for lenders who offer mortgages to people with a deposit of between 5% and 20% on homes with a value of up to £600,000, increasing the availability of mortgages on new or existing properties for those with small deposits.