



HM Revenue
& Customs



HM Treasury

Overview of Legislation in Draft

10 December 2014



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Introduction

The Government has committed to confirming the majority of measures for inclusion in the Finance Bill at least three months prior to introduction of the Bill itself and, where possible, to publish draft legislation for each of these measures. This provides taxpayers with certainty about future tax changes and allows time for pre-legislative scrutiny.

Consulting on draft legislation

Many of the measures covered in this document were announced in Budget 2014 and where appropriate, consultations on policy have been carried out over the spring and summer. The Government's responses to these consultations are mostly being published alongside the draft legislation.

The consultation on draft clauses is intended to ensure that the legislation works as intended.

The final contents of the Bill will be subject to confirmation at Budget 2015.

What has been published?

The Government is publishing draft clauses for Finance Bill 2015 for consultation. Where secondary legislation will give substantive effect to the Finance Bill clause, this has also been published in draft.

Each clause is accompanied by:

- a Tax Information and Impact Note (TIIN) which sets out what the legislation seeks to achieve, why the Government is undertaking the change and a summary of the expected impacts; and
- an Explanatory Note which provides a more detailed guide to the legislation.

This material is published on the GOV.UK website.

The Government's responses to policy consultations carried out over the summer have also been published on the GOV.UK website.

Contacts and closing date

If you wish to comment on any of the draft clauses, please use the contact details provided at the end of the relevant Explanatory Note. The closing date for comments is **Wednesday 4 February 2015**.

Overview of measures

This chapter provides a brief description of the tax and related measures announced on 3 December at Autumn Statement 2014. It also includes descriptions of measures announced at Budget 2014 or earlier where draft legislation was published on 10 December 2014. Most of the draft legislation is intended for inclusion in Finance Bill 2015 but some will be made by secondary legislation.

All the paragraphs below refer to Autumn Statement 2014 announcements unless otherwise specified. They also indicate whether or not draft legislation is published for inclusion in Finance Bill 2015 or by secondary legislation. They also indicate whether or not a Tax Information and Impact note (TIIN) is published, where the paragraph ends with TIIN in brackets.

Legislation first published on 3 December 2014 is also included here, and TIINs for this legislation are included in this document for completeness.

1. Income Tax

1.1. Personal allowance 2015-16 (for people born after 5 April 1938). As announced at Autumn Statement legislation will be introduced in Finance Bill 2015 to increase the income tax personal allowance for 2015-16 for people born after 5 April 1938 to £10,600. The basic rate limit will be £31,785 so the higher rate threshold above which individuals pay income tax at 40% will be increased to £42,385. National Insurance limits will increase to stay in line with the higher rate threshold. Rates of income tax will remain at 2014-15 levels in 2015-16. (TIIN)

1.2. Blind person's allowance, married couple's allowance and income limit for 2015-16. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to increase blind person's allowance, the married couple's allowance available to people born before 6 April 1935 and the income limits by amounts equivalent to Retail Price indexation. (TIIN)

Legislation was introduced in Finance Act 2014 to change the basis of uprating income tax to the Consumer Prices Index. Budget 2011 announced that these allowances and the income limit would continue to be indexed by reference to the Retail Prices Index over the lifetime of this Parliament.

Benefits in kind

1.3. Company car tax rates 2017-18 and 2018-19. As announced at Budget 2013 and Budget 2014, legislation will be introduced in Finance Bill 2015 to increase the appropriate percentages for calculating the benefit charge for cars with a CO₂ emissions figure of more than 75 grammes of carbon dioxide per kilometre (gCO₂/km) in both 2017-18 and 2018-19. The legislation also sets the differential between the 0-50 and the 51-75 gCO₂/km bands in 2017-18 and 2018-19.

The legislation will also increase the appropriate percentage for cars without a CO₂ emissions figure and for cars registered before 1 January 1998, in both 2017-18 and 2018-19.

The legislation sets the maximum percentage for diesel cars registered on or after 1 January 1998 for 2015-16. (TIIN)

1.4. Van benefit charge for zero emission vans. As announced at Budget 2014, legislation will be introduced in Finance Bill 2015 to increase the current van benefit charge of £nil for vans which do not emit CO₂ (zero emission vans), beginning in 2015-16. The van benefit charge for zero emission vans will be 20% of the value of the van benefit charge for vans which emit CO₂ in 2015-16, 40% in 2016-17, 60% in 2017-18, 80% in 2018-19 and 90% in 2019-20. From 2020-21, there will be a single van benefit charge applying to all vans. (TIIN)

1.5. Employee benefits and expenses - Abolition of the £8,500 threshold for benefits in kind (BiKs). As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to abolish the £8,500 threshold for BiKs from 6 April 2016. This follows the announcement at Budget 2014 and public consultation over the summer. A new exemption for Ministers of Religion earning less than £8,500 will be introduced to ensure that their BiKs remain exempt from income tax, and exemption from income tax will be introduced on the BiKs for carers who receive board and lodging in the home of the person that they are providing care for. Corresponding disregards will also be introduced for National Insurance Contributions purposes. A summary of responses to the public consultation was published on 10 December 2014. (TIIN)

1.6. Simplifying the administration of employee benefits and expenses, including preventing salary sacrifice. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to exempt from tax certain expenses payments and benefits in kind provided to employees. This follows the announcement at Budget 2014 and public consultation over the summer. The legislation will apply where employees would have been eligible for tax relief if they had incurred and met the cost of the expenses or benefits themselves. This exemption replaces the rules that require employers to either apply to HMRC for an agreement known as a 'dispensation' so that they can provide expenses and benefits free of tax and National Insurance contributions, or to report such expenses and benefits to HMRC. However the exemption will not apply where expenses are paid as part of a salary sacrifice arrangement. These changes will have effect from 6 April 2016. A summary of responses to the public consultation was published on 10 December 2014. (TIIN)

1.7. Employee benefits and expenses - Statutory exemption for trivial benefits in kind (BiKs). As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide a statutory exemption from tax, and no liability to National Insurance contributions, for qualifying trivial BiKs costing £50 or less. This follows the announcement at Budget 2014 and public consultation over the summer. Previously employers were required to report such BiKs to HMRC or agree with HMRC that a BiK could be counted as trivial. Employers will no longer be required to report such benefits on either form P11D or via Pay as You Earn Settlement Agreements (PSAs) at the year end. These changes will have effect from 6 April 2015. A summary of responses to the public consultation was published on 10 December 2014. (TIIN)

1.8. Employees benefits and expenses - Real time collection of tax through voluntary payrolling. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to enable HMRC to set out the statutory framework for voluntary payrolling for employers in Regulations. This follows the announcement at Budget 2014 and public consultation over the summer. A summary of responses to the public consultation was published on 10 December 2014. (TIIN)

1.9. Tax exemption for travel expenses of members of local authorities. As announced at Autumn Statement, and following a Written Ministerial Statement on 22 July 2014, legislation will be introduced in Finance Bill 2015 to exempt from income tax travel expenses paid to councillors by their local authority. The exemption will be limited to the Approved Mileage Allowance Payment (AMAPs) rates where it applies to mileage payments. There will be a corresponding disregard from Class 1 National Insurance contributions (NICs). (TIIN)

1.10. Overarching contracts of employment and temporary workers. As announced at Autumn Statement, the Government will review the increasing use of overarching contracts of employment by employment intermediaries such as 'umbrella companies'. These arrangements enable workers to obtain tax relief for home to work travel that would not ordinarily be available. The Government will publish a discussion paper shortly to inform possible action at Budget 2015.

Other income tax

1.11. Deductions at a fixed rate. Finance Bill 2015 will include legislation to amend legislation for simplified expenses first enacted in Finance Act 2013 (see Chapter 5A Part 2 Income Tax (Trading and Other Income) Act 2005 (ITTOIA)). The sections to be amended are sections 94H and 94I ITTOIA. These sections relate to claims for simplified expenses as they apply for the business use of a home and where premises are used both for business premises and as a home. A Tax Impact Assessment was published with the original legislation contained within Finance Bill 2013 on 20 March 2013 and that assessment covers impact from these proposed amendments. These amendments ensure that where appropriate partnerships can apply the simplified expenses rules.

1.12. Bereavement support payment: exemption from income tax. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to make Bereavement Support Payment (BSP) amounts tax exempt. The Pensions Act 2014 introduced the BSP that will be paid by the Department for Work and Pensions to eligible bereaved husbands, wives and civil partners from a date to be set by the Secretary of State or the Treasury.

BSP will be paid to those who meet the qualifying conditions from the commencement date. The tax treatment of the existing benefits and pensions already in payment, which will be replaced for new claimants by the BSP, will not be affected. (TIIN)

1.13. Lump sums provided under Armed Forces Early Departure Scheme. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to amend the existing income tax exemption for lump sum payments made under the Armed Forces Early Departure Payment (EDP) scheme 2005, to ensure that lump sum payments made under the new EDP 2015 scheme are also exempt. There will be a corresponding disregard from Class 1 National Insurance contributions (NICs). This change will take effect from 1 April 2015, when the new scheme is introduced. (TIIN)

1.14. Gift aid digital: role of intermediaries. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to allow intermediaries a greater role in administering Gift Aid. The new legislation will make it easier for donors to give to charity through an intermediary, such as an independent fund raiser, by reducing the number of times a donor has to repeat information needed by HMRC to check the validity of a claim for Gift Aid.

The changes will also enable HMRC to adopt a more flexible approach to what information charities need to obtain from the individual and provide to HMRC in relation to Gift Aid claims. (TIIN)

1.15. Bad debt relief on peer-to-peer lending. As announced at Autumn Statement, new legislation will be introduced to allow individuals who make loans through peer-to-peer (P2P) platforms to offset bad debts arising against the interest they receive from P2P loans when calculating their taxable income. These changes will have effect for loans made from 6 April 2015. Legislation will be included in Finance Bill 2016 and the Government will publish draft legislation in 2015. The Government will also consult with industry about developing new withholding tax rules for P2P platforms.

1.16. Flood defence relief. As announced at the Autumn Statement, legislation will be introduced in Finance Bill 2015 to ensure that contributions by both companies and unincorporated businesses to partnership funding schemes for flood defences will be deductible for income tax and corporation tax purposes. The legislation will apply to contributions made on or after 1 January 2015, and relief is available both for monetary contributions and for the cost of the contribution of services. (TIIN)

1.17. Taxation of resident non-domiciles: remittance basis charge. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to change the annual charge paid by non-domiciled individuals resident in the UK who wish to retain access to the remittance basis of taxation. The charge for individuals who have been resident in the UK for at least 12 of the last 14 years will be increased to £60,000 and a new charge of £90,000 will be payable by individuals who have been resident in the UK for at least 17 of the 20 tax years. The charge for individuals who have been UK resident for at least 7 of the last 9 years is unchanged. The changes will take effect from 6 April 2015. The Government will also consult on making the election to pay the remittance basis charge apply for a minimum of three years. (TIIN)

1.18. Investment managers – disguised fee income. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to ensure that all sums which arise to investment fund managers for their services are charged to income tax. It will affect sums which arise to managers who have entered into arrangements involving partnerships or other transparent vehicles, but not sums linked to performance, often described as carried interest, nor returns which are exclusively from investments by partners.

The changes will take effect in respect of sums arising on or after 6 April 2015, whenever the fund was set up or the arrangements were entered into. (TIIN)

Individual Savings Accounts (ISAs)

1.19. ISAs transfer to spouses on death. As announced at Autumn Statement, legislation will be introduced, effective from 2015-16, to allow savers an additional ISA investment allowance where their spouse or civil partner dies on or after 3 December 2014. This allowance will be set at the value held in the deceased person's ISA on their date of death. Draft secondary legislation for this change will be published shortly. A TIIN will accompany the Statutory Instruments when they are published.

The Government will continue to examine the issue of taxation of former ISA assets during the administration of the estate, and will look to legislate in the next Parliament to extend the current ISA tax advantages into this administration period.

1.20. ISAs new annual subscription limits. As announced at Autumn Statement, the ISA, Junior ISA and Child Trust Fund subscription limits will be increased for 2015-16. These new limits will take effect from 6 April 2015.

The annual ISA subscription limit for 2015-16 will be £15,240.

The annual subscription limit for Junior ISA and Child Trust Funds will be £4,080.

1.21. ISAs: qualifying investments including crowdfunded debt securities. As announced at Autumn Statement, the Government will consult on whether crowd funded debt securities should be qualifying investments for ISAs and how this could be implemented.

Venture Capital Schemes and Social Investment Tax Relief

1.22. Venture Capital Schemes: Social Investment Tax Relief (SITR). As announced at Budget 2014, and following consultation over the summer, legislation will be introduced to extend the scope of the Social Investment Tax Relief scheme. The amount that can be invested in an individual organisation will be increased. The current limit of £275,000 over a 3 year period will be replaced with a new annual investment limit of £5 million, with an overall limit of £15 million on total investment. In addition, legislation will be introduced in Finance Bill 2015 to extend SITR to social enterprises that engage in small scale horticultural and agricultural activities that will no longer qualify for subsidies under the Common Agricultural Policy reforms.

The changes will take place as soon as possible on or after 6 April 2015, subject to receiving state aids clearance.

A technical consultation will be carried out in early 2015 on further changes to extend SITR to a wider range of social impact bonds and to provide for qualifying investments to be made indirectly, through a social investment form of a venture capital trust scheme, a 'Social VCT'. (TIIN)

1.23. Venture Capital Schemes: Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS), Venture Capital Trusts (VCTs) and Social Investment Tax Relief (SITR). As announced at Budget 2014, and following consultations over the summer, legislation will be introduced in Finance Bill 2015 to extend SITR to community energy generation undertaken by qualifying organisations with effect from the date of the expansion of SITR, at which point it will cease to be eligible for the EIS, SEIS and VCTs. All other companies benefiting substantially from subsidies for the generation of renewable energy will be excluded from also benefiting from the EIS, SEIS and VCTs with effect from 6 April 2015. This will remove the current exceptions where anaerobic digestion or hydroelectric power is involved. Contract for Difference subsidies, which will replace Renewable Heat Incentives and Renewables Obligation Certificates in due course, will also be excluded from EIS, SEIS and VCTs.

The changes will take effect for investments involving anaerobic digestion, hydroelectric power and Contract for Difference subsidies in relation to shares issued on or after 6 April 2015 for the EIS and SEIS and, for VCTs, in respect of qualifying holdings issued on or after that date.

The changes will take effect for community energy schemes as soon as possible on or after 6 April 2015, when the changes to extend the SITR are implemented, subject to State aid clearance.

A new online system will be introduced in 2016 for the EIS, the SEIS and SITR, making it easier for investors and companies to access and use the schemes. (TIIN)

1.24. Special purpose share schemes (commonly known as ‘B share schemes’). As announced at Autumn Statement, legislation will be introduced to remove the unfair tax advantage offered by special purpose share schemes. From 6 April 2015, if a shareholder is given a choice between receiving a distribution chargeable to income tax or an alternative receipt of substantially the same value, the alternative receipt will be subject to income tax if that choice is taken. (TIIN)

1.25. Miscellaneous loss relief. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to counter avoidance of income tax involving miscellaneous losses. This measure will deny relief where a loss, or income against which a loss could otherwise be relieved, arises as a result of arrangements to which a person is party, the main purpose, or one of the main purposes, of which is to obtain a reduction in tax liability by means of miscellaneous loss relief. The measure will also limit the miscellaneous income against which a miscellaneous loss may be relieved to miscellaneous income that is chargeable to income tax under the same provision as the loss would have been had it been profits or income instead of a loss. The changes denying relief where losses or income arise from relevant tax avoidance arrangements have effect from 3 December 2014. The changes limiting relief to miscellaneous income of the same type will have effect for tax year 2015-16 and subsequent years. A Tax Information and Impact Note for this measure was published on 3 December 2014. (TIIN)

1.26. Withholding tax exemption for private placements. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to enable regulations to be made providing an exemption from the duty to deduct income tax from interest paid on unlisted securities known as qualifying private placements. (TIIN)

Capital allowances

1.27. Enhanced - Capital allowances for zero-emission goods vehicles, low emission cars and gas refuelling equipment. As announced at Budget 2014, legislation will be introduced to extend the 100% enhanced capital allowance (ECA) for zero-emission goods vehicles which was due to end in March 2015, to 31 March 2018 for companies and to 5 April 2018 for individuals and partnerships. From 1 April 2015 for companies and 6 April 2015 for individuals and partnerships, the availability of the ECA will also be limited to businesses that do not also claim other state aids, such as the Government's Plug-in Van Grant.

Secondary legislation will be introduced to extend the availability of ECAs for Low CO₂ emission cars and gas refuelling equipment to 31 March 2018 for persons within the charge to income tax and corporation tax. (TIIN)

2. Corporation Tax and Diverted Profits Tax

2.1. Bank loss-relief restriction. As announced at Autumn Statement, legislation will be introduced to restrict the proportion of banks' annual taxable profit that can be offset by carried-forward reliefs to 50%. The restriction will apply to: carried-forward trading losses; non-trading loan relationship deficits; and management expenses. The restriction will take effect from 1 April 2015 and will only apply to losses accruing prior to this date. The legislation also contains a targeted anti-avoidance rule, applying to arrangements which create profits in companies with relevant reliefs and have a greater expected tax benefit than commercial. This rule will have the effect of preventing companies from offsetting any relevant reliefs against profit received from such arrangements. (TIIN)

2.2. Hybrid Mismatch Arrangements. As announced at Autumn Statement, the Government is consulting on the implementation of rules to neutralise the effect of hybrid mismatch arrangements in accordance with recommendations of Action 2 of the G20/OECD Base Erosion and Profit Sharing (BEPS) project. The aim is to tackle aggressive tax planning where, within a multinational group, either one party gets a tax deduction for a payment while the other party does not pay tax on the receipt, or there is more than one deduction for the same expense. The UK intends to introduce domestic legislation with effect from 1 January 2017. Introduction of the proposed rules will largely eliminate any tax advantage arising from the use of hybrid entities and instruments and encourage businesses to adopt less complicated and more transparent cross-border investment structures. This consultation seeks comments to inform the UK's contribution to the on-going OECD work on a commentary to the G20/OECD Report on Action 2, and on issues relating to implementation of the recommendations contained in that report which will guide development of legislation in the UK.

2.3. Consortium Relief: 'link company' rules. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to remove all requirements relating to the location of the consortium 'link company' (the company that is in both a group and a consortium for the purposes of group relief). Previously the link company was required to either be in the UK or the European Economic Area (EEA), with additional requirements where in the EEA. This measure makes the tax system simpler by removing differences in treatment of link companies based in the UK and other jurisdictions. This will take effect for accounting periods beginning on or after 10 December 2014. (TIIN)

2.4. Tax treatment of credit loss allowances. Following the publication in July of the new International Financial Reporting Standard for financial instruments (IFRS 9), legislation will be introduced to ensure that all transition adjustments arising on first adoption of IFRS 9 in respect of credit losses will be spread over a period of 10 years regardless of when the debt falls due to be discharged. This will apply to all companies within the charge to corporation tax. The measure will be given effect by amendments to secondary legislation to be made during 2015.

2.5. Accelerated Payments and group relief. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to ensure that the accelerated payments legislation (introduced in Finance Act 2014) works effectively where avoidance arrangements give rise to losses surrendered as group relief. (TIIN)

2.6. Incorporation: restricting relief for internally-generated goodwill transfers between related parties. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to restrict corporation tax relief for internally-generated goodwill and customer related intangible assets acquired by a company from individuals who are related to the company. The change will apply for all acquisitions occurring on or after 3 December 2014. (TIIN)

2.7. Diverted Profits Tax. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 for a new tax on diverted profits from 1 April 2015. The tax will apply to arrangements that erode the UK tax base by the avoidance of a UK permanent establishment, or by the transfer of profits to entities that pay low amounts of tax in situations where there is a lack of economic substance. The tax will apply at a rate of 25% on the diverted profits and will be payable within 30 days after the issue of a charging notice by a designated HMRC officer. Technical guidance for this measure was published today. (TIIN)

2.8. Oil and gas: Reduction in Supplementary Charge. To ensure the UK Continental Shelf continues to attract investment and remove barriers at all stages of the production life cycle, the Government will tomorrow set out major reforms to the oil and gas fiscal regime. As a part of these reforms, the Government will implement an immediate 2% reduction in the rate of the Supplementary Charge, from 32% to 30%, taking effect at 1 January 2015 and will aim to reduce the rate further in an affordable way, to encourage additional investment and drive higher production, sending a strong signal that the UKCS is 'open for business'. (TIIN)

2.9. Oil and Gas: high pressure high temperature cluster area allowance. Budget 2014 announced that a new allowance will be introduced to promote investment in ultra high pressure, high temperature cluster areas. Following consultation, the Government has decided that the allowance will apply to high pressure high temperature cluster areas, not just ultra high pressure high temperature cluster areas.

The allowance will remove an amount equal to 62.5 % of capital expenditure incurred by a company in relation to a cluster area from its adjusted ring fence profits for the purposes of supplementary charge. The allowance will not be available to fields already in receipt of a field allowance, and transitional arrangements will be put in place for companies currently developing projects. The changes will apply to the qualifying capital expenditure a company incurs in relation to a cluster area on or after 3 December 2014. A response to the consultation will be published on 10 December 2014. (TIIN)

2.10. Oil and Gas: extension of accounting periods for Ring Fence

Expenditure Supplement. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to extend the number of claims available under Ring Fence Expenditure Supplement from 6 accounting periods to 10, in relation to both offshore and onshore oil and gas activity. As a consequence, Extended Ring Fence Expenditure Supplement will be abolished. This follows a call for evidence on the oil and gas fiscal review over the summer. For claims in addition to their existing 6, companies will not be able to claim supplement on expenditure or losses incurred or supplement generated prior to 5 December 2013. These changes will apply to qualifying expenditure or losses incurred on or after 5 December 2013. For losses arising in an accounting period straddling the commencement date, the changes apportion the losses before and after the commencement date. The initial findings of the review, including a summary of responses were published on 4 December 2014. (TIIN)

2.11. Research & Development (R&D) tax credit relief claims by small businesses.

As announced at Autumn Statement, the process for claiming R&D relief will be improved, by introducing voluntary advance assurances for small companies making their first claim. The assurances will allow the company and HMRC to agree details of the claim in advance, promoting certainty and helping companies understand better what expenditure will qualify. HMRC will also improve its R&D guidance after consulting early next year with companies and other interested persons on what needs to change.

The Government will also consult on the issues faced by small businesses when claiming R&D credits in January 2015. (TIIN)

2.12. Research and development tax credits: qualifying expenditure. As announced at Autumn Statement, the definition of consumable items qualifying for R&D relief will be amended. Legislation will be introduced to exclude items where, in the circumstances that the R&D activity results in saleable products, those items are reflected in goods that are then sold. The change will have effect from 1 April 2015. (TIIN)

2.13. High end TV tax relief. As announced at Autumn Statement, the Government will explore with industry whether to reduce the minimum UK spending requirement for high-end TV from 25% to 10% and modernise the cultural test, to bring the relief in line with film tax relief.

2.14. Children's TV tax relief. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide a new tax relief to encourage production of children's television programmes. (TIIN)

2.15. Orchestra tax relief. As announced at Autumn Statement, a consultation will be launched in 2015 on the design of a new corporate tax relief for orchestral productions.

2.16. Close company loans to participators. As announced at Autumn Statement, the Government is closing its review into the tax charge on loans from close companies to individuals, trusts and partnerships that have a share or interest in them. The Government does not intend to make any changes to the structure or operation of the tax charge following this review.

2.17. Corporate debt and derivative contracts Following announcement at Budget 2013 of a review, and in the light of subsequent consultation, legislation will be introduced to make wide-ranging changes to update the corporation tax regime for corporate debt and derivative contracts. These include:

- clarifying the relationship between tax and accountancy, and moving to base taxable profits on amounts recognised as items of profit or loss (to have effect for periods from 1 January 2016)
- changes to exclude from tax amounts arising where the debts of a company in financial distress are released or modified (to have effect from 1 January 2015).
- new regime-wide anti-avoidance rules to counter arrangements with a main purpose of obtaining a tax advantage by way of the regime rules (this will have effect from 1 April 2015)

Legislation concerning debts and derivative contracts of partnerships with corporate members or clarifying the tax treatment of undated securities, will not be introduced in Finance Bill 2015. These areas remain under review, but legislation will be deferred for further development. (TIIN)

2.18. Late paid interest. As part of the modernisation of the legislation on corporate debt (loan relationships) announced at Budget 2013, legislation will be introduced to repeal rules concerning loans made to UK companies by a connected company in a non-qualifying territory. Under these rules, where interest is not paid within 12 months of the period for which it accrues, it is only relieved when paid. Similar rules apply to deeply discounted securities. The repeal will have effect for loans entered into on or after 3 December 2014. For loans existing at that date it will be effective for interest accruing after 31 December 2015. A material change to the terms of an existing loan between 3 December 2014 and 31 December 2015 will trigger immediate repeal in respect of that loan. (TIIN)

2.19. R&D rate changes. As announced at Autumn Statement, the rate of the above-the-line Research and Development Expenditure Credit (RDEC) will be increased from 10% to 11% and the rate of the R&D tax credit for small or medium sized companies (SMEs) from 225% to 230%. Both of these changes apply to expenditure incurred on or after 1 April 2015.

3. VAT and Indirect Taxes

3.1. Air Passenger Duty (APD) Child Exemption. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to extend the air passenger duty child exemption to children under the age of 12 travelling in the lowest class of travel from 1 May 2015, with a further extension to children under 16 from 1 March 2016. (TIIN)

3.2. VAT: prompt payment discounts. As announced at Autumn Statement, from 1 April 2015 businesses will be required to account for VAT on the actual consideration received when prompt payment discounts are offered. This follows announcement at Budget 2014, legislation in Finance Act 2014, and consultation on implementation between June and September 2014. HMRC will publish a response to the recent consultation shortly.

3.3. VAT: refunds to certain bodies. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide for refunds of VAT to Non-Departmental Public Bodies, and similar bodies, using certain shared service arrangements to support their non-business activities. (TIIN)

3.4. Refunds of VAT refunds for search and rescue charities and air ambulance. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide for refunds of VAT to search and rescue charities in relation to their non-business activities. Search and rescue charities are charities whose main purpose is to search for and rescue people who are or may be at risk of death or serious injury at sea, in coastal waters and inland, charities whose main purpose is to support, develop and promote the activities of such charities, and air ambulance charities. (TIIN)

3.5. VAT: refunds to Highways Agency. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to add companies established under Section 1 of the Infrastructure Bill 2014-15, (currently going through Parliament), to the list of named bodies which are entitled to recover the VAT paid in relation to certain non-business activities. The Infrastructure Bill will provide for the creation of strategic highways companies to take over the functions of the Highways Agency. (TIIN)

3.6. VAT: refunds of VAT for the London Legacy Development Corporation. Secondary legislation will be introduced under section 33(3)(k) of the Value Added Tax Act 1994 to provide for refunds of VAT to the London Legacy Development Corporation whose main purpose is to develop the Olympic Park. This development will provide a sustainable legacy which will have social, economic and environmental benefits for local communities. A draft Statutory Instrument will be published for consultation in the New Year. (TIIN)

3.7. Registration of Alcohol Wholesalers. As announced at Autumn Statement 2013, legislation will be introduced in Finance Bill 2015 to require all UK based wholesalers that sell or arrange a sale of alcohol at or after an excise duty point, to be approved by HMRC. It will also make provision to allow regulations to be made regulating the approval and registration of approved persons.

The legislation will also introduce new penalties for trading without approval and for purchasing from an unapproved wholesaler. The requirement to be approved will take effect from 1 January 2016. The scheme will be introduced in full from 1 April 2017. (TIIN)

3.8. Minimum Excise Tax (MET). As announced at Autumn Statement, the Government is carefully considering the responses to the consultation on whether a MET could help support the tobacco duty regime, which closed on 15 October 2014. A decision on whether to pursue a MET further will be made in due course. A MET works by establishing a minimum tax level for a packet of cigarettes. If the decision is taken to introduce a MET, any legislation will be in a future Finance Bill.

3.9. Tobacco Levy. As announced at Autumn Statement, the Government is publishing a consultation to consider whether to introduce a levy on tobacco manufacturers and importers.

3.10. Tobacco Anti-Forestalling restrictions. As announced at Autumn Statement, legislation will be included in Finance Bill 2015 to

- give HMRC a general power in tobacco primary legislation to vary forestalling restrictions from year to year by public notice,
- give HMRC the power to vary the scope of the restrictions to include other tobacco products,
- introduce a new financial penalty for non-compliance with the restrictions.

This follows announcement at Budget 2014, and consultation which closed on 4 August 2014. It will take effect in time to apply to forestalling restrictions ahead of the 2016 Budget. A response to the consultation, draft legislation and Information Note covering the changes were published on 10 December 2014. (TIIN)

3.11. Fuel duty: aqua methanol. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to apply a reduced rate of fuel duty to aqua methanol composed of 95% pure methanol and 5 % water, to be implemented from 1 April 2015. The rate of fuel duty applied to aqua methanol will be 7.90 pence per litre. This fuel duty incentive will be reviewed at Budget 2016. (TIIN)

3.12. Aggregates levy: credits in Northern Ireland (NI). As announced on 7 November 2014, following the recently concluded European Commission state aids investigation into the NI Aggregates Levy Credit Scheme (ALCS), legislation will be introduced to provide for an 80 per cent credit of levy on aggregate commercially exploited in NI following importation from another Member State. The levy paid on this aggregate must have been accounted for at the full rate between 1 April 2004 and 30 November 2010 and the originating quarry must have met required environmental standards. The legislation will take effect on and after the date of Royal Assent to the Finance Bill 2015, with secondary legislation setting out the detailed provisions coming into force around the same time. (TIIN)

3.13. Landfill tax - loss on ignition testing regime. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 and secondary legislation to introduce a loss on ignition (or LOI) testing regime on fines produced from the processing of waste at mechanical treatment plants from 1 April 2015. This follows announcement at Budget 2014 and consultation over the summer. Only qualifying fines with an LOI of 10% or lower will be considered eligible for the lower rate, though there will be a 12 month transitional period where the threshold will be 15%. (TIIN)

3.14. Carbon price floor: exclusion for combined heat and power (CHP). As announced at Autumn Statement, legislation will be introduced to extend the exclusion from the carbon price support (CPS) rates of climate change levy (CCL) and fuel duty for fossil fuels used in a CHP station. This follows announcement at Budget 2014.

The exclusion currently applies to fuels used to produce heat, steam or mechanical power. From 1 April 2015 it will also include fossil fuels used to generate good quality electricity that is self-supplied or supplied under exemption from the requirement to hold an electricity supplier licence.

Finance Bill 2015 will contain provisions for the CPS rates of CCL and secondary legislation will set out the administrative changes required. Separate secondary legislation will amend the provisions relating to the CPS rates of fuel duty. (TIIN)

3.15. Vehicle excise duty: classic vehicle exemption. As announced at Budget 2014, legislation will be included in Finance Bill 2015 to extend the rolling 40 year VED exemption for classic vehicles by one year from 1 April 2016 to include all vehicles manufactured before 1 January 1976.

4. Stamp Duty, Inheritance Tax, Capital Gains Tax, Annual Tax on Enveloped Dwellings

4.1. Stamp duty land tax (SDLT): reform of residential rates. As announced at Autumn Statement, a Bill was introduced to charge SDLT on residential property transactions so that each rate will apply to the portion of the purchase price within the relevant band. The legislation sets out new rates and rate bands for these transactions. (TIIN)

4.2. Application of stamp duty land tax (SDLT) on certain authorised property funds. As announced at Autumn Statement, the Government intends to introduce a seeding relief for property authorised investment funds (PAIFs) and co-ownership authorised contractual schemes (CoACSs) and intends to make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units. This is subject to further consultation to resolve potential avoidance issues. Any legislation required will be in Finance Bill 2016.

This follows a consultation which was announced at Budget 2014. A response was published in December 2014.

4.3. Stamp duty land tax (SDLT): alternative property finance reliefs. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to amend the definition of a 'financial institution' that applies for the purposes of the alternative property finance reliefs to include persons authorised to provide home purchase plans. This will ensure that buyers who use a home purchase plan to finance their home purchase will pay the same level of SDLT as buyers who use a conventional mortgage. This will take effect from the date on which the Finance Bill 2015 receives Royal Assent. (TIIN)

4.4. Stamp duty land tax treatment (MDR) of shared ownership properties. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to extend the rules for multiple dwellings relief to include superior interests in residential property, such as shared ownership. This will apply where the transaction is part of a lease and leaseback arrangement, if acquired from a qualifying body such as a housing association. The change will take effect from the date on which Finance Bill 2015 receives Royal Assent. (TIIN)

4.5. Capital gains tax on disposals of residential property: non-residents and private residence relief. As announced at Autumn Statement 2013 and following consultation over the summer legislation will be introduced in Finance Bill 2015 to extend capital gains tax from 6 April 2015 to gains accruing to a non-resident person on the disposal of UK residential property. The legislation will also introduce a new rule to restrict access to private residence relief. A response to the consultation was published on 27 November 2014. (TIIN)

4.6. Capital gains tax: entrepreneurs' relief (ER) on goodwill. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to prevent claims to entrepreneurs' relief in respect of gains on business goodwill, where the goodwill has been disposed of to a limited company which is related to the claimant. The change will apply to disposals taking place on or after 3 December 2014. (TIIN)

4.7. Capital gains tax: entrepreneurs' relief (ER) and deferred gains. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to allow individuals to claim ER on gains which have been deferred under either the enterprise investment scheme (EIS) or the provisions for social investment tax relief (SITR). Gains on disposals which take place on or after 3 December 2014 will be eligible for ER after deferral, subject to the normal conditions in force when the original disposal took place. (TIIN)

4.8. Annual tax on enveloped dwellings (ATED): increase in charges. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to increase the annual ATED charges for properties valued at £2 million or more. The new charges will apply for the chargeable period 1 April 2015 to 31 March 2016. The new charges will be:

- £23,350 for properties valued at more than £2 million but not more than £5 million
- £54,450 for properties valued at more than £5 million but not more than £10 million
- £109,050 for properties valued at more than £10 million but not more than £20 million, and
- £218,200 for properties valued at more than £20 million

(TIIN)

4.9. Annual tax on enveloped dwellings: reducing the administrative burden. Annual Tax on Enveloped Dwellings: Following consultation, legislation will be introduced in Finance Bill 2015 to simplify the administration of ATED for businesses that hold properties eligible to a relief. The changes will amend the filing obligations, information requirements, and in some cases the time limits for delivering a return. These changes will come into effect on 1 April 2015, although for the chargeable period 1 April 2015 to 31 March 2016 the filing date will be extended to 1 October 2015. For subsequent years the normal filing date of 30 April will apply. There will be no change in relation to properties which have an ATED liability. Legislation is also introduced to amend the aggregation rule where different interests are held by connected persons in the same dwelling. Where one of the connected persons is an individual and the aggregate value of the interests is less than £2m, the company's interest must be more than £250,000 for aggregation to apply.

4.10. Capital gains tax on ATED-related gains. As announced at Budget 2014, legislation will be introduced to ensure the threshold amount above which disposals of residential property are subject to ATED-related capital gains tax is aligned and consistent with the changes to the ATED charging bands. The amount will change in two steps, on 6 April 2015 and 6 April 2016. (TIIN)

4.11. Inheritance Tax (IHT) and trusts. As announced at Autumn Statement, and following consultation the Government will not proceed with the introduction of a single settlements nil rate band.

Legislation will be introduced in Finance Bill 2015 to provide new rules about adding property to trusts on the same day to target IHT avoidance through the use of multiple trusts. The calculation of trust charges will be simplified by removing the requirement to include non-relevant property in the computation. Changes are also being made in certain areas of the relevant property trust legislation to close a gap and ease the effects of the legislation elsewhere. (TIIN)

4.12. IHT: Exemption for medals and other awards. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to extend the IHT exemption for awards for valour and gallantry to include medals and decorations awarded for service in the armed forces and emergency services. The extension will also apply to awards made by the Crown for public service or achievement in public life. The changes will have effect in relation to transfers of value made or treated as made on or after 3 December 2014. (TIIN)

4.13. IHT exemption for emergency service personnel. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to extend the IHT exemption for armed services personnel who die on active service to all emergency service personnel and humanitarian aid workers who die in the line of duty or whose death is hastened by injury incurred in the line of duty. The change will be effective where death occurred on or after 19 March 2014. (TIIN)

4.14. Inheritance tax: new digital service online. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to make minor changes to the provisions dealing with interest to make consequential amendments and to clarify the period from when interest is charged. This is part of the legislative changes to support the introduction of the new digital service announced at Autumn Statement 2013. (TIIN)

5. Tax administration and compliance

5.1. Improving the operation of the Construction Industry Scheme (CIS). As announced at Autumn Statement and following a consultation after Budget 2014, the Government will legislate starting in April 2015 to implement a package of improvements to the CIS. These improvements will reduce administrative burdens on construction businesses enabling the scheme to be administered more efficiently. A summary of responses was published on 10 December 2014. (TIIN)

5.2. Direct recovery of debts. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to enable tax and tax credit debts due to HM Revenue and Customs to be removed from debtors' accounts in credit. This follows announcement at Budget 2014 and consultation over the summer.

Every debtor will receive a face-to-face visit from HMRC agents before their debts are considered for recovery through DRD. In cases where debtors have received this visit, have not been identified as vulnerable, have sufficient money in their bank account and have still not arranged to settle their debts, HMRC may require banks, building societies and other deposit takers to place a hold of up to 30 days on the debt due to HMRC. Removal of funds from accounts will be limited to credit balances and safeguards will be put in place to ensure that a minimum credit balance of at least £5000 remains in the account after the debt has been held. There will be rights of appeal to the County Court against the exercise of this power on the grounds that the amount has already been paid, the conditions for issuing a hold notice were not met, the hold notice is causing hardship and to protect third parties in the case of joint accounts.

The Government intends to legislate this measure in a Finance Bill in 2015, during the next Parliament. (TIIN)

5.3. Strengthening civil deterrents. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide enhanced civil penalties for offshore tax evasion. This follows the consultation over the summer.

This will amend the existing offshore penalties regime to:

- include Inheritance Tax
- apply to domestic offences where the proceeds of non-compliance are hidden offshore
- update the territory classification system to reflect the jurisdictions that adopt the new automatic exchange of information standard under the Common Reporting Standard ('CRS'); and
- include a new aggravated penalty of a further 50% for circumventing the CRS by moving hidden funds to jurisdictions not committed to it.

The changes will come into effect from April 2016, except for the aggravated penalty which will come into effect following Royal Assent. A response to the consultation was published on 10 December 2014. (TIIN)

5.4. Enhancing financial incentives for offshore intelligence. As announced at Autumn Statement, HMRC will review the incentives it offers for information on offshore tax evaders, in particular those who seek to remain outside the reach of international efforts to achieve tax transparency. HMRC will be consulting with law enforcement agencies and other interested stakeholders on how best to achieve this. HMRC has made it clear that it is willing and able to pay rewards for information which helps it uncover offshore evasion.

5.5. Country-by-country reporting. Following the publication of the OECD (2014) Guidance on Transfer Pricing Documentation and country-by-country Reporting on 16 September 2014, legislation will be introduced to enable the implementation in the UK of the OECD model for country-by-country reporting. (TIIN)

5.6. Disclosure of Tax Avoidance Schemes (DOTAS) regime changes. As announced in the Autumn Statement, legislation will be introduced in Finance Bill 2015 to strengthen the DOTAS regime. The legislation will strengthen aspects of DOTAS, including the 'hallmarks' to ensure avoidance that is being marketed and used now must be disclosed to HMRC. It will strengthen the powers that enable HMRC to identify and pursue those who are required to disclose but do not and to obtain information about employees who are party to avoidance schemes. It will also allow HMRC to publish information about promoters and schemes that are notified under the strengthened regime. (TIIN)

5.7. Promoters of tax avoidance schemes. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to allow HMRC to issue Conduct Notices to a broader range of connected persons under the common control of a promoter of tax avoidance schemes. The new provisions will provide that the 3 year time limit for issuing notices to promoters who have failed to disclose avoidance schemes to HMRC applies from the date when the failure comes to the attention of HMRC, introduce a new threshold condition for failing to comply with NICs disclosure requirements and ensure that the threshold conditions take account of decisions by independent bodies in matters of all relevant forms of professional misconduct. (TIIN)

5.8. Penalties for General anti-Abuse Rule (GAAR) cases. As announced at Autumn Statement, the Government will consult on whether and how to introduce penalties for tax compliance cases where the GAAR applies. The consultation will take place early in 2015 as part of the Government's wider plans to develop ways of responding to those who engage in abusive arrangements.

5.9. Serial avoiders. As announced at Autumn Statement, the Government will consult early in 2015 on potential action that could be taken to impose additional financial costs, compliance and reporting requirements on repeat users of known avoidance schemes. The Government will seek views on whether publishing the names of individuals who have engaged in multiple tax avoidance schemes could contribute to deterrence in this area.

5.10. Employment intermediaries: penalties. As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to amend legislation introduced in Finance Act 2014 to prevent the avoidance of employment taxes by UK agencies engaging UK workers via non-UK agencies, intermediaries facilitating false self-employment and the Employment Intermediaries Information Quarterly Return.

It allows HMRC to make penalties for a failure to furnish any information, or produce any document or record required to be submitted by a specified employment intermediary in accordance with regulations under s716B ITEPA 2003.

5.11. HMRC Tax Enquiries: closure rules. As announced at Autumn Statement, the Government will consult on a proposal to introduce a new power, enabling HMRC to achieve early resolution and closure of one or more aspects of a tax enquiry, whilst leaving other aspects of the tax enquiry open. HMRC would target the power at cases or issues involving high tax risk, including those which involve tax avoidance. HMRC expects earlier payment of tax in respect of the particular aspects addressed by HMRC.

5.12. Bolstering Large Business Risk Working. As announced at Autumn Statement, additional resources will be introduced from April 2015 within HMRC to create a flexible, national team further targeting Large Businesses who avoid tax.

5.13. Office of Tax Simplification (OTS) report on the competitiveness of UK tax administration. As announced at Autumn Statement the Government has accepted or will further consider 51 of the 58 recommendations made by the OTS. The Government has commenced work on many of these, with details to be published in due course.

6. Tax Credits and Pensions

6.1. Tax Credits: reducing payments to prevent overpayments following a change in entitlement in year. As announced at Autumn Statement, the Government will prevent the build-up of tax credit debt by reducing payments in-year where, due to a change in circumstances, a claimant will be on track for an overpayment. This extends the scope of the announcement at Autumn Statement 2013 that tax credits payments will be stopped in-year where, due to a change in circumstance, a claimant has already received their full annual entitlement. This will prevent claimants building up unnecessary overpayments that must be repaid at a later date. These changes will take effect from April 2015.

6.2. Access to benefits. As announced at Autumn Statement the eligibility conditions will be tightened for those using self-employment to meet the qualifying remunerative work conditions for eligibility to Working Tax Credit (WTC), to prevent abuse of the system. These include new conditions that require the claimant to register their self-employment for self-assessment and provide HMRC with their Unique Tax Reference - along with a requirement that the self-employment is genuine and effective and not marginal or ancillary. Those claimants who declare income less than the equivalent of working 24 hours a week at the National Minimum Wage will be required to provide evidence to HMRC that the work being undertaken is genuine and effective. This will prevent bogus self-employment and abuse of the tax credits system, while allowing HMRC to continue to support those who are genuinely self-employed.

6.3. Extending death relaxation to annuities. As announced at Autumn Statement, from April 2015 beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity, will be able to receive any future payments from such policies tax free where no payments had been made from the policy to the beneficiary before 6 April 2015. The tax rules will also be changed to allow joint life annuities to be passed to any beneficiary.

6.4. Taxation of pensions Bill. An updated Tax Information and Impact Note (TIIN) in connection with the new flexibilities for accessing money purchase pension savings from April 2015 has been published. The TIIN has been updated to reflect revised Exchequer impacts that result from the changes set out in the Taxation of Pensions Bill. (TIIN)

Tax Information and Impact Notes

Introduction

Tax Information and Impact Notes (TIINs) are designed to provide a clear statement of the changes the Government proposes making to the tax system, including the reason for the change and the expected impacts. The Government will produce a TIIN for the majority of substantive changes in tax and NICs policy made in primary or secondary legislation. TIINs will be published when the policy is final or near final; in most cases this will be when the draft legislation is published.

Generally TIINs will not be published alongside routine legislative changes that give effect to previously announced policy, such as indexation of duty rates, or appointed day orders, secondary legislation enacting double taxation treaties, or secondary legislation not laid before Parliament.

Impact of policy changes

All of the tax policy changes contained in this document have been tested against the same list of possible impacts as for impact assessments. In most cases these impacts will be included in the “other impacts” section of the TIIN. Those tests which result in no impact have not been recorded.

1.79 The other impacts against which each policy has been tested are:

- competition;
- small and micro business;
- carbon emissions;
- wider environment;
- health and wellbeing;
- sustainable development;
- rural proofing;
- justice system; and,
- privacy
- families
- child poverty

The small firms’ impact test (SFIT) has been replaced by the small and micro business assessment (SMBA) for all legislation due to come into force after 31 March 2014. Any TIINs that refer to SFIT relate specifically to measures implemented before this date.

Ministerial sign-off for Tax Information and Impact Notes

I can confirm that Treasury Ministers have read the attached Tax Information and Impact Notes and are satisfied that, given the available evidence, each represents a reasonable view of the likely costs, benefits and impacts of the measures.

A handwritten signature in black ink, appearing to read "David Gauke". The signature is written in a cursive style with a large initial 'D' and a long horizontal stroke at the end.

David Gauke MP
Financial Secretary to the Treasury

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Income tax personal allowance for those born after 5 April 1938 for 2015-16

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

For 2015-16, the personal allowance for those born after 5 April 1938 will be further increased from £10,500 announced at Budget 2014 to £10,600. The 'higher rate threshold' for 2015-16 will also be increased to £42,385.

Policy objective

The increase to the personal allowance delivers the Government's stated objective to support those on low and middle incomes and reward work.

Background to the measure

This measure was announced at Autumn Statement 2014.

The Coalition Government objective of increasing the personal allowance to £10,000 was achieved one year ahead of schedule in 2014-15. Budget 2014 announced that the personal allowance would be increased to £10,500 for 2015-16. This measure goes further by increasing the personal allowance to £10,600 for 2015-16.

Legislation will be introduced in Finance Bill 2015 to increase the personal allowance by £100 for 2015-16. Finance Bill 2015 will also set the amount of the transferable allowance for married couples and civil partners at £1,060 (10 per cent of the personal allowance) for 2015-16.

There is no change to the basic rate limit for 2015-16 set out at Budget 2014 (£31,785).

Taking into account the changes set out by this measure, the table below shows the changes to the personal allowance over the lifetime of the Parliament.

£	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Personal allowance	6,475	7,475	8,105	9,440	10,000	10,600
Basic Rate Limit	37,400	35,000	34,370	32,010	31,865	31,785
Higher Rate Threshold	43,875	42,475	42,475	41,450	41,865	42,385

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

Section 35 of the Income Tax Act 2007 (ITA) provides the income tax personal allowance for those born after 5 April 1948. Section 36 of ITA provides the income tax personal allowance for those born after 5 April 1938 but before 6 April 1948. Section 37 of ITA provides the income tax personal allowance for those born before 6 April 1938.

For 2015-16, section 2 of the Finance Act 2014 (FA14) sets the income tax personal allowance for those born after 5 April 1948 at £10,500 and the basic rate limit at £31,785. From 2015-16, the allowance for section 35 and section 36 of ITA are the same amount. So, section 2 of FA14 also prospectively amends section 35 of ITA so that the allowance is available to people born after 5 April 1938 and removes section 36 from 2015-16.

Without this new measure, the effect is that for 2015-16 there would be two personal allowances available by reference to an individual's date of birth:

For those born after 5 April 1938	£10,500
For those born before 6 April 1938	£10,660

Sections 55A to 55E of ITA provides the transferable tax allowance for married couples and civil partners applicable from 2015-16. Section 55B(4) of ITA sets the transferable amount at £1,050.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to set for 2015-16 the personal allowance for those born after 5 April 1938 at £10,600 and increase the amount of the transferable tax allowance for married couples and civil partners to £1,060.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-530	-635	-640	-655	-655
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	This measure will reduce income tax for 27 million income tax payers, including low and middle income individuals, improving incentives to enter employment and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. Overall employment outcomes will also depend upon other measures announced as well as aggregate labour demand and the performance of the wider economy.					
Impact on individuals, households and families	<p>In 2015-16, this measure (the £100 increase to that announced at Budget) will provide 27 million individuals with a real terms gain (over and above that from normal indexation) averaging £22. Of these, 22.5 million will be basic rate taxpayers and 4.52 million higher rate taxpayers.</p> <p>All taxpayers with income of £121,200 or above have their personal allowance tapered to zero and so derive no benefit from the personal allowance increase. Those with earnings around or above this level will then lose due to the alignment of the Upper Earnings Limit/Upper Profits Limit for Class 1 and Class 4 National Insurance contributions with the higher rate threshold for income tax. 442,000 of these individuals will have an average loss of £9 from higher National Insurance contributions in 2015-16.</p> <p>This measure will take 122,000 individuals out of income tax altogether.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>					

	<p>The combined effect of the personal allowance increase to £10,500 announced at Budget 2014, plus the further £100 increase in this measure, is to:</p> <ul style="list-style-type: none"> • provide real terms gains of £94 and £104 for typical basic rate and higher rate taxpayers respectively; • take 430,000 individuals out of income tax altogether.
Equalities impacts	<p>Equalities impacts will reflect the composition of the income tax-paying population.</p> <p>In 2015-16, women are projected to account for 42 per cent of all taxpayers and men 58 per cent.</p> <p>From the additional £100 increase, the estimated impacts for 2015-16 are:</p> <ul style="list-style-type: none"> • 122,000 individuals will be taken out of tax altogether, of which 44,000 (36 per cent) are men and 79,000 (64 per cent) are women. 95,000 individuals (78 per cent) are under 68 years old, with 27,000 individuals (22 per cent) being aged over 68. • 27 million individuals gain an average of £22, of which 15.7 million (58 per cent) are men and 11.4 million (42 per cent) are women. 24.1 million (89 per cent) are under 68 years old and 2.96 million (11 per cent) are 68 years old or over. Average gains do not differ significantly by gender or between those aged under or over 68 years old. • 442,000 individuals lose an average of £9, of which 374,000 (85 per cent) are men and 68,000 (15 per cent) are women under 68 years old. Average losses do not differ significantly by gender or between those under or over 68 years old.
Impact on business including civil society organisations	<p>Impacts on administrative and compliance costs for businesses, employer, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HM Revenue & Customs (HMRC).</p>
Operational impact (£m) (HMRC or other)	<p>The impact on HMRC will be negligible. Changes to the amounts of personal allowances are an annual requirement.</p>
Other impacts	<p><u>Small and micro business assessment</u>: this measure will have a negligible impact on small business. To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

HMRC and HM Treasury will seek to assess the cumulative labour market effects of personal allowance increases in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).

Blind person's allowance, married couple's allowance and income limit for 2015-16

Who is likely to be affected?

People who are entitled to the blind person's allowance, the married couple's allowance for those born before 6 April 1935, the personal allowance for those born before 6 April 1938 and are affected by the income limit, employers and pension providers.

General description of the measure

The measure increases the blind person's allowance, the married couple's allowance and the income limit for the personal allowance for those born before 6 April 1938 by the equivalent of "indexation" (the annual increase to income tax personal allowances and rate limits) based on the Retail Prices Index (RPI) rather than the Consumer Prices Index (CPI).

Policy objective

The measure delivers the Government's commitment made at Budget 2011.

Background to the measure

At Budget 2011, the Chancellor announced that *'once the personal allowance has reached £10,000, it will then increase by CPI in future years, starting from 2015-16'*. The personal allowance reached £10,000 in 2014-15. Subsequently, at Budget 2014, the Chancellor announced that the personal allowance will be increased to £10,500 for 2015-16.

Also announced at Budget 2011, was the intention to move the underlying basis for indexation for all direct taxes to the CPI. This transition began in April 2012.

In addition, it was announced at Budget 2011 that over the lifetime of this Parliament, blind person's allowance, the married couple's allowance and income limit for the higher personal allowances would continue to increase by reference to RPI.

Finance Act 2014 (FA 2014) changed the basis of indexation from RPI to CPI effective from 2015-16.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

From 2015-16, section 35 of the Income Tax Act (ITA) 2007 provides the personal allowance for people born after 5 April 1938. Section 2 of FA 2014 sets this personal allowance at £10,500 for 2015-16 and disapplies the indexation provisions.

Section 37 ITA provides the personal allowance for people born before 6 April 1938. It is £10,660 and is not subject to indexation. The amount is subject to an income limit of £27,000 for 2014-15. Where an individual has an income above the limit, their allowance is reduced by £1 of allowance for every £2 above the income limit. Unless an individual's income is above £100,000, their personal allowance is not reduced below the amount of the allowance provided by section 35 of ITA.

Section 38 of ITA provides the amount of the blind person's allowance. It is £2,230 for 2014-15.

Section 43 of ITA provides the minimum amount of married couple's allowance. It is £3,140 for 2014-15.

Section 45 of ITA provides the maximum amount of married couple's allowance for marriages before 5 December 2005. Section 46 of ITA provides the maximum amount of married couple's allowance for marriages and civil partnerships on or after 5 December 2005. These amounts are £8,165 for 2014-15. These amounts are subject to an income limit of £27,000 for 2014-15. They are reduced by £1 for every £2 above the income limit, but only after any reduction to the individual's allowance provided by section 37 of ITA.

From 2015-16, section 57 ITA 2007 provides that the personal allowance for those born after the 5 April 1938, blind person's allowance, married couple's allowance and the income limit are subject to indexation. HM Treasury must make an order before the start of the new tax year to declare the indexed amounts.

Section 4 of FA 2014 changed the basis of indexation from the annual percentage increase in RPI to the September before the new tax year to the annual percentage increase in CPI to the September before the tax year. The change applies from 2015-16.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to increase, for 2015-16, blind person's allowance, the married couple's allowance and the income limit by amounts equivalent to RPI indexation and to override the indexation provisions in 57 ITA 2007. The table below shows the amounts that would have applied for 2015-16 based on CPI, and the amounts that will apply based on RPI.

	CPI indexation	RPI indexation
Blind person's allowance	2,260	2,290
Maximum amount of married couple's allowance	8,275	8,355
Minimum amount of married couple's allowance	3,180	3,220
Income limit	27,400	27,700

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-5	-5	-5	negligible	negligible
	The Office for Budget Responsibility has included these numbers in its forecast.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure ensures that for individuals entitled, for 2015-16 the allowances and income limits continue to be increased by RPI. The measure is not expected to have an impact on family formation, stability or breakdown.					
Equalities impacts	Compared to statutory CPI indexation, this measure provides a cash benefit to people entitled to blind person's allowance, people entitled to the married couple's allowance and those people born before 6 April 1938 who have incomes below above the income limit.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. An individual's personal allowance is reflected in their Pay as You Earn (PAYE) tax code. Any changes to individuals' PAYE tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HM Revenue and Customs (HMRC).
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible. Changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC and HM Treasury do not anticipate that this measure could be evaluated separately from other personal allowance increases and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).

Income tax: company car tax rates and bands for cars 2017-18 and 2018-19

Who is likely to be affected?

Businesses and employers that provide company cars and employees provided with company cars that are made available for private use.

General description of the measure

In both 2017-18 and 2018-19, the appropriate percentage of the list price of company cars subject to tax will increase by 2 percentage points for cars emitting more than 75 grammes of carbon dioxide per kilometre (g CO₂/km).

In 2017-18, there will be a 4 percentage point differential between the 0-50 and 51-75g CO₂ per km bands and between the 51-75 and 76-94g CO₂ per km bands. In 2018-19, the differential in each case will reduce to three percentage points. (The differential will reduce further to two percentage points in 2019-20 in line with the Budget 2013 announcement).

Policy objective

This measure will continue to support the wider market for ultra low emission vehicles (ULEVs) by maintaining lower taxation for ULEVs. At the same time, the increase in appropriate percentages ensures the tax system continues to support the sustainability of the public finances.

Background to the measure

The changes in the appropriate percentage for cars for 2017-18 and 2018-19 were announced at Budget 2013 and Budget 2014.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2017.

Current law

Sections 121 to 148 of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) provide for calculating the cash equivalent of the benefit of a company car which is made available for private use. In broad terms, this depends on the list price of the car plus taxable accessories, multiplied by the level of CO₂ emissions the car produces, which is expressed as the appropriate percentage.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to make the following changes:

- Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO₂ emissions. From 6 April 2017, the graduated table of company car tax bands will provide for a 9 per cent band for cars with emissions of 0-50g CO₂ per km, a 13 per cent band for cars with emissions of 51-75g CO₂ per km, a 17 per cent band for other low emission cars (76g-94g CO₂ per km); and a 2 per cent increase for each rise in emissions of 5g CO₂ per km from 95g CO₂ to the existing maximum of 37 per cent.

From 6 April 2018, there will be a 13 per cent band for cars with emissions of 0-50g CO₂ per km, a 16 per cent band for cars with emissions of 51-75g CO₂ per km, a 19 per cent band for other low emission cars (76g-94g CO₂ per km); and a 2 per cent increase for each rise in emissions of 5g CO₂ per km from 95g CO₂ to the existing maximum of 37 per cent.

- Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without a CO₂ emissions figure. From 6 April 2017, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 18 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000cc) will be set at 29 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

From 6 April 2018, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 20 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000cc) will be set at 31 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

- Section 141 sets out the appropriate percentage for diesel cars registered on or after 1 January 1998. From 6 April 2015, the maximum percentage for diesel cars will be set at 37 per cent. Section 141 is being repealed with effect from 6 April 2016.
- Section 142 sets out the appropriate percentage for cars first registered before 1 January 1998. From 6 April 2017, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 18 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000 cc) will be set at 29 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

From 6 April 2018, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 20 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000 cc) will be set at 31 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

A table of rates can be found in the 'Overview of Tax Legislation and Rates' document that will be published alongside the Budget in 2014.

The measure will also set the maximum percentage for diesel cars at 37 per cent for 2015-16. This was included in the Tax Information and Impact Note published on 20 March 2013.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-	+240	+480
	These figures were set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014.				
Economic impact	By maintaining lower taxation for ULEVs, the measure will support the take-up and development of ULEVs in the UK.				
Impact on individuals, households and families	<p>This measure will have an impact on employees provided with a company car which is also made available for private use. Those impacted will largely have above average incomes.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>				
Equalities impacts	The changes apply equally to all employers providing a company car and employees who drive them. There are no particular impacts on people with protected characteristics.				
Impact on business including civil society organisations	<p>This measure is expected to have no impact on business or civil society organisation in terms of administrative and one-off costs.</p> <p>Businesses that offer company cars to their employees will benefit from lower NIC liabilities on ULEVs compared to a non-ULEV.</p>				
Operational impact (£m) (HMRC or other)	Routine IT and guidance changes required for HM Revenue and Customs.				
Other impacts	Other impacts have been considered and none has been identified.				

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Alastair Dougans on 03000 584745 (email: employmentincome.policy@hmrc.gsi.gov.uk).

Income tax: van benefit charge for zero emission vans

Who is likely to be affected?

Businesses and employers that provide company vans which cannot in any circumstances emit CO₂ by being driven (zero emission vans) and employees provided with such company vans which are made available for significant private use.

General description of the measure

The measure will increase the van benefit charge for zero emission vans from £nil, beginning in 2015-16. The van benefit charge for such vans will be 20 per cent of the van benefit charge for vans which emit CO₂ in 2015-16, 40 per cent in 2016-17, 60 per cent in 2017-18, 80 per cent in 2018-19 and 90 per cent in 2019-20. From 2020-21, the van benefit charge for zero emission vans will be the same as the van benefit charge for vans which emit CO₂.

Policy objective

By tapering the increase in the van benefit charge, there will still be an incentive to use zero emission vans so their production will continue to be encouraged. At the same time, increasing the taxable benefit ensures the tax system continues to support the sustainability of the public finances.

Background to the measure

This measure was announced at Budget 2014.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

Sections 154 to 159 of the Income Tax (Pensions and Earnings) Act 2003 (ITEPA) provide for a van benefit charge for vans which emit CO₂. When a van which is made available to an employee for reasons of the employee's employment and is also made available for private use, then the benefit of the van is treated as earnings from the employment. The benefit is subject to tax on the employee and Class 1A National Insurance contributions on the employer. If the employee is liable for the charge, it is applied as a single figure. The charge is not dependent on the value of the van or the proportion of private use within the period it has been made available unless it meets the conditions of restricted private use.

At present, sections 155(1)(a) and (2)(b) provide that vans which are incapable of producing CO₂ emissions under any circumstances (zero emission vans) have a van benefit charge of £nil.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 155 ITEPA 2003 to increase the van benefit charge for zero emission vans as a percentage of the existing charge for vans which emit CO₂. The charge will gradually increase each year from 2015-16 to 2019-20.

The legislation will also amend the references to section 155 in other parts of the legislation in order to ensure that the calculation of the cash equivalent of a van includes the new provisions.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals, households and families	<p>This measure will result in employees driving zero emission company vans which are also made available for significant private use beginning to pay income tax but at a lower rate than drivers of vans emitting CO₂. This tax differential will be eliminated on a gradual basis in the run-up to 2020-21.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	The changes apply equally to all affected. There are no particular impacts on people with protected characteristics.					
Impact on business including civil society organisations	The measure is expected to have no impact on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	Routine IT and guidance changes will be required for HM Revenue & Customs.					
Other impacts	Other impacts have been considered and none has been identified.					

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Alastair Dougans on 03000 584745 (email: employmentincome.policy@hmrc.gsi.gov.uk).

Income tax: abolition of the £8,500 threshold for benefits in kind

Who is likely to be affected?

Employees who earn at a rate of less than £8,500 a year and who have certain benefits in kind (BiKs) or expenses provided tax free. This will only result in an income tax charge on those BiKs and expenses for people whose total income, from all sources, exceeds the Personal Allowance (currently £10,000 for 2014-15).

Employers who are providing BiKs or expenses to employees earning at a rate of less than £8,500 a year will also be affected by the measure.

General description of the measure

The measure abolishes the £8,500 threshold that determines whether employees pay income tax on all of their BiKs and expenses.

Employers will have additional National Insurance contributions (NICs) to pay on the BiKs and certain expenses provided to employees earning at a rate of less than £8,500 a year.

Policy objective

This measure simplifies the administration of employee BiKs and expenses as it removes the need for form P9D. Employers who do not voluntarily 'payroll' their BiKs (that is, include BiKs when they calculate Pay As You Earn tax deductions from their employees' pay) will now report them all to HM Revenue & Customs (HMRC) by just one method (P11D). Employers will also no longer need to continually monitor an employee's earnings and BiKs to see whether they fall above or below the threshold.

The vast majority of employees will now be treated in the same way for income tax and NICs on their BiKs and expenses, whatever the level of the employee's earnings. It also provides equity since it means that the tax and NICs treatment of BiKs and expenses is the same for employees whether they have a single, or multiple employments.

A new exemption is being introduced for ministers of religion earning at a rate of less than £8,500 a year to protect their current position and ensure that most BiKs they receive will remain exempt for both income tax and NICs.

A new exemption is also introduced for board and lodging provided to carers in the home of the person they care for. This is to ensure that care and support employers are not involved in additional administration of this minor BiK that may result from the removal of the £8,500 threshold.

Background to the measure

The measure was announced at Budget 2014 as part of a package aimed at simplifying the administration of employee BiKs and expenses. This followed the Office for Tax Simplification's review of employee BiKs and expenses, and recommendations made in their interim and second reports published in August 2013, and January 2014.

A consultation document entitled *Abolition of the £8,500 threshold and form P9D* was published on 18 June 2014 and the consultation ran until 9 September 2014. A summary of responses to the public consultation has also been published on the GOV.uk website today.

Detailed proposal

Operative date

This measure will have effect for BiKs and expense payments for employees and employers where the employee is earning at a rate of less than £8,500 a year from 6 April 2016.

Current law

Under 'the benefits code' in Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), BiKs and expenses payments are treated as "earnings" and so are charged to income tax.

Section 216 Part 3 ITEPA 2003 exempts employees in lower paid (or 'excluded') employment from being charged to tax under certain parts of the benefits code. This means that an employee in a lower paid employment pays tax only on certain BiKs, these include living accommodation, vouchers and credit-tokens.

Section 10 Social Security Contributions and Benefits Act 1992 creates a Class 1A NICs liability for the employer on the same BiKs (which do not attract a Class 1 NICs liability) that have an income tax charge under ITEPA 2003.

Section 217 Part 3 ITEPA 2003 sets the threshold for a lower paid (or excluded) employment at an earnings rate of less than £8,500 for the year.

Regulation 85 of the Income Tax (PAYE) Regulations 2003 (2003/2682) provides that an employer must make a return to HMRC before 7 July following the end of a tax year. This return must show details of the BiKs and expenses for each employee to whom the benefits code applies.

Regulations 86 and 87 define the information to be provided by the employer to HMRC for each employee in the return.

Regulation 86 provides that an employer is required to report to HMRC BiKs and expenses that apply to all employees whatever their earnings, amongst these are living accommodation, vouchers and credit tokens.

Regulation 87 outlines the information that an employer is required to make to HMRC in respect of all other BiKs and expenses which apply only to those employees who are earning at a rate of £8,500 or more a year.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITEPA 2003 to abolish the £8,500 threshold by repealing Chapter 11 of Part 3 of ITEPA 2003 (exclusion of lower paid employments from parts of the benefits code). This will mean that all employees will be taxed on their BiKs and expenses in the same way.

Section 10 of the Social Security Contributions and Benefits Act 1992 will also be amended to remove the reference to 'excluded' (or lower paid) employment. This will align the payment of NICs by the employer with the income tax treatment.

The exemptions currently provided for in section 290A and section 290B ITEPA 2003 for ministers of religion in lower paid employment will be retained. This will mean that the reimbursement of accommodation costs, such as heat, light and water, or the payment of an allowance towards these costs for ministers of religion earning at a rate of less than £8,500 will remain exempt from income tax. Similarly, there will be no NICs liability in these circumstances.

In addition a new exemption will be introduced to cover other BiKs for ministers of religion earning at a rate of less than £8,500 which will maintain the current exemption to income tax and NICs that applies to these BiKs.

A further exemption will also be introduced for employees who work as carers in respect of board and lodging that is provided in the home of the person who they are caring for. This will mean that the carer will be completely exempt from income tax on this BiK, and the employer or for the person who is providing the board and lodging (depending where the liability falls) will be completely exempt from NICs on the provision of this BiK.

The changes for both tax and NICs will have effect from 6 April 2016. Changes will also be made to the Regulations governing the P9D and P11D returns employers make to HMRC of their employees BiK and expenses. These regulations will be amended and published separately during 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20									
	-	-10	-5	-10	-10	-10									
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014, as <i>Office of Tax Simplification: Review of Expenses</i>, and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>These figures also incorporate the Exchequer impact of <i>Income Tax: statutory exemption for trivial benefits-in-kind</i> and <i>Real time collection of tax on benefits in kind and expenses through voluntary payrolling</i>.</p>														
Economic impact	The measure is not expected to have any significant economic impacts.														
Impact on individuals, households and families	<p>Employees currently earning at a rate of less than £8,500 a year with BiKs or taxable expenses from their employment whose total income exceeds the Personal Allowance (currently £10,000) will pay additional income tax on the value of their BiKs and taxable expenses.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>														
Equalities impacts	This measure is not expected to have any disproportionate effect on people with protected characteristics.														
Impact on business including civil society organisations	<p>The measure will reduce the administrative burden on employers as they will no longer need to continually monitor an employee's earnings and BiKs to see if they fall below or above the £8,500 threshold. It is estimated that these savings will outweigh the additional cost of submitting P11D forms for the small number of BiKs received by employees whose earnings are below the threshold.</p> <p>Overall the package of reforms announced at Autumn statement 2014 which includes the real time collection of income tax through voluntary payrolling, and the general expense exemption, is expected to reduce the number of P11D returns employers need to make to HMRC.</p> <table border="1" data-bbox="450 1832 1455 1995"> <thead> <tr> <th></th> <th>Cost</th> <th>Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td colspan="3">Compliance Costs</td> </tr> <tr> <td>One-off Costs</td> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table>							Cost	Time Period (yrs)	Compliance Costs			One-off Costs	N/A	N/A
	Cost	Time Period (yrs)													
Compliance Costs															
One-off Costs	N/A	N/A													

	Average Annual Costs	£1.8m	5
	Total Costs (PV)	£8.4m	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£4.5m	5
	Total Benefit (PV)	£21.1m	N/A
	Net Benefit (NPV)	£12.6m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£2.1m	£4.5m	-£2.4m
	Note: The impact on administrative burden (included in net benefit) represents the expected costs and benefits for the first year only. The £1.8 million cost and £4.5 million benefit included in compliance costs represent the average annual amounts over the five years.		
Operational impact (£m) (HMRC or other)	HMRC will need to make small changes to two IT systems to de-commission the facility to capture P9D information. It is anticipated that the cost of making these IT changes will be in the region of £250,000.		
Other impacts	<u>Small and micro business assessment</u> : the impact of this measure on small businesses is not anticipated to differ from that on large businesses. Other impacts have been considered and none have been identified.		

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of employee BiKs and expenses simplifications, through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team at: employmentincome.policy@hmrc.gsi.gov.uk.

Income tax: simplifying the administration of employee expenses, including preventing salary sacrifice

Who is likely to be affected?

Employers who pay, reimburse, or provide benefits in kind (BiKs) in respect of expenses incurred by their employees.

Employees who receive payments or BiKs in respect of expenses they incur.

General description of the measure

This measure will simplify the administration of tax relief for employee expenses where the employer pays or reimburses them, or provides BiKs in respect of them.

Policy objective

This measure makes the administration of employee expenses simpler. It removes the reporting requirement and the requirement for employers to apply to HM Revenue & Customs (HMRC) for an agreement, known as a “dispensation,” in order to pay qualifying expenses and BiKs free of tax. It also more closely aligns the tax rules to the existing National Insurance contributions (NICs) treatment of expenses payments.

The measure also prevents expenses being paid free of tax and NICs as part of a ‘salary sacrifice’ arrangement. These arrangements require the employee to give up a right to a part of their salary in exchange for the payment of those expenses, in order to reduce the NICs liabilities of both the employer and employee.

Background to the measure

The measure was announced by the Chancellor at Budget 2014 as part of a package aimed at simplifying the administration of employee BiKs and expenses. This followed the Office for Tax Simplification’s review of employee BiKs and expenses, and recommendations made in their interim and second reports published in August 2013, and January 2014.

A consultation document entitled ‘Employee benefits and expenses: exemption for paid or reimbursed expenses’ was published on 18 June 2014. The consultation ran until 9 September 2014. A summary of responses to the public consultation has also been published on the government website today.

Detailed proposal

Operative date

This measure will have effect for all expenses payments and BiKs provided on and after 6 April 2016.

Current law

Under the Benefits code in Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA), expenses payments and BiKs are treated as “earnings” and so are charged to income tax.

Part 5 of ITEPA 2003 provides for deductions from an employee’s earnings for certain expenses that they have to incur in order to perform the duties of their employment.

Section 65 of ITEPA 2003 allows employers to apply to HMRC for an agreement, known as a “dispensation”, to pay or reimburse expenses, or provide BiKs without taxing or reporting them. The legislation requires HMRC to grant a dispensation where it is satisfied that no additional tax is due.

The Social Security (Contributions) Regulations 2001, Schedule 3 provides for payments to be disregarded in the calculation of earnings for the purposes of earnings-related National Insurance contributions. Part VIII of that Schedule covers travelling, relocation and other expenses and allowances of the employment.

Section 10(7A) of the Social Security Contributions and Benefits Act 1992 provides that where a BiK qualifies for a matching deduction under certain provisions of Part 5 of ITEPA 2003 it is not taken into account for the purposes of Class 1A NICs.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITEPA 2003 to exempt from income tax expenses payments and BiKs provided to employees where they would have been eligible for a deduction, had they incurred and paid the equivalent expense themselves.

The exemption will also allow employees to be paid a “scale rate” in respect of a qualifying expense, rather than being reimbursed the expense they have actually incurred. This can either be a rate set by HMRC in secondary legislation, or a rate that they have agreed with HMRC. Amendments to regulations will be made to mirror this change for NICs purposes.

Section 65 ITEPA 2003 (which allows dispensations to be granted in respect of expense payments and most non-cash BiKs) and section 96 ITEPA 2003 (the equivalent for non-cash vouchers and credit-tokens) will be withdrawn as part of this measure.

Unlike dispensations, the exemption will not be able to apply to expenses payments or BiKs that are provided as part of a salary sacrifice arrangement. This element of the measure will result in a yield to the exchequer from employers and employees who currently make use of such arrangements. Amendments to regulations will be made to mirror this change for NICs purposes.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	+120	+90	+75	+75
	These figures are set out in Table 2.1 of Autumn Statement 2014 as <i>Income tax: Salary sacrifice and expenses including umbrella companies</i> and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					

Impact on individuals, households and families	<p>The change will make it easier for employees who receive expenses payments and whose employers do not currently have a dispensation to receive the tax relief they are entitled to.</p> <p>Employed individuals who are expected to be affected are those whose expenses payments are being made in conjunction with salary sacrifice.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>																																									
Equalities impacts	<p>HMRC does not hold data on the protected characteristics of those affected by this measure but this measure is not expected to have equality impacts on groups sharing protected characteristics.</p>																																									
Impact on business including civil society organisations	<p>This measure will reduce the administrative burden for businesses that pay qualifying expenses or provide qualifying benefits in kind to their employees. Businesses will no longer need to apply for a dispensation for qualifying expenses or report qualifying expenses on P11Ds. This is expected to affect 170,000 to 200,000 businesses. HMRC anticipates an admin burden reduction of £9.3 million per year. HMRC also anticipates a negligible one-off familiarisation cost.</p> <p>As a consequence of the change, it is expected that some employers whose employees use salary sacrifice on expenses will have a higher secondary Class 1 NICs liability.</p> <p>The costs and savings for businesses in complying with the tax system are summarised in the table below.</p> <table border="1" data-bbox="422 1108 1442 1973"> <thead> <tr> <th data-bbox="422 1108 766 1164"></th> <th data-bbox="766 1108 1013 1164">Cost</th> <th data-bbox="1013 1108 1442 1164">Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td colspan="3" data-bbox="422 1164 1442 1220">Compliance Costs</td> </tr> <tr> <td data-bbox="422 1220 766 1265">One-off Costs</td> <td data-bbox="766 1220 1013 1265">negligible</td> <td data-bbox="1013 1220 1442 1265">N/A</td> </tr> <tr> <td data-bbox="422 1265 766 1321">Average Annual Costs</td> <td data-bbox="766 1265 1013 1321">N/A</td> <td data-bbox="1013 1265 1442 1321">N/A</td> </tr> <tr> <td data-bbox="422 1321 766 1377">Total Costs (PV)</td> <td data-bbox="766 1321 1013 1377">negligible</td> <td data-bbox="1013 1321 1442 1377">N/A</td> </tr> <tr> <td colspan="3" data-bbox="422 1377 1442 1433">Compliance Benefits</td> </tr> <tr> <td data-bbox="422 1433 766 1489">One-off Benefit</td> <td data-bbox="766 1433 1013 1489">N/A</td> <td data-bbox="1013 1433 1442 1489">N/A</td> </tr> <tr> <td data-bbox="422 1489 766 1545">Average Annual Benefit</td> <td data-bbox="766 1489 1013 1545">£9.3m</td> <td data-bbox="1013 1489 1442 1545">5</td> </tr> <tr> <td data-bbox="422 1545 766 1601">Total Benefit (PV)</td> <td data-bbox="766 1545 1013 1601">£43.6m</td> <td data-bbox="1013 1545 1442 1601">N/A</td> </tr> <tr> <td data-bbox="422 1601 766 1758">Net Benefit (NPV)</td> <td data-bbox="766 1601 1013 1758">£42.5m</td> <td data-bbox="1013 1601 1442 1758">N/A</td> </tr> <tr> <td colspan="3" data-bbox="422 1758 1442 1814">Impact on Administrative Burden (included in Net Benefit)</td> </tr> <tr> <td data-bbox="422 1814 766 1870">Increase</td> <td data-bbox="766 1814 1013 1870">Decrease</td> <td data-bbox="1013 1814 1442 1870">Net Impact</td> </tr> <tr> <td data-bbox="422 1870 766 1973">£0m</td> <td data-bbox="766 1870 1013 1973">£9.3m</td> <td data-bbox="1013 1870 1442 1973">-£9.3m</td> </tr> </tbody> </table>				Cost	Time Period (yrs)	Compliance Costs			One-off Costs	negligible	N/A	Average Annual Costs	N/A	N/A	Total Costs (PV)	negligible	N/A	Compliance Benefits			One-off Benefit	N/A	N/A	Average Annual Benefit	£9.3m	5	Total Benefit (PV)	£43.6m	N/A	Net Benefit (NPV)	£42.5m	N/A	Impact on Administrative Burden (included in Net Benefit)			Increase	Decrease	Net Impact	£0m	£9.3m	-£9.3m
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Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional significant costs nor reap any significant savings for HMRC.		
Other impacts	<u>Small and micro business assessment:</u> the impact of this measure on small businesses is not anticipated to differ from that on large businesses. Other impacts have been considered and none have been identified.		

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the government's package of employee BiKs and expenses simplifications, through communication with taxpayer groups affected by the measures.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team at: employmentincome.policy@hmrc.gsi.gov.uk

Income tax: statutory exemption for trivial benefits-in-kind

Who is likely to be affected?

Any employer who provides to their employees certain low value benefits-in-kind (BiKs) which will, in some circumstances, become exempt from income tax.

Individuals who currently pay income tax on certain low value BiKs provided by their employer, which will become exempt from income tax.

General description of the measure

The measure will introduce a statutory exemption which will allow employers to identify and treat certain low value BiKs provided to employees as 'trivial'. Those BiKs will become exempt from income tax and NICs and therefore not need to be reported to HM Revenue & Customs (HMRC).

Policy objective

The measure is intended to provide a simplification to the current approach for dealing with low value BiKs, whereby employers are required to agree with HMRC whether certain BiKs can be treated as trivial. This is a burdensome process for both employers and HMRC, and is disproportionate to the amounts of tax and NICs involved.

A statutory definition of a trivial BiK will provide certainty to employers as to the treatment of such BiKs, and therefore allow employers to identify them in "real-time", avoiding the need to contact HMRC or report such BiKs on P11D or PAYE Settlement Agreement (PSA) forms after the end of the tax year.

Background to the measure

The measure was announced by the Chancellor at Budget 2014 as part of a package of measures aimed at simplifying the administration of employee BiKs and expenses. This followed the Office for Tax Simplification's review of employee BiKs and expenses, published in January 2014.

A consultation document entitled *Employee Benefits and Expenses – Trivial Benefits exemption* was published on 18 June 2014. The consultation closed on 9 September 2014 and a summary of responses was published on 10 December 2014.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

Employers are currently required to report all BiKs and expenses provided to their employees annually on forms P11D or P9D. There is currently no minimum cost threshold for BiKs having a tax charge or NICs liability, but employers can apply to HMRC for agreement to exclude BiKs on the grounds that they are 'trivial'. The arrangements are concessionary under HMRC's collection and management powers: HMRC takes certain factors into consideration when agreeing to such arrangements. When HMRC agrees that the BiKs are trivial, by concession

the employer does not have to report them on form P11D or P9D and there is no charge to income tax for the employee nor Class 1A NICs for the employer.

The Income Tax (Earnings and Pensions) Act (ITEPA) 2003 imposes a charge to income tax on employment income. Section 6(1) ITEPA provides that the charge to tax on employment income is a charge to tax on general earnings and specific employment income.

Section 201(2) defines a benefit as ‘a benefit or facility of any kind’ and defines an ‘employment-related benefit’ as any benefit other than an excluded benefit that is provided in a tax year to an employee or for a member of the employee’s family or household by reason of the employment.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to introduce a new section into Part 4 of ITEPA – “Section 323A Trivial Benefits from employers” - to provide a statutory definition of a trivial benefit-in-kind. The exemption provides a number of conditions that must be met for a BiK to qualify as trivial, including an upper limit per individual BiK of £50.

The legislation will also amend section 716(2) (alterations of amount by Treasury order) and section 717(4) (negative procedure not to apply to certain statutory instruments) so as to enable the Treasury to make Regulations amending both the upper limit per individual BiK, and the conditions of the exemption, subject to the affirmative resolution procedure.

A Statutory Instrument will be laid to disregard from Class 1 NICs any non-cash vouchers provided that meet the trivial BiKs exemption in section 323A of ITEPA.

A Statutory Instrument will also be laid to extend the exemption to qualifying BiKs provided to former employees, by amending the Employers-Financed Retirement Benefits (Excluded Benefits for Tax Purposes) Regulations 2007.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-10	-5	-10	-10	-10
	<p>These figures are set out in Table 2.1 of Autumn Statement 2104 as <i>Office of Tax Simplification: Review of Expenses</i>, and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>These figures also incorporate the Exchequer impact of <i>Income tax: abolition of the £8,500 threshold for benefits in kind and Real time collection of tax on benefits in kind and expenses through voluntary payrolling</i>.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure is not expected to have a significant on individuals and households or on family formation, stability or breakdown.</p> <p>Some employees (individuals) will no longer have to pay income tax on certain BiKs currently included on P11D forms. It is not possible however to estimate how many individuals will be affected.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	HMRC does not hold data on the protected characteristics of those affected, but the measure is not expected to have equality impacts on groups sharing protected characteristics.					

Impact on business including civil society organisations	This measure is expected to create negligible ongoing administrative savings for those businesses and civil society organisations that provide such benefits, as it will reduce the burden associated with filing P11D and making PSA applications.
Operational impact (£m) (HMRC or other)	The measure is expected to create an administrative saving for HMRC as a result of a reduced number of BiKs recorded on P11D forms and PSA agreements. The administrative savings are anticipated to be negligible.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the government's package of employee BiKs and expenses simplifications, through communication with affected taxpayer groups.

The legislation also includes provision for the monetary limit for a trivial benefit-in-kind to be updated in the future. The government will keep the monetary limit under review.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team (employmentincome.policy@hmrc.gsi.gov.uk).

Real time collection of tax on benefits in kind and expenses through voluntary payrolling

Who is likely to be affected?

Employers, employees, payroll providers and payroll software providers.

General description of the measure

The measure will introduce primary legislation to allow HM Revenue & Customs (HMRC) to make changes to the Pay As You Earn (PAYE) Regulations to provide for voluntary payrolling of benefits in kind (BiKs).

Policy objective

Payrolling benefits in kind provides the opportunity to remove or reduce employers' obligations to send returns to HMRC. It can also make the system of taxing BiKs easier for employees to understand and more efficient at collecting the right amount of tax in real time.

Background to the measure

The Office of Tax Simplification (OTS) recommended the introduction of legislative framework to allow employers to payroll some or all of their benefits and expenses on a voluntary basis.

At Budget 2014, the Chancellor announced a number of measures aimed at simplifying the administration of benefits in kind and expenses, including payrolling.

During summer 2014, HMRC carried out a consultation on the OTS's recommendation to gather evidence, experiences and views on payrolling with a view to the government introducing legislation to allow all employers the option to payroll benefits in kind from the 2016-17 tax year.

Autumn Statement 2014 announced that the Government will introduce enabling legislation in Finance Bill 2015. This will be followed by further technical discussions with stakeholders on the detailed design of the scheme. The PAYE Regulations will then be amended to allow employers to payroll voluntarily car, car fuel, medical insurance and subscriptions such as gym membership from the 2016-17 tax year.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2016.

Current law

The benefits in kind that an employer provides to its employees are liable to income tax. Part 3 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 charges BiKs to tax as earnings.

Part 11 of ITEPA provides for the PAYE system, where employers deduct income tax at source from employees' salaries. Part 11 requires HMRC to set out the detailed provisions for PAYE in Regulations. These are the Income Tax (PAYE) Regulations 2003 (2003/2682) (the "Regulations").

Where HMRC knows that a benefit in kind is available to an employee, it uses its powers in Part 2 of Regulation 19 of the Regulations to amend the employee's PAYE tax code. The

intention is to deduct the right amount of tax, as far as possible from the employee's salary for the tax year taking account of the value of the BiK.

Part 4 of Chapter 2, Regulation 85 of the Regulations requires employers to send HMRC annual returns of other earnings, including BiKs.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 11 of ITEPA to allow HMRC to amend the Regulations to set out the detailed framework for voluntary payrolling. During the 2015-16 tax year, HMRC will amend the Regulations so that employers can opt to payroll benefits in kind from the 2016-17 tax year.

Where an employer opts to payroll benefits in kind for cars, car fuel, medical insurance and gym membership, their obligation to make a return (form P11D) under Part 4 of Chapter 2, Regulation 85 of the Regulations for these benefits will be disapplied. Employers will report the value of these benefits in kind through Real Time Information. Regulations will determine the value equivalent as PAYE income which is liable to deduction using the PAYE Tax Tables.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-10	-5	-10	-10	-10
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014, as <i>Office of Tax Simplification: Review of Expenses</i>, and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>These figures also incorporate the Exchequer impact of <i>Income tax: abolition of the £8,500 threshold for benefits in kind</i> and <i>Income tax: statutory exemption for trivial benefits in kind</i>.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure is not expected to have an impact on family formation, stability or breakdown.					
Equalities impacts	No equalities impacts have been identified.					
Impact on business including civil society organisations	<p>The administrative burden will reduce for employers who adopt voluntary payrolling as they will no longer have to submit P11Ds in respect of payrolled benefits and their reporting burden will be significantly eased. Employers who are currently payrolling on an informal basis will also benefit, as they will no longer have to submit P11Ds for the benefits covered by the measure.</p> <p>The estimates of the impact are dependent on the assumption that the number of employers who decide to take up voluntary payrolling will increase over four years.</p> <p>There will be a one-off cost for employers adopting payrolling reflecting the need for employers to familiarise themselves with guidance, register with HMRC and make changes to their payroll system.</p>					

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	negligible	N/A
Average Annual Costs	N/A	N/A
Total Costs (PV)	negligible	N/A
Compliance Benefits		
One-off Benefit	N/A	N/A
Average Annual Benefit	£13.8m	5
Total Benefit (PV)	£64.0m	N/A
Net Benefit (NPV)	£62.2m	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	Decrease	Net Impact
£0	£9.0m	-£9.0m
Note: The impact on administrative burden (included in net benefit) represents the expected costs and benefits for the first year only. The £13.8 million included in compliance costs represent the average annual amount over the five years.		
Operational impact (£m) (HMRC or other)	It is anticipated that there will be costs for HMRC associated with this change. The extent of these are not yet known as work is being carried out to determine what changes are required to HMRC's IT and processes. The IT change is expected to exceed the minor change advisory limit of £300,000.	
Other impacts	<p><u>Small and micro business assessment</u>: the impact of this measure on small and micro businesses is not anticipated to differ from that on large businesses.</p> <p>Other impacts have been considered and none have been identified.</p>	

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the government's package of employee BiKs and expenses simplifications, through communication with taxpayer groups affected by the measures.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team (employmentincome.policy@hmrc.gsi.gov.uk).

Tax exemption for travel expenses of members of local authorities

Who is likely to be affected?

Councillors who are elected or appointed to serve as members of a local authority.

General description of the measure

The measure will introduce a new exemption from income tax for travel expenses paid to councillors by their local authority.

There will be a corresponding National Insurance contributions (NICs) disregard.

Policy objective

Councillors perform an important constitutional role in representing communities across the UK. They carry out their duties in their own time, often in addition to other professional and personal commitments, and many receive no payment other than allowances in recognition of the time and expenses they incur. This measure will help ensure that individuals are not discouraged from undertaking a role as a councillor by the tax treatment of travel expenses paid by their local authority.

Background to the measure

On 22 July 2014 the Government announced its intention to introduce a tax exemption and matching NICs disregard for councillors' travel expenses.

Following the announcement, informal discussions were held with representative bodies for councils and councillors.

Detailed proposal

Operative date

This measure will have effect on payments made on and after 6 April 2015.

Current law

Travel expenses paid to councillors are generally subject to the rules that govern the tax treatment of the travel expenses of all employees and office-holders.

Payments by employers of travel expenses for home to office travel are generally chargeable to income tax as a payment of earnings under section 62 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and create a liability for Class 1 NICs as earnings from the employment as provided for in section 3 of the Social Security (Contributions) and Benefits Act 1992 (SSCBA).

Sections 229 to 236 ITEPA set out the current rules for Mileage Allowance Payments (MAPs), Approved Mileage Allowance Payments (AMAPs) and Mileage Allowance Relief (MAR) for employees who use their own vehicle for business travel.

Sections 337-338 ITEPA provide for deduction from earnings for costs necessarily incurred on business travel, specifically on travelling in the performance of the duties of the employment and travelling for the employee's necessary attendance at a temporary workplace.

Subsection 338(2) ITEPA specifically excludes the expenses of ordinary commuting, defined as travel between an employee's home and permanent workplace, from qualifying as business travel.

Sections 6–9 SSCBA impose a Class 1 NICs liability on employees and employers in respect of payments of earnings. Regulation 25 of, and Schedule 3 to, the Social Security (Contributions) Regulations 2001 (S.I. 2001/1004) (SSCR) provide for specified payments to be disregarded in the calculation of earnings for these purposes.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 4 of ITEPA to exempt payment of councillors' travel expenses from a charge to income tax. This will include expenses paid for journeys between the councillor's home and most frequently used local authority office, except where the councillor's home is more than 20 miles from the boundary of the local authority area.

The current rules for MAPs, AMAPs and MAR will continue to apply to business travel undertaken by a councillor in their own vehicle. Journeys between a councillor's home and most frequently used local authority office, where their home is either in the local authority area or within 20 miles of the boundary of the area, will be treated as business travel when calculating MAPs and applying the AMAPs limits, but will not be treated as business travel for calculating MAR.

The exemption will only apply where payments are made by a local authority under certain provisions. Treasury Regulations will set out the definition of a local authority and the provisions that payments must be made under. Draft Regulations will be made available for consultation early in 2015.

Amendment will also be made to the SSCR to give effect to these provisions for Class 1 NICs purposes.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	This measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will only apply to elected or appointed councillors. It will affect those who currently receive taxable home to work travel expenses. The impact on affected individuals will be limited to the tax and National Insurance currently paid on such expenses.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	HM Revenue & Customs (HMRC) does not hold any data on the protected characteristics of councillors. However, this measure will apply equally to all councillors and will not impact other groups.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. There are likely to be implementation costs for local authorities due to the need to change some internal processes, but there will be ongoing administrative savings once implementation is complete.					

Operational impact (£m) (HMRC or other)	The additional costs for HMRC in implementing these changes are expected to be negligible.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with the affected group.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team at employmentincome.policy@hmrc.gsi.gov.uk

Exemption from income tax for the Bereavement Support Payment

Who is likely to be affected?

Individuals who receive the Bereavement Support Payment (BSP) when introduced.

Individuals who receive existing bereavement pensions or benefits are not affected by this measure.

General description of the measure

This measure exempts from income tax, the amounts of BSP received by bereaved husbands, wives and civil partners.

Policy objective

This measure clarifies the tax status of the BSP introduced in the Pensions Act 2014.

The BSP will commence from a date to be set by the Secretary of State for the Department for Work and Pensions, or by HM Treasury.

Background to the measure

The Pensions Act 2014 introduced the BSP. The Department for Work and Pensions (DWP) is responsible for the BSP, including the amounts to be paid. DWP has published details on the GOV.UK website and these are available by searching for Pensions Act 2014.

The BSP will replace the current Bereavement Allowance, Bereavement Payment and Widowed Parent's Allowance for bereaved people who lose their spouse or civil partner from the commencement date.

The tax treatment of the BSP was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on and after the date that BSP begins to be paid.

Current law

Section 577 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) sets out the charge to income tax on United Kingdom social security pensions and includes a list of those pensions.

Section 656 of ITEPA sets out the charge to tax on social security benefits and Section 657 defines social security income.

Table A in section 660 of ITEPA includes a list of taxable UK social security benefits, while table B in section 677 of ITEPA includes a list of UK social security benefits that are wholly exempt from income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Table B in ITEPA 2003 to include BSP in the list of wholly exempt benefits.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	-15	-30	-35
	The figures here refer to the tax impact of the measure and not the overall impact. This is set out in Table 2.2 of Autumn Statement 2014, as part of <i>Bereavement Benefits Reform</i> , and has been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>DWP issued an updated Impact Assessment in May 2014. This is available on the GOV.UK website along with all of the DWP publications for the Pensions Bill 2013-14 and the Pensions Act 2014.</p> <p>The impact of the tax exemption on an individual and their household will depend upon their personal circumstances.</p> <p>Although families will be affected by the exemption of the BSP from income tax, it is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>DWP identified impacts in their updated impact assessment available on the GOV.UK website.</p> <p>The tax exemption of the BSP is not expected to have significant equalities impacts.</p> <p>Individuals already in receipt of the current bereavement benefits (Widowed Parent's Allowance, Bereavement Allowance and Bereavement Benefit) will not be affected. The tax status of their payments will not change.</p>					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	The tax exemption of the BSP will have no significant impact on HM Revenue & Customs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be kept under review in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Claire Ritchie on 03000 586813 (email: claire.ritchie@hmrc.gsi.gov.uk).

Exemption from income tax and National Insurance contributions: lump sums provided under armed forces early departure scheme

Who is likely to be affected?

Armed Forces personnel leaving the service on or after 1 April 2015 who receive a lump sum payment under the new Armed Forces Early Departure Payment 2015 (EDP 15) scheme.

General description of the measure

The measure will extend the current income tax exemption for lump sum payments under the Armed Forces Early Departure Payment 2005 (EDP 05) scheme, to include payments made under the new EDP 15 scheme, which has been established under the Armed Forces Early Departure Payments Scheme Regulations 2014.

There will be a corresponding National Insurance Contributions (NICs) disregard.

Policy objective

This measure will ensure that Armed Forces personnel leaving the service on or after 1 April 2015, who qualify for payment under the EDP 15 scheme, receive the same tax and NICs treatment on their lump sum as personnel receiving lump sum payments under the EDP 05 scheme.

Background to the measure

Lump sum payments made to qualifying Armed Forces personnel under the existing EDP 05 scheme are exempt from income tax and are disregarded for NICs purposes.

The EDP 15 scheme will be introduced by the Ministry of Defence (MoD) from 1 April 2015.

The measure will ensure that the tax and NICs treatment of lump sum payments under the new scheme is the same as those under the existing scheme.

The measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on and after 1 April 2015.

Current law

Section 640A of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003, exempts lump sum payments made under the EDP 05 scheme from any liability to income tax.

Schedule 3 to the Social Security (Contributions) Regulations 2001 provides for payments to be disregarded in the calculation of earnings for the purposes of earnings-related contributions.

Paragraph 10A of Part 6 of Schedule 3 to the Social Security (Contributions) Regulations 2001 provides for a disregard from earnings for Class 1 NICs purposes for payments made under the EDP 05 scheme.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 640A of ITEPA 2003 to extend the income tax exemption to lump sum payments made to Armed Forces personnel under the Armed Forces Early Departure Payments Scheme Regulations 2014.

An amendment will be made to the Social Security (Contributions) Regulations 2001 to disregard from earnings for Class 1 NICs purposes payments made under the EDP 15 scheme.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	This measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure ensures that Armed Forces personnel continue to receive the benefits in question free of tax. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure will affect Armed Forces services personnel qualifying for the exemption. It will therefore impact those sharing protected characteristics which are under-represented amongst the Armed Forces. It is not expected to have an impact on others.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be no additional costs for HM Revenue & Customs in implementing these changes.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be reviewed subject to any further information provided by the MoD.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team (email: employmentincome.policy@hmrc.gsi.gov.uk).

Income tax: Gift Aid intermediaries

Who is likely to be affected?

Charities, donors and intermediaries for charitable donations.

General description of the measure

The measure introduces primary legislation that will enable regulations to be made which will allow non-charity intermediaries to have a greater role in processing Gift Aid claims on behalf of charities.

It will ease the administrative burden on intermediaries by relieving them of the need to receive a Gift Aid declaration for each individual charity a donor gives to through them, and similarly ease the process for donors of giving to multiple charities via a single intermediary.

It will also encourage the development of new platforms that allow people to donate in new ways.

Policy objective

The Government wants to maximise the take up of Gift Aid on eligible donations.

This measure will make it easier for donors to claim Gift Aid on donations to multiple charities, particularly those made through non-charity intermediaries via digital channels, thereby potentially leading to Gift Aid being claimed on a greater proportion of eligible donations and more relief going to charities.

Background to the measure

This measure was announced in Budget 2013. A consultation entitled *Gift Aid and digital giving* ran from July to September 2013, this was followed by confirmation in Budget 2014 that the Government would legislate, in Finance Bill 2015, to allow a greater role for intermediaries. Detailed regulations will follow.

Detailed proposal

Operative date

The primary legislation will have effect on the date that Finance Bill 2015 receives Royal Assent, with regulations setting out the detailed operating model(s) for non-charity intermediaries to be consulted upon and made thereafter.

Current law

The main legislation governing the relief is in Chapter 2, Part 8 of the Income Tax Act 2007 (ITA 2007).

Section 428 of ITA 2007 specifies the meaning of a 'gift aid declaration' (GAD) for Gift Aid and enables regulations to be made to cover what the declaration must contain, the manner in which it should be given and the way it should be recorded.

Currently a GAD can only be given by an individual who is the donor. Such individual must give the GAD directly to the charity.

Existing regulations relating to GADs reflect the current position that GADs are only given by an individual donor directly to the charity.

Proposed revisions

The changes will allow for GADs to be made by intermediaries representing individuals on behalf of those individuals and allow charities to use such GADs to claim Gift Aid.

In Chapter 2 of Part 8 of ITA 2007 (gift aid), section 416 (meaning of 'qualifying donation') is extended by the insertion of 'or an intermediary representing the individual' to allow Gift Aid Declarations made by intermediaries on behalf of individuals to have effect as if they were made by individuals.

Section 428 (meaning of 'Gift Aid Declaration') is amended to cover such declarations. The power contained in Section 428 to make regulations regarding GADs is amended so that specific regulations can be made regarding declarations made by intermediaries on behalf of individuals.

Summary of impacts

This table of impacts has been completed on the expectation that the regulations prescribing the detailed operating model(s) for non-charity intermediaries will be drafted in line with the measure description and policy objectives set out above.

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	This measure is likely to decrease net receipts due to higher level of Gift Aid on donations. The final costing will be subject to scrutiny by the Office for Budget Responsibility.					
Economic impact	The measure is not expected to have any significant economic impact.					
Impact on individuals, households and families	<p>The measure is not expected to have any significant impacts on individuals or households, aside from a possible increase in the proportion of charitable donations upon which Gift Aid is claimed.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	No impacts are anticipated in respect of groups sharing protected characteristics.					
Impact on business including civil society organisations	<p>The measure should ease the ongoing administrative burden on a small number of intermediaries by relieving them of the need to receive a Gift Aid declaration for each individual charity. There are up to 139,000 charities that are registered for Gift Aid (of which around 66,000 claim Gift Aid).</p> <p>It is anticipated that intermediaries will incur one-off costs to familiarise themselves with this policy and to put systems in place to implement the change.</p> <p>Estimates of the impacts on intermediaries and charities will be established once details of the measure have been finalised.</p>					
Operational impact (£m)	There will be an impact on HM Revenue & Customs from administering and monitoring this scheme, and dealing with enquiries from customers. The					

(HMRC or other)	degree of impact will depend on the detail of the changes implemented but is not considered to be significant.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Daniel Roff on 0207 270 4466 (email: Daniel.Roff@HMTreasury.gsi.gov.uk).

Income tax and corporation tax: tax relief for businesses contributing to a partnership funding flood defence scheme

Who is likely to be affected?

Businesses making contributions to partnership funding schemes for Flood and Coastal Erosion Risk Management (FCERM) projects.

General description of the measure

The measure will ensure that contributions by a business of money or services to a FCERM partnership funding scheme will be deductible from the profits of the business for corporation tax or income tax purposes.

Policy objective

This measure supports the wider Government agenda to encourage private sector participation in flood and coastal defence projects.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for a contribution made on or after 1 January 2015.

Current law

For income tax the relevant legislation is contained within the Income Tax, Trading and Other Income Act 2005 (ITTOIA). Part 2 of ITTOIA deals with income from trades, professions or vocations, and Chapter 3 sets out the basic rules for calculation of profits, with Chapter 4 providing the rules for restricting deductions. Part 3 of ITTOIA deals with property income, and Chapter 3 sets out the rules for calculation of property business profits.

For corporation tax the relevant legislation is contained within the Corporation Tax Act (CTA) 2009. Part 3 of CTA 2009 deals with trading income, and Chapter 3 sets out the basic rules for calculation of profits, while Chapter 4 provides the rules for restricting deductions. Part 4 of CTA 2009 deals with property income, and Chapter 3 sets out the rules for calculation of property business profits. Part 16 of CTA 2009 provides the rules for deductions allowable as management expenses in the case of companies with investment business.

Proposed revisions

This measure introduces new provisions within Chapter 5 of Part 2 of ITTOIA, to allow a specific deduction for contributions to partnership funding schemes for flood defence projects. It also amends section 272 of Part 3 of ITTOIA to secure that the same treatment applies for property businesses.

The measure introduces new provisions within Chapter 5 of Part 3 of CTA 2009 to allow a specific deduction for contributions to partnership funding schemes for flood defence projects. It also amends section 210 of Part 4 of CTA 2009, and introduces new provisions within Part 16 of CTA 2009, to secure that the same treatment applies for companies with property business or investment business respectively.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
		negligible	-5	-5	-5	-5
	These figures are set out in Table 2.1 of Autumn Statement 2014. They have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	This measure is expected to support increased investment in flood resilience projects. No significant wider economic impacts are expected.					
Impact on individuals, households and families	<p>Most contributions to partnership funding schemes to date have been made by large businesses and this trend is expected to continue.</p> <p>To the extent that the measure encourages investment in flood defence projects, there will be a positive impact on the individuals, households and families who benefit from these.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	No specific equalities impacts have been identified.					
Impact on business including civil society organisations	<p>There will be a positive impact on those businesses making contributions who could not previously have obtained tax relief but will now be able to do so by virtue of this measure.</p> <p>Relief will be claimed through the tax computations and returns, and businesses will have calculated the relevant details as part of making their contribution to a scheme. As a result, there will be minimal additional administrative burden for those businesses claiming relief.</p> <p>To the extent that the measure supports funding of flood defence projects, businesses and other organisations which carry out these works may experience increased demand for their goods and services.</p> <p>This measure is expected to have a negligible impact on other businesses and civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will result in any significant additional costs or savings for HM Revenue and Customs.					
Other impacts	<p><u>Environmental impact</u>: to the extent that the measure supports funding of flood defence projects, there will be a positive impact on the environment.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The Department for the Environment, Food and Rural Affairs (DEFRA) and the Environment Agency (EA), will monitor the level of private sector contributions to partnership funding schemes over the lifetime of the funding commitment (2015-16 to 2020-21).

Further advice

If you have any questions about this change, please contact James Ewington on 03000 553788 (email: james.ewington@hmrc.gsi.gov.uk).

Increase to Remittance Basis Charge

Who is likely to be affected?

Non-domiciled individuals (non-doms) who choose to pay tax on the remittance basis on their overseas income and gains.

General description of the measure

This measure will increase the Remittance Basis Charge (RBC) paid by non-doms who have been resident in the UK for more than 12 of the past 14 years and who wish to retain access to the remittance basis of taxation. There will be a new charge introduced for people who have been resident in the UK for more than 17 of the past 20 years. The £30,000 charge will remain the same for those resident in the UK for 7 of the past 9 years.

Policy objective

This measure supports the Government's objective to create a fairer tax system by asking people who are not domiciled in the UK to pay a higher charge if they elect to pay tax on the remittance basis when they have spent a significant amount of time in the UK.

The UK's remittance basis remains a very generous tax regime which ensures that the UK remains competitive. The introduction of the 17 year charge point aligns this policy with the inheritance tax deemed-domicile rule ('17 out of 20 years', IHTA84/S267 (1) (b)).

Background to the measure

Non-doms can elect to pay tax on the remittance basis so that UK tax is only paid on foreign income or gains when they are brought into the UK. Since 2008, making the election has meant forfeiting a claim to both the personal allowance and the annual exempt allowance for Capital Gains Tax (CGT). Those who have been resident in the UK for more than 7 out of the past 9 tax years can elect to pay an annual £30,000 RBC to continue to use the remittance basis. Since April 2012, the charge is £50,000 for those who have been UK resident for 12 out of the past 14 tax years. The RBC does not apply if the non-dom has less than £2,000 unremitted foreign income and gains in a tax year or is under 18, no matter how long they have been resident in the UK.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

The remittance basis rules are set out in Chapter A1 of Part 14 of the Income Tax Act 2007. These provide that an individual who is resident but not domiciled in the UK can choose to be taxed under a special regime whereby they are liable to UK tax on their income and gains arising in the UK, but only taxed on their overseas income and gains to the extent that they are brought into the UK.

Under section 809C, a non-dom who is resident in the UK for 7 out of the 9 preceding tax years pays an annual charge on their foreign income and gains, as defined in section 809H, of £30,000. If they have been resident for 12 out of the 14 preceding tax years, the annual charge is £50,000.

An individual who is resident for 12 out of 14 years pays £50,000 instead of, and not as well as, the £30,000 charge.

Proposed revisions

The charge for people who have been resident in the UK for 7 of the past 9 tax years will remain at £30,000. Legislation will be introduced in Finance Bill 2015 to increase the 12 out of 14 year charge from £50,000 to £60,000, and to introduce a 17 out of 20 year charge of £90,000. The Government will be consulting on the Remittance Basis charge becoming an election that can only be made once every three years.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	+120	+90	+90	+90
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, families, and households	<p>The measure will have an impact on approximately 5,000 non-domiciled individuals who choose to pay tax on the remittance basis on their overseas income and gains. Those who have been in the UK for 12 of the past 14 years will pay £10,000 more per year. Those who have been in the UK for 17 of the past 20 years will pay £40,000 more per year. All individuals will still have the option of paying income tax on all worldwide income and assets if the charge is greater than the tax advantage of using the RBC.</p> <p>It will increase the charge that they pay but will not create an additional burden. The charge will continue to be collected through Self-Assessment.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	The Government has given due regard to any impact on people with protected characteristics and it is not anticipated that there will be an impact on such groups.					
Impact on business, including civil society organisations	<p>This measure is expected to have no impact on businesses or civil society organisations.</p> <p>This measure is directed at a small number of individuals seeking to use the remittance basis of taxation in respect of their overseas income and gains.</p>					
Operational impact (£m)	This measure can be implemented within HMRC's current funding allocation.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and receipts and communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Tracy Gribble on 03000 585169 (email: tracy.gribble@hmrc.gsi.gov.uk) or contact Jane Page on 020 7270 4568 (email: jane.page@hmtreasury.gsi.gov.uk).

Investment managers: disguised fee income

Who is likely to be affected?

Individuals involved in investment management for a private equity fund or other investment fund, who are members of a limited partnership or limited liability partnership, or involved in arrangements including partnerships. These individuals will be affected if they receive what are, in substance, management fees that are not otherwise chargeable to income tax.

General description of the measure

Sums received by these individuals which are for investment management services will be charged to income tax and Class 4 National Insurance contributions (NICs), however they are described and whatever the legal form of payment. The measure will not affect returns reflecting performance of investments under management, commonly known as carried interest, nor investments by managers known as coinvestment.

Policy objective

This measure makes the tax system fairer by putting beyond doubt that amounts received by individuals in respect of fund management services are charged to income tax and NICs.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on all disguised fees arising on or after 6 April 2015, whenever the arrangements were entered into.

Current law

Sums received by individuals who are partners in firms that manage investments are under current law taxable as trading income, subject to income tax and Class 4 NICs. Sums received as partners in firms that make investments are taxed according to the nature of the profits made by the partnership.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to introduce a new Chapter 5E in Part 13 of Income Tax Act 2007 to confirm the treatment of sums received by managers for investment management services.

New sections 809EZA to 809EZD will provide that where an individual provides investment management services for a collective investment scheme through an arrangement involving partnerships, then any sums received for those services will be treated as profits of a trade, unless already charged to income tax.

Sums will not be caught if they represent a return which varies by reference to profits on funds, or represent a return on investments by the managers.

The legislation will apply to amounts described, for example, as partnership profit shares or advances in anticipation of expected future profit shares.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	+160	+80	+65	+55
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will have an impact on a small number of individuals in private equity firms or elsewhere in the investment management sector who are currently in arrangements to avoid paying income tax on income from managing funds.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	This measure will affect individuals receiving management fees from investment funds. These are likely to share protected characteristics with others of above average means, and equality groups represented in lower income groups are less likely to be affected.					
Impact on business including civil society organisations	This measure will have no impact on business and civil society organisations who are undertaking normal commercial transactions; it will only impact on the businesses that are using the avoidance schemes affected by this measure.					
Operational impact (£m) (HMRC or other)	The costs to HM Revenue & Customs will be negligible.					
Other impacts	<p><u>Small and micro business assessment</u>: small and micro businesses will only be affected if they participate in tax avoidance schemes.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

HMRC will assess the impact of the measure by monitoring information collected from tax returns and receipts.

Further advice

If you have any questions about this change, please contact Chris Murrucane on 03000 585953 (email: chris.murrucane@hmrc.gsi.gov.uk) or contact Richard Rogers on 03000 585521 (email: richard.rogers@hmrc.gsi.gov.uk).

Income tax and capital gains tax: Social investment tax relief- enlarging the scheme

Who is likely to be affected?

Social enterprises and individuals who invest in such organisations.

General description of the measure

Subject to EU State aid clearance, the maximum amount that can be invested in an organisation that is a qualifying social enterprise for the purposes of social investment tax relief will be increased and the range of qualifying social enterprises will be broadened to include certain small horticulture and agriculture projects that will no longer qualify for subsidy as a result of the forthcoming Common Agricultural Policy (CAP) reforms.

The range of eligible social impact bonds (SIBs) will also be widened to include certain spot purchased and sub-contracted SIBs.

The Government will consult on further changes to provide for qualifying investments to be made indirectly, through a social investment form of a venture capital trust scheme, a 'Social VCT'.

Policy objective

The aim of these measures is to help smaller, riskier social enterprises, and contractors delivering different types of social impact bonds, compete for finance.

Background to the measure

The social investment tax relief (SITR) scheme provides income tax relief and capital gains tax benefits for individuals who make qualifying investments in eligible social enterprises.

These changes were announced following consideration by the government of responses to the consultation document *Social investment tax relief: enlarging the scheme*, published on the government website on 10 July 2014. A summary of responses to the consultation, and the Government's proposals, were published on 10 December 2014 on GOV.uk.

Detailed proposal

Operative date

The increase to the investment limit will have effect for investments made on or after a specified date, as soon as possible on or after 6 April 2015, once State aid clearance is received for the SITR scheme.

The change to include certain small horticulture and agriculture projects as qualifying investments will have effect for investments made on or after a specified date, as soon as possible on or after 6 April 2015, once State aid clearance is received for the SITR scheme.

Current law

Part 5B of the Income Tax Act (ITA) 2007 specifies the rules applying to SITR.

Section 257MA of ITA 2007 limits the amount of eligible investment an organisation may receive to reflect the *de minimis* requirements for State aid. Section 257MB provides that HM Treasury may alter this limit through secondary legislation.

Section 257MQ excludes from the scope of the relief organisations whose trade consists in a substantial part of the production of agricultural products.

Proposed revisions

Subject to State aid clearance being received for the SITR, secondary legislation will be made under the power in section 257MB of ITA 2007 to increase the restrictions on amounts that can be invested in an individual organisation. The current limit of £275,000 over a three year period will be replaced with a new annual investment limit of £5 million with an overall limit of £15 million on total investment.

Legislation will be introduced in Finance Bill 2015 to permit secondary legislation to be made to amend the definition of excluded activities for the purposes of SITR. Subject to State aid clearance being received, secondary legislation will be introduced to allow certain small agricultural and horticultural projects that will not be eligible for direct payments under the CAP reforms to be qualifying trades for the purposes of SITR. Broadly, land holdings of below:

- 5 hectares in England and Wales; and
- 3 hectares in Scotland and Northern Ireland

will no longer qualify for direct payment subsidies under the CAP but will become eligible for SITR.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	-10	-15	-20	-25
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement 2014.					
Economic impact	The Government believes that the measures will address the lack of supply of investment to the sector and help to close an identified funding gap for such organisations. The social investment market in the UK is largely separate from the private investment markets, limiting the potential for distortions to private competition.					
Impact on individuals and households	Individuals investing under the SITR scheme benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies or qualifying loans, and favourable capital gains tax treatment on eligible investments. This measure is not expected to have an impact on family formation, stability or breakdown.					
Equalities impacts	Investors are expected to be similar to those investing in the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). It is envisaged that the scheme will not have any impact on those groups affected by equality legislation.					
Impact on business including civil society organisations	The measure should increase the amount of investment available to social enterprises seeking finance. A social enterprise is a community interest company, a community benefit society that is not a charity, a charity or accredited social impact contractor.					

Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue and Customs (HMRC) in implementing this change are anticipated to be negligible.
Other impacts	<p><u>Small and micro business assessment:</u> SITR is expected to increase the supply of risk finance for small and medium sized social enterprises, addressing an identified funding gap for this sector.</p> <p><u>Competition assessment:</u> these changes should not have any impact on competition.</p> <p><u>Environmental impact:</u> no direct impact as changes to include certain small agricultural and horticultural projects as eligible investments for SITR will benefit such business.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The Government will be monitoring the uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment. The Government is also committed to evaluating the impact of the scheme on social enterprises' performance and the associated social benefit.

Further advice

If you have any questions about this change, please contact Marc Connolly on 020 7270 5276 (email: marc.connolly@hmtreasury.gsi.gov.uk) or contact Cathy Wilson on 03000 536678 (email: cathy.wilson@hmrc.gsi.gov.uk).

Income tax and capital gains tax: changes to Venture Capital Schemes for companies and community organisations benefiting from energy subsidies

Who is likely to be affected?

Companies and community organisations seeking Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS) or Venture Capital Trust scheme (VCT) investment (tax-advantaged venture capital schemes) and community organisations seeking Social Investment Tax Relief (SITR) investment, where a substantial activity of the company or community organisation is, or will be, eligible for a government subsidy for the generation of energy from renewable sources. Individuals and some fund managers who invest in the companies or community organisations may also be affected.

General description of the measure

This measure amends the list of excluded activities within the tax-advantaged venture capital schemes and SITR. Companies (excluding community organisations) whose trade consists wholly or substantially of the subsidised generation of energy from renewable sources where anaerobic digestion or hydroelectric power is involved, or where a company enters into a Contract for Difference, will cease to be eligible for investment under the SEIS, EIS and VCT schemes.

When the enlargement of SITR receives State aid clearance, community energy companies whose trade consists wholly or substantially of the subsidised generation of energy from renewable sources will cease to be eligible for investment under the SEIS, EIS and VCT schemes. At the same time, the qualifying activities under SITR will be amended to allow activities for which a Feed in Tariff (FIT) subsidy is receivable.

The measure will apply in respect of UK subsidies and overseas equivalents.

Policy objective

The measure will help target tax reliefs provided by the venture capital schemes and SITR on investment for riskier, early stage and developing companies and community organisations, which may face barriers in raising external finance. It will help the venture capital schemes and SITR to provide better value for money. The change ensures the venture capital schemes continue to support smaller and growing businesses in a targeted and effective way and that SITR in particular supports activities which produce a social benefit.

Background to the measure

In general, where trading activity consists to a substantial extent of the generation of energy from renewable sources for which a government subsidy is available any investment will not be eligible for the tax-advantaged venture capital schemes or SITR. However there are exceptions where the activity is carried out by a community organisation or involves anaerobic digestion or hydroelectric power and, for SITR only, where the activity is subsidised by way of Renewables Obligation Certificates (ROCs) or Renewable Heat Incentives (RHI). Some of these subsidies will be replaced by new Contract for Difference subsidies from 2015.

The Government consulted over the summer to assess the impact of the tax-advantaged venture capital schemes and on changes to the SITR. The consultation sought views on

whether the reliefs for some types of renewable energy generation that qualify for extra government support were still justified.

The Government continues to be concerned about the proportion of investments into renewable energy activities that are relatively low-risk and benefit from government support. There has been a recent increase in the marketing around these investment opportunities for companies currently unaffected by the restrictions on renewable energy. Much of this investment activity is explicitly marketed as lower risk or capital preservation, emphasising the tax reliefs, the predictable income stream from the energy generation and certain proven technologies, and the government support in the form of subsidies for the generation of renewable energy to attract investors.

Detailed proposal

Operative date

This measure will have effect for activities involving anaerobic digestion and hydroelectric power, and activities subsidised under a Contract for Difference, for:

- the EIS and SEIS, in relation to shares issued on or after 6 April 2015
- VCTs, in relation to relevant holdings issued on or after 6 April 2015.

The other provisions will take effect from a future date once State aid clearance is received for the enlargement of the SITR, but no earlier than 6 April 2015.

Current law

Sections 198A, 198B, 257MS, 309A and 309B of the Income Tax Act (ITA) 2007 provide exceptions to the general exclusion of subsidised energy production from the SEIS, EIS, VCT and SITR schemes in relation to community energy schemes and anaerobic digestion and hydroelectric electricity. There are no separate rules for the SEIS, which follows the EIS rules on excluded activities.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITA 2007 to modify the existing rules that currently allow companies and community organisations to be eligible for the SEIS, EIS and VCT schemes, where their activities consist wholly or substantially of the subsidised generation or export of electricity, or the subsidised generation of heat or production of gas or fuel, and:

- the activities are carried out by community groups or
- where anaerobic digestion or hydroelectric power is involved or
- the company has entered into a Contract for Difference under the Energy Act 2013.

For SITR, activities that are subsidised by way of FITs will cease to be excluded activities following State aid clearance of the scheme.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-15	+30	+10	+10	+10
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p>					
Economic impact	<p>This measure is not expected to have significant economic impacts.</p>					
Impact on individuals, households and families	<p>Individuals investing under the schemes benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies (or qualifying loans under the SISR) and favourable capital gains tax treatment on eligible investments.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.</p>					
Impact on business including civil society organisations	<p>The changes proposed will limit the availability of tax reliefs for investment in some smaller companies and change the availability of tax reliefs for civil society organisations benefiting from, or planning to benefit from, existing government support, whose trades involve the production of electricity or heat from renewable sources. These changes will have some minimal administrative costs on those companies and organisations, although this is necessary to ensure that the reliefs remain properly targeted and the impact of the changes will be fairly small, within the existing framework of the reliefs.</p> <p>VCTs will incur some one-off administrative costs since they will need to ensure that their investments meet the new conditions. These costs are expected to be negligible.</p>					
Operational impact (£m) (HMRC or other)	<p>The additional costs for HM Revenue and Customs in implementing this change are anticipated to be negligible. There will be some small costs in updating forms and guidance.</p>					
Other impacts	<p><u>Small and micro business assessment:</u> tax-advantaged venture capital schemes are reliefs intended to help small and micro businesses and changes to them may therefore have an impact on such business.</p> <p><u>Competition assessment:</u> The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.</p> <p><u>Environmental impact:</u> The removal of the exceptions for anaerobic digestion and hydroelectric power will remove the incentive for companies to be set up to take advantage of these "double-subsidies". Any impact on renewable energy will be offset in part by the extension of SISR to community energy organisations.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

Uptake of the Venture Capital Schemes in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment will continue to be monitored and published.

Further advice

If you have any questions about this change, please contact Cathy Wilson on 03000 536678 (email: cathy.wilson@hmrc.gsi.gov.uk).

Income tax: special purpose share schemes

Who is likely to be affected?

Higher and additional rate taxpayers who are shareholders of companies that offer special purpose share schemes, often called “B share schemes”.

General description of the measure

Companies use special purpose share schemes to offer shareholders the choice to receive either a dividend or to receive a similar amount through an issue of new shares that are subsequently purchased by the company or sold to a pre-arranged third party. This measure will align the tax consequences of that choice to ensure that all shareholders are taxed as if they had received a dividend.

Policy objective

This measure supports the Government’s objectives of tackling avoidance and unfair outcomes in the tax system. It will remove the tax advantage that is currently offered by special purpose shares schemes by treating as a dividend all returns to shareholders through such a scheme.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for receipts on or after 6 April 2015.

Current law

Individuals are charged to income tax on dividends and other distributions received from UK-resident companies under Chapter 3, Part 4 of the Income Tax, Trading and Other Income Act 2005 (ITTOIA05). The issue of shares is not normally taxable. The subsequent repurchase or sale of shares will usually be chargeable to capital gains tax which can be at lower rates than income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITTOIA05 to include a further charge to income tax on “alternative receipts” offered by special purpose share schemes. A shareholder will have received an “alternative receipt” if:

- the company has given the shareholder the choice to receive either a dividend or something else;
- the shareholder has chosen to receive something other than a dividend; and
- that receipt would not, apart from this new legislation, have been subject to income tax

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	+45	+40	+40	+40
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>This measure supports the Exchequer in its commitment to protect revenue.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will affect shareholders in companies offering special purpose share schemes. They are a small proportion of total shareholders and those likely to be affected will be higher rate and mostly additional rate taxpayers.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>HM Revenue & Customs (HMRC) does not hold data on the protected characteristics of those who benefit from special purpose share schemes. However, individuals that are likely to benefit will be Higher or Additional rate taxpayers so will have above average income. Therefore affected individuals are likely to be from groups which are overrepresented in higher income groups.</p>					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses. It will only affect those businesses who continue to offer special purpose share schemes as the measure will allow shareholders that receive an “alternative receipt” to request a statement showing the value of the receipt and the tax credit. HMRC expects few, if any, businesses will choose to offer special purpose schemes following the introduction of this measure.</p> <p>This measure is expected to have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HMRC.					
Other impacts	<p><u>Small and micro business assessment:</u> this measure is not expected to affect small and micro businesses as they do not operate these schemes.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through the monitoring of disclosures of new avoidance schemes to circumvent the measure, and through communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this change, please contact Adrian Coates on 03000 586041 (email: adrian.coates@hmrc.gsi.gov.uk).

Income tax: miscellaneous loss relief

Who is likely to be affected?

Persons who are party to tax avoidance arrangements intended to exploit income tax relief for losses arising from miscellaneous transactions. Persons who deduct losses arising from miscellaneous transactions against income or profits arising from other types of miscellaneous transactions chargeable to income tax.

General description of the measure

This measure counters avoidance of income tax involving losses from miscellaneous transactions and limits the miscellaneous income against which a miscellaneous loss can be relieved.

Policy objective

This measure supports the Government's objectives of promoting fairness and tackling avoidance in the tax system by preventing avoidance intended to exploit income tax relief for miscellaneous losses and by preventing the deduction of miscellaneous losses from unrelated miscellaneous income chargeable to income tax.

Background to the measure

The measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The changes denying loss relief where a miscellaneous loss, or miscellaneous income, arises as a result of relevant tax avoidance arrangements will have effect in relation to losses and income arising on and after 3 December 2014. The change limiting the deduction of miscellaneous losses to miscellaneous income of the same type will have effect for the tax year 2015-16 and subsequent years.

Current law

Section 152 of the Income Tax Act 2007 (ITA) details the income tax loss relief rules for losses arising from miscellaneous transactions. It allows a person who has made a loss in a tax year from a relevant transaction to claim loss relief against certain miscellaneous income.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to deny a person miscellaneous loss relief for income tax purposes where a loss arises as a result of relevant tax avoidance arrangements. The legislation will also deny miscellaneous loss relief against miscellaneous income that arises as a result of relevant tax avoidance arrangements.

For this purpose "relevant tax avoidance arrangements" are arrangements to which the person is party and the main purpose, or one of the main purposes, is to obtain a reduction in tax liability by means of loss relief under section 152 of the ITA 2007.

Legislation will also be introduced in Finance Bill 2015 to limit the miscellaneous income against which a miscellaneous loss can be deducted to miscellaneous income which is chargeable to income tax under, or by virtue of, the same provision as the loss would have been chargeable had it been profits or other income instead of a loss.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+5	+5	+5	+5	+5
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>This measure supports the Exchequer in its commitment to protect revenue.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will mainly impact those individuals and householders who are liable at higher/additional rate and/or those with more sophisticated/complex tax affairs.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impacts	The changes are not expected to have any equalities impact.					
Impact on business including civil society organisations	The measure is expected to have a negligible impact on compliant businesses and civil society organisations.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs or savings for HM Revenue & Customs.					
Other impacts	<p><u>Small and micro business assessment</u>: the measure is expected to have a negligible impact on compliant small and micro businesses.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Mark Anderson on 03000 585604 (email: mark.anderson@hmrc.gsi.gov.uk) or contact Judith Diamond on 03000 585712 (email: judith.diamond@hmrc.gsi.gov.uk).

(This TIIN was first published on 3 December 2014)

Income tax: deduction at source from interest paid on private placements

Who is likely to be affected?

Companies that make payments of yearly interest on a form of unlisted debt instrument known as a private placement.

General description of the measure

This measure will provide an exception from the obligation to deduct income tax from yearly interest paid on private placements which meet certain conditions. Such instruments will be known as 'qualifying private placements'.

Policy objective

The development of the private placement market will provide a new source of financing for mid-size businesses and infrastructure projects. It removes an obstacle to the development of a market for UK-based private placements by introducing an exemption from the obligation to deduct income tax from interest paid on such instruments. The measure will incorporate appropriate safeguards to ensure the exemption from withholding tax obligations in such cases is not abused. It supports the Government's objective of making the tax system more competitive.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The primary legislation for this measure will have effect on or after the date of Royal Assent to Finance Bill 2015. Regulations made under the power provided in this primary legislation will come into force on the date specified in the regulations.

Current law

Part 15 of the Income Tax Act 2007 (ITA) sets out the rules that require deduction of income tax at source from certain types of payment. The rules on the deduction of income tax from payments of yearly interest arising in the UK, including certain exceptions from this obligation, are set out in Chapter 3 of Part 15 ITA.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Chapter 3 of Part 15 ITA to include an exception from the duty to deduct income tax from qualifying private placements. The legislation will set out certain gateway conditions, including requirements that the instrument must represent a loan relationship of a company, be issued for a minimum period of three years, and not be listed on a recognised stock exchange. In addition to setting out these key conditions, the primary legislation will allow for further conditions to be set out in regulations, in relation to the security itself and the terms and conditions of its issuance, and in relation to the issuer and holder of the security.

Detailed regulations made under this power will be developed in consultation with stakeholders following publication of the primary legislation. Draft regulations may provide for the issuers and holders of such instruments to be limited to certain types of entity, and for the issuances to be restricted to a certain size. The regulations will include anti-avoidance provisions to apply where the security is held for an unallowable purpose, and will set out the consequences of having paid interest gross in circumstances where the exception should not have applied. A Technical Note on draft regulations was published on 10 December 2014.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is expected to stimulate the use of private placements as a source of finance for medium sized businesses and infrastructure projects.					
Impact on individuals, households and families	The proposed changes will apply only to companies. The measure will have no impact on individuals, or on family formation, stability or breakdown.					
Equalities impacts	This measure applies only to companies and will not impact on any equality group.					
Impact on business including civil society organisations	This measure will facilitate the growth of private placements as a source of finance for business. It will affect only a small number of companies but will remove an obstacle to the growth of the private placement market. It will not impose any new administrative burdens on business.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HM Revenue & Customs (HMRC).					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC will monitor the impact of this measure through engagement with stakeholders.

Further advice

If you have any questions about this change, please contact Tony Sadler on 03000 585479 (email: tony.sadler@hmrc.gsi.gov.uk) or contact Mark Lafone on 03000 585613 (email: mark.lafone@hmrc.gsi.gov.uk).

Capital allowances: extension of enhanced capital allowances for car and goods vehicles to 2018

Who is likely to be affected?

Businesses planning to purchase low CO₂ emission cars, zero-emission goods vehicles, or gas refuelling equipment for vehicles.

General description of the measure

Extension to March 2018 of three 100 per cent enhanced capital allowances (ECA) schemes - for expenditure incurred on low CO₂ emission cars, zero-emission goods vehicles, or vehicle gas refuelling equipment - otherwise due to end in March 2015.

In addition, the ECA for zero-emission goods vehicles will be unavailable where another form of State aid has, or will be, received. In the case of low CO₂ emission cars the qualifying CO₂ threshold will also be reduced.

Policy objective

These allowances are designed to support the Government objective of increasing the use of cleaner transport by business and reducing CO₂ emissions.

Background to the measure

The Government announced its intention to extend these measures in Budgets 2013 and 2014.

Detailed proposal

Operative date

For zero-emission goods vehicles the three year extension and State aid change will be made by primary legislation and will apply to qualifying expenditure incurred on or after 1 April 2015 for corporation tax (CT) and 6 April 2015 for income tax (IT). The scheme will end on 31 March 2018 for CT and 5 April 2018 for IT.

For gas refuelling equipment and low CO₂ emission cars the three year extension, and reduction in CO₂ thresholds to 75 gms for qualifying cars, will be made by secondary legislation early next year and will apply to expenditure incurred on or after 1 April 2015 for CT and IT. Both schemes will end on 31 March 2018 for both CT and IT.

Current law

Business capital expenditure on plant and machinery normally qualifies for tax relief as capital allowances, which are normally given at the rate of 18 per cent a year on a reducing balance basis.

Under current law, 100 per cent ECAs are available to businesses that purchase:

- Cars that emit 95 grams or less of CO₂ per kilometre driven or electrically propelled cars – section 45D Capital Allowances Act 2001 (CAA).
- Zero-emission goods vehicles – sections 45DA and 45DB CAA.
- Equipment required to refuel natural gas, biogas and hydrogen powered vehicles – section 45E CAA.

These allowances are all due to end on 31 March 2015.

Proposed revisions

Primary legislation will be introduced to extend the availability of ECAs for zero-emission goods vehicles to 31 March 2018 for persons within the charge to CT and 5 April 2018 for IT.

In addition a rule will be introduced preventing claims to the ECA being made if another form of State aid has or will be received, to bring the relief into line with other State aids.

Secondary legislation will be introduced to extend the availability of ECAs for Low CO₂ emission cars and gas refuelling equipment to 31 March 2018 for persons within the charge to CT and IT.

In the case of cars the qualifying low emission threshold will also be reduced from 95 to 75 grams per kilometre driven.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
Zero-emission goods vehicle	-	negligible	negligible	-£5m	negligible
Gas refuelling equipment	-	negligible	negligible	negligible	negligible
Low CO ₂ emission cars	-	-£5m	-£15m	-£20m	-£15m
<p>The first row presents the zero emission goods vehicle element of the measure. The Exchequer cost was included in the overall cost of a package of changes to VED and capital allowances, set out in Table 2.1 of Budget 2014. The figures have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014.</p> <p>The second row presents figures for the gas refuelling equipment element of the measure, which is expected to have a negligible impact on the Exchequer.</p> <p>The third row presents figures for the low CO₂ emission cars element of the measure. These figures are set out in Table 2.2 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2013.</p>					
Economic impact	These measures are expected to continue encouraging the higher levels of investment in cleaner transport and alternative fuels. No significant wider economic impacts are expected.				
Impact on individuals and households and families	<p>Capital allowances can only be claimed on qualifying expenditure incurred by businesses. Any extension to the ECA regime and amendments to the CO₂ emission thresholds should have no impact on households.</p> <p>The measure is not expected to impact on family formation, stability or breakdown as it is aimed at plant and machinery used by business.</p>				

Equalities impacts	It is not expected that an extension of the reliefs to 2018, and the other changes, will have any impacts on the equality of groups sharing protected characteristics.
Impact on business including civil society organisations	<p>Extending the schemes to 2018 is likely to have a negligible impact on administration burdens for businesses.</p> <p>The impact of changes in the qualifying CO₂ threshold for cars is expected to be negligible, as an individual car's CO₂ emission data is set out in its vehicle registration certificate (V5C).</p> <p>In the case of zero-emission goods vehicles there may be some impact if businesses receive grant funding that is a State aid, such as plug-in van grants, towards the purchase price of a qualifying vehicle. This is because, any ECA claimed on or after the date of change, will have to be repaid if a State aid is then later received. The change is required to ensure compliance with State aid rules that the ECA for zero-emission goods vehicles has been designed to meet. If this occurs, this will be a negligible one-off cost.</p> <p>These measures will have no impact on civil society organisations.</p>
Operational impact (£m) (HMRC or other)	This change will not increase HM Revenue & Customs' processing or compliance resource needs.
Other impacts	<p><u>Carbon assessment:</u> the measure will have an indirect impact in reducing carbon emissions and support the Government objectives to reduce greenhouse gas emissions and improve air quality, especially in urban areas.</p> <p><u>Small and micro business assessment:</u> small and micro businesses use transport like any other business. These measures are designed to encourage all such all business to use low carbon transport. Consequently, the impact of this measure on such businesses will be negligible one-off costs.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review by monitoring of car and van sales and other available data.

Further advice

If you have any questions about this change, please contact Nick Williams on 03000 585660 (email: nicholas.williams@hmrc.gsi.gov.uk).

Corporation tax: bank loss-relief restriction

Who is likely to be affected?

Banks and building societies within the charge to UK corporation tax.

General description of the measure

The measure will restrict the proportion of banks' annual taxable profit that can be offset by carried-forward losses to 50 per cent. The restriction will apply to carried-forward:

- trading losses;
- non-trading loan relationship deficits; and
- management expenses.

The restriction will take effect from 1 April 2015 and will only apply to reliefs accruing prior to this date.

Policy objective

Significant losses have been accumulated in the banking sector, a consequence of banks' performance during the financial crisis and the costs associated with subsequent misconduct and misselling scandals.

The Government considers it inequitable that these losses can now be used to eliminate tax on recovering profits.

It will therefore restrict the rate at which these losses can be offset against taxable profit, increasing banks' corporation tax payments during this period of fiscal consolidation.

Background to the measure

The measure was announced at Autumn Statement 2014 and will be legislated in Finance Bill 2015.

Detailed proposal

Operative date

This measure will have effect for accounting periods beginning on or after 1 April 2015.

Any profits of a company with an accounting period straddling 1 April 2015 will be allocated into notional periods falling before and after that date, on either a time apportioned or just and reasonable basis.

The targeted anti-avoidance rule which forms part of the measure will apply to arrangements entered into on or after 3 December 2014.

Current law

If a company makes a trading loss, which is not relieved against other income or surrendered to another group member, this loss is carried-forward and offset against profits of the same trade arising in that company in future periods (section 45 of Corporation Tax Act 2010).

Non-trading loan relationship deficits work on the same basis, but are carried forward against non-trading income (section 457 of Corporation Tax Act 2009; CTA 09).

Excess management expenses of an accounting period can be carried forward by the company (section 1223 of CTA 09). They are then treated as management expenses of the later period and are set automatically against total profits (section 1219 CTA 09).

Current law applies no restriction on the proportion of a company's profit which can be offset each year by these carried-forward reliefs.

These carried forward amounts are referred to below as "relevant reliefs".

Proposed revisions

Legislation will be introduced in Finance Bill 2015, applying to banking companies and overlaying the current rules by restricting the proportion of their profits that can be covered by relevant reliefs to 50 percent.

For the purpose of the measure, a "banking company" is an authorised person under the Financial Services and Markets Act 2000 that also carries out certain regulated activities and is liable to UK corporation tax or a building society.

The restriction will apply:

- To relevant reliefs accrued in any financial year preceding 2015-16;
- By reference to profit remaining after the offset of non-relevant carried-forward reliefs and in-year reliefs against total profits; and
- Separately to trading and non-trading profits.

There is an exemption for losses arising in a start-up period.

The legislation also contains a targeted anti-avoidance rule, applying to arrangements that create profits in companies with relevant reliefs and have a greater expected tax benefit than commercial.

This rule will have the effect of preventing companies from offsetting any relevant reliefs against profit received from such arrangements.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+695	+765	+705	+695	+625
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	This measure will change the profile of banks' taxable profit and loss over time, but is not expected to have any significant wider economic impacts.					
Impact on individuals, households and families	This measure concerns incorporated businesses. It has no direct impact on individuals or households and is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure concerns the taxation of incorporated businesses, which have no protected characteristics in law. As such it is very unlikely that there will be any impact on equality.					

Impact on business including civil society organisations	<p>The measure impacts on banks and building societies within the charge to UK corporation tax, which have carried-forward losses relating to financial years preceding 2015-16. The measure will accelerate these businesses' corporation tax payments, negatively impacting on their cash-flow.</p> <p>The measure is expected to have a negligible impact on administrative burdens and no impact on civil society organisations.</p>
Operational impact (£m) (HMRC or other)	<p>This measure is not expected to have any significant operational impacts.</p>
Other impacts	<p><u>Banking competition</u>: The restriction will not apply to losses incurred by companies in the first five years of their group carrying out banking activity. This recognises that losses are inevitable in new-entrant banks, which incur high up-front costs during periods of low income generation.</p> <p><u>Financial stability</u>: The measure only increases the tax payments of banks making profit; it should not exacerbate banks' cash-flow in periods of stress.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be subject to ongoing monitoring through receipts, information collected in tax returns and disclosure of new anti-avoidance schemes to circumvent the measure.

Further advice

If you have any questions about this change, please contact James Konya on 03000 544525 (email: james.konya@hmrc.gsi.gov.uk) for technical questions, or Nicola Rass on 03000 522083 (email: nicola.rass@hmrc.gsi.gov.uk) for banking queries.

(This TIIN was first published on 3 December 2014)

Corporation tax: simplifying link company requirements for consortium claims

Who is likely to be affected?

Groups who hold shares in a UK consortium company through a group company resident outside the UK.

General description of the measure

Currently, for corporation tax group relief to flow between a consortium and a group owning a share in that consortium, the company that is a member of both the group and consortium (the “link company”) must be located in the UK or the European Economic Area (EEA) and, if in the EEA, must meet other requirements.

This measure removes all requirements relating to the location of the “link company” so that relief may flow regardless of where the link company is based.

Policy objective

This measure makes the tax system simpler by removing any difference in treatment of consortium “link companies” based in the UK and other jurisdictions.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for consortium claims to group relief for accounting periods beginning on and after 10 December 2014.

Current law

Claim and surrender of group relief can currently be made between a company with a share in a consortium (the “member of the consortium”) and the consortium company (the “company owned by a consortium”). Relief is also extended to companies in the same group as the member of the consortium.

Section 133 Corporation Tax Act (CTA) 2010 sets out the requirements for a claim for group relief between a company owned by a consortium and a company in the same group as a member of the consortium. The section defines the company that is in both the group and the consortium as the “link company”.

Subsections 133(1)(g) and (2)(g) require that the “link company” must be in the UK or the EEA.

Subsections 133(5) to (8) contain additional requirements where the “link company” is in the EEA: all of the companies establishing the group relationship between the link company and the member of its group must also be within the EEA. If any of the intermediate companies are not in the EEA then group relief is not possible.

Section 134A CTA 2010 defines “established in the EEA” for the purposes of section 133.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to omit subsections 133(1)(g) and 133(2)(g), as well as subsections 133(5) to (8). This will remove the requirements relating to the location of the “link company” so that claims are possible under the conditions of section 133 regardless of the location of the “link company”.

Section 134A will be redundant, so this will be omitted.

References to the omitted sections will be removed from sections 129 and 130 of CTA 2010.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households, and families	<p>This measure concerns incorporated businesses and has no direct impact on individuals or households.</p> <p>This measure concerns multinational groups of companies and acts as an easement of existing restrictions, so is not anticipated to have any impact on family formation, stability or breakdown.</p>					
Equalities impact	This measure concerns the taxation of incorporated businesses, which have no protected characteristics in law. As such it is very unlikely that there will be any impact on equality.					
Impact on businesses including civil society organisations	<p>This measure will simplify the process for inward investors entering a consortium to trade in the UK by removing all requirements relating to the location of the “link company”.</p> <p>This measure is expected to have a negligible impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	This measure is not expected to have any significant operational impacts.					
Other impacts	<p><u>Small and micro business assessment</u>: this measure is expected to have a negligible impact on businesses, irrespective of their size.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be subject to ongoing monitoring through information collected in tax returns.

Further advice

If you have any questions about this change, please contact James Konya on 03000 544 525 (email: james.konya@hmrc.gsi.gov.uk).

Corporation tax: accelerated payments and group relief

Who is likely to be affected?

Companies in groups who have claimed or surrendered group relief arising from tax advantages through tax avoidance schemes that fall within the Disclosure of Tax Avoidance Schemes (DOTAS) rules, are counteracted under the General Anti-Abuse Rule (GAAR), or are the subject of a Follower Notice.

General description of the measure

This measure ensures that the accelerated payment legislation in Part 4 of the Finance Act (FA) 2014 operates effectively where the benefit of a loss or other amount is surrendered as group relief.

Policy objective

The accelerated payments legislation widens the circumstances where the disputed tax sits with the Exchequer during a dispute. This measure extends those circumstances so that, taking a group of companies as whole, the disputed tax will sit with the Exchequer during a dispute.

Background to the measure

The accelerated payments legislation was introduced as Part 4 of FA 2014. At Autumn Statement 2014 the Government announced that it would amend the legislation to take account of group relief claims and surrenders.

Detailed proposal

Operative date

This measure will have effect from the date that Finance Bill 2015 receives Royal Assent. It will be applicable to all cases involving group relief where there is an open enquiry or open appeal on or after the day of Royal Assent.

Current law

Part 4 of FA 2014 allows HM Revenue & Customs (HMRC) to issue an Accelerated Payment Notice (APN) to a person where certain criteria are met. The APN requires that person to pay over the amount in dispute, or prevents that person postponing the payment of the amount in dispute.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 4 of FA 2014. Where a company makes a return asserting a tax advantage from chosen arrangements, and then surrenders all or part of that advantage as group relief, the legislation will allow HMRC to issue an APN to the effect that the asserted advantage may not be surrendered while the dispute is in progress.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+425	-345	-40	-30	nil
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	This measure does not affect individuals. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure does not affect individuals and so no impact is anticipated.					
Impact on business including civil society organisations	This measure will have no impact on businesses and civil society organisations who are undertaking normal commercial transactions; it will only impact on the small number of businesses that are using avoidance schemes affected by this measure.					
Operational impact (£m) (HMRC or other)	There will be no significant additional operational impact on HMRC as a result of this measure.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Accelerated payments will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact David Edney on 03000 585985 (email: david.edney1@hmrc.gsi.gov.uk).

Corporation tax: restricting relief for internally-generated goodwill transfers between related parties on incorporation

Who is likely to be affected?

Companies who acquire internally-generated goodwill and customer related intangible assets from a related party on the incorporation of the business.

General description of the measure

The measure will restrict corporation tax (CT) relief where a company acquires internally-generated goodwill and customer related intangible assets from related individuals on the incorporation of a business.

Policy objective

This measure makes the tax system fairer by removing unfair tax advantages on incorporation, where there is continuing economic ownership. CT relief will be restricted on the acquisition of the reputation and customer relationships associated with a business (the 'goodwill') when these intangible assets are acquired by a company that is related to the individuals that carried on the business prior to the transfer (incorporation). It removes an unintended tax benefit where, on incorporation, the individual sole trader or partnership business is transferred to a related company.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will be introduced in Finance Bill 2015 and have effect from 3 December 2014, subject to Royal Assent. It will apply to all transfers on or after 3 December 2014 unless made pursuant to an unconditional obligation entered into before that date.

Where an accounting period commences before 3 December 2014, the accounting period is split so that this measure only applies to debits arising from the notional accounting period commencing on 3 December 2014.

Current law

Under Part 8 Corporation Tax Act 2009 (CTA), CT relief is given to companies when goodwill and intangible assets are recognised in the accounts. Relief is normally given on the cost of the asset as the expenditure is written off in accordance with Generally Accepted Accounting Practice or at a fixed 4 per cent rate, following an election.

The current rules allow relief to be claimed even when there is continuing economic ownership. For example, on incorporation of a sole trader or partnership business where the individual(s) transfers the business to a company that is a related party. The current rules require that the market value of the asset is recognised by the related party when the asset is transferred.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 8 CTA 2009 to restrict the relief available in respect of internally-generated goodwill and customer related intangible assets, where the relevant asset is acquired by a company from related party individuals.

These amendments will make it fairer to businesses who do not undertake these types of arrangements. In particular:

- small businesses who, for genuine commercial reasons do not incorporate their business, will not be at a disadvantage compared to those who do;
- start-up businesses that have always been operated within a company, and who cannot access the relief for internally-generated goodwill, will not be at a disadvantage when compared to those that incorporate their business.

Part 8 CTA 2009 will be amended to remove relief for debits under Chapter 3 for all relevant transfers.

Part 8 CTA 2009 will also be amended to treat any debits arising on a subsequent realisation of a relevant transfer as a non-trading debit. This is to limit how a debit arising on a subsequent realisation of a relevant transfer can be relieved. In particular the debit will not be included in the calculation of trading losses. No restriction will be made where a profit (credit) arises on a subsequent realisation.

Companies already receiving relief for goodwill recognised on incorporation will not be affected.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	+5	+ 30	+ 80	+ 110	+ 135	+ 155
	These figures incorporate the yield from the measure <i>Capital gains tax: denying entrepreneurs' relief for disposals of goodwill to related companies</i> . These figures are set out in Table 2.1 of Autumn Statement 2014, as part of <i>Self-incorporation: intangible assets</i> , and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure affects companies. There will be no impact on equalities.					
Impact on business including civil society organisations	<p>There should be no impact on large business as those businesses will have already incorporated, where appropriate to do so.</p> <p>Companies that acquire goodwill and customer related intangible assets from third parties will not be affected.</p> <p>This measure will not have an impact on civil society organisations.</p>					

Operational impact (£m) (HMRC or other)	The additional costs/savings for HM Revenue & Customs in implementing this change are anticipated to be negligible.
Other impacts	<p><u>Small and micro business assessment:</u> Unincorporated businesses choosing to incorporate will not be able to claim amortisation or fixed rate CT relief on the value of internally-generated goodwill and customer related intangible assets transferred to the company on incorporation. As well as becoming familiar with the new legislation, companies will therefore be required to add back the commercial amortisation appearing in the profit and loss account when calculating CT profits. The number of companies affected is difficult to estimate and will depend on the number of companies choosing to incorporate.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and receipts.

Further advice

If you have any questions about this change, please contact John Williams on 03000 530434 (email: john.r.williams@hmrc.gsi.gov.uk).

(This TIIN was first published on 3 December 2014)

Diverted profits tax

Who is likely to be affected?

Large multinational enterprises with business activities in the UK who enter into contrived arrangements to divert profits from the UK by avoiding a UK taxable presence and/or by other contrived arrangements between connected entities.

General description of the measure

This measure will introduce a new tax on diverted profits. The diverted profits tax will operate through two basic rules. The first rule counteracts arrangements by which foreign companies exploit the permanent establishment rules. The second rule prevents companies from creating tax advantages by using transactions or entities that lack economic substance.

Policy objective

The main objective of the diverted profits tax is to counteract contrived arrangements used by large groups (typically multinational enterprises) that result in the erosion of the UK tax base.

Background to the measure

This measure is newly announced at Autumn Statement 2014 and a Technical Note is published alongside this Tax Information and Impact Note.

Detailed proposal

Operative date

This measure will have effect in respect of profits arising on after 1 April 2015.

Current law

UK resident companies and non-resident companies carrying on a trade in the UK through a permanent establishment, are chargeable to corporation tax on profits. The computation of those profits is subject to:

- the transfer pricing rules (at Part 4 Taxation (International and Other Provisions) Act 2010 (TIOPA));
- the rules on profits attributable to a UK permanent establishment (PE) of a non-UK resident company (at Part 2, Chapter 4 Corporation Tax Act 2009 (CTA 2009)); and
- the rules on whether a non-UK resident company has a PE in the UK (at Part 24, Chapter 2 Corporation Tax Act 2010 (CTA 2010)).

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to establish a new tax – the “diverted profits tax”. The tax will be at a rate of 25 per cent of diverted profits relating to UK activity. The charge will arise if either of two rules applies.

The first rule is designed to address arrangements which avoid a UK permanent establishment (PE) and comes into effect if a person is carrying on activity in the UK in connection with supplies of goods and services by a non-UK resident company to customers in the UK, provided that the detailed conditions are met.

The second rule will apply to certain arrangements which lack economic substance involving entities with an existing UK taxable presence. The primary function is to counteract

arrangements that exploit tax differentials and will apply where the detailed conditions, including those on an “effective tax mismatch outcome” are met.

The first rule only applies where the UK person and the foreign company are not small or medium-sized enterprises (SMEs) and the second rule where the two parties to the arrangements are not SMEs (the SME test will apply to the group). The first rule will be subject to an exemption based on the level of the foreign company’s (or a connected company’s) total sales revenues from all supplies of goods and services to UK customers not exceeding £10 million for a twelve month accounting period. The diverted profits tax will not reflect any profits relating to transactions involving only loan relationships.

The legislation will provide that where a designated HMRC officer determines that the diverted profits tax should apply a preliminary notice would be issued explaining, among other things, the reasons the amount of the charge and the basis on which it has been calculated (including the details of the amount of the taxable diverted profits).

The recipient would have 30 days to make representations and the designated HMRC officer may consider certain specified matters within a further 30 day period before either issuing a charging notice on the original or a revised amount, or confirming that no charge arises.

Where specific conditions are met and the designated HMRC officer considers that certain expenses otherwise deductible may be greater than they would have been at arm’s length; the diverted profit charge will initially reflect a 30 per cent disallowance of those expenses.

The charging notice will require the payment of the diverted profits tax within 30 days. Penalties will apply for late payment.

Following the due date for payment, there is a 12-month review period during which the charge may be adjusted based upon evidence. At the end of the review period the business has the opportunity to appeal against any resulting charge. The review period can be brought to a conclusion earlier with the agreement of both parties. There will be no postponement of the disputed tax during the review period or due to any subsequent appeal.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+25	+270	+360	+345	+355
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside the Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	This measure will not directly impact individuals, households or families. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	There are no impacts on any groups which share a protected characteristic.					

Impact on business including civil society organisations	This measure will have no impact on civil society organisations; business impact is limited to those large business and multinational enterprises that are using contrived arrangements to divert profits.
Operational impact (£m) (HMRC or other)	HMRC will need to make changes to IT systems to deliver this change, at an estimated one-off cost of £300,000. Additional staff costs are estimated to be in the region of £2.3 million for 2015-16 to 2017-18 and then £1 million thereafter.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored to ensure the legislation is operating as intended and kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please send an email to: divertedprofits.mailbox@hmrc.gsi.gov.uk.

Corporation tax: oil and gas taxation: reduction in supplementary charge

Who is likely to be affected?

Oil and gas companies that operate in the UK or on the UK Continental shelf (UKCS).

General description of the measure

This measure will decrease the rate of supplementary charge payable in respect of profits from oil and gas production in the UK and UKCS from 32 per cent to 30 per cent.

Policy objective

This measure supports the Government's objective of providing the right conditions for business investment to maximise the economic recovery of the UK's oil and gas resources, at a time when the North Sea industry is facing considerable challenges. This measure is one element of a package of reforms to the oil and gas fiscal regime. These will encourage investment in the UK and UKCS, leading to increased production of oil and gas, helping to increase the UK's energy security, balance of payments and supporting jobs and supply chain opportunities.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on and after 1 January 2015. There are transitional rules for accounting periods beginning before the operative date.

Current law

Corporation Tax Act (CTA) 2010 Chapter 6 section 330 imposes a supplementary charge on a company's adjusted ring fence profits at the rate of 32 per cent.

Proposed revisions

Corporation Tax Act (CTA) 2010 Chapter 6 section 330 will be revised to a rate of 30 per cent.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	-55	-60	-50	-65	-60
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The reduction in the supplementary charge will increase the post-tax profits for affected companies, making investment into oil and gas projects in the UK and UKCS more attractive. This could lead to additional production of oil and gas, helping to increase the UK's energy security, balance of payments, and supporting jobs and supply chain opportunities.					
Impact on individuals, households and families	As this measure affects oil and gas companies only there is no impact on individuals, households or family formation, stability or breakdown.					
Equalities impacts	The decrease in the tax rate only applies to companies involved in the oil and gas industry in the UK or UKCS and is considered to have no differential impact on any equality groups.					
Impact on business including civil society organisations	<p>There are around 200 companies currently operating in UK oil and gas sector. The decrease in the supplementary charge will have a positive impact on company post-tax profits within the UK. This measure is expected to have no additional administrative burden on these businesses.</p> <p>Any reduction in the rate of supplementary charge will result in lower instalment payments being made. This will apply, where appropriate, to instalment payments made on or after the date of announcement. If the rate cut is not approved by Parliament for any reason then companies will have to pay the additional tax arising.</p> <p>This measure will have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	HMRC will incur some additional costs for implementing this change and these are estimated to be around £115,000 for IT changes.					
Other impacts	<p><u>Sustainable development, wider environment and health</u>: the oil and gas industry is heavily regulated to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to ensure the health and wellbeing of its workers. Investment in oil and gas production is needed even as the economy decarbonises; the Government estimates that oil and gas will continue to meet 70 per cent of the UK's energy needs out to 2030.</p> <p><u>Small and micro business assessment</u>: this measure is expected to have no impact on small and micro businesses. The change applies only to oil and gas companies operating in the UK.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Tony Chanter on 03000 589073 (email: tony.chanter@hmrc.gsi.gov.uk).

Corporation tax: high pressure high temperature cluster area allowance

Who is likely to be affected?

Companies involved in exploration, appraisal and development of oil and gas in high pressure high temperature cluster areas.

General description of the measure

The measure will introduce a new high pressure high temperature (HPHT) cluster area allowance to reduce the amount of adjusted ring fence profits subject to the Supplementary Charge. The portion of profits reduced by the allowance will be dependent on a company's capital spend on cluster area oil and gas projects, and will be generated at 62.5 per cent of that spend.

Policy objective

This measure is designed to support the development of HPHT oil and gas projects, which are economic but not commercially viable at the 62 per cent tax rate, and encourage exploration and appraisal within the surrounding area (or "cluster"). HPHT oil and gas could help increase our energy security as resources in the North Sea basin decline. They also have the potential to support thousands of jobs, and generate substantial business investment.

Background to the measure

This measure was announced in Budget 2014.

A consultation entitled *Maximising economic recovery: consultation on a cluster allowance* was launched on 24 July 2014 and closed on 30 September 2014.

The Government's response to this consultation will be published on 10 December 2014.

Detailed proposal

Operative date

The measure will have effect from 3 December 2014 in respect of capital expenditure incurred on or after 3 December 2014 in relation to an HPHT cluster area.

Current law

Corporation Tax Act (CTA) 2010 Chapter 6 section 330 imposes a supplementary charge on a company's adjusted ring fence profits. Chapters 7 and 8 set out existing oil field and onshore allowances which reduce a company's adjusted ring fence profits subject to the supplementary charge.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend CTA 2010 to introduce a new cluster area allowance. The allowance will remove an amount equal to 62.5 per cent of capital expenditure incurred by a company in relation to a cluster area from its adjusted ring fence profits which are subject to the supplementary charge. The allowance will not be available to fields already in receipt of a field allowance. Transitional arrangements will be put in place for

companies currently developing projects, and no change will be made to the existing ultra HPHT allowance. The future of that allowance will be considered as part of the wider work on allowances being taken forward through the Review of the Fiscal Regime. The changes will apply to the qualifying capital expenditure a company incurs in relation a cluster area on or after 3 December 2014, and will be activated by production income from the cluster area.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	-5	-15	-15	-10	-95
	These figures are set out in Table 2.1 of Autumn Statement 2014 as part of <i>Oil and gas: support for investment</i> , and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic Impact	The allowance is expected to increase investment in high pressure, high temperature projects and on exploration in cluster areas. This investment could lead to benefits to the UK supply chain, increased domestic production of hydrocarbons and create jobs.					
Impact on individuals, households and families.	There is no impact on individuals or households because this is a change that affects oil and gas companies only. This measure is not expected to have an impact on family formation, stability or breakdown.					
Equalities impacts	The allowance is considered to have no differential impact on any equality groups.					
Impact on business, including civil society organisations	The proposal is designed to support businesses involved in the development of technically challenging HPHT projects and exploration in the surrounding areas. This measure is expected to have a negligible administrative impact on these businesses, as it is based on the existing allowance regime structure. This measure will have no impact on civil society organisations.					
Operational impact (£m)	The additional costs for HM Revenue & Customs and the Department of Energy & Climate Change (who will be responsible for determining a cluster area) is expected to be negligible.					
Other impacts	<p><u>Sustainable development, wider environment and health</u>: the oil and gas industry is heavily regulated to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to ensure the health and wellbeing of its workers.</p> <p><u>Small and micro business assessment</u>: this measure is expected to have no impact on small and micro businesses. The change applies only to oil and gas companies operating in the UK.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups

Further advice

If you have any questions about this change, please contact Nicola Garrod on 03000 589251 (email: nicola.garrod@hmrc.gsi.gov.uk).

(This TIIN was first published on 3 December 2014)

Corporation tax: extension of Ring Fence Expenditure Supplement

Who is likely to be affected?

Companies involved in the exploration, appraisal and development of oil and gas.

General description of the measure

The measure will extend Ring Fence Expenditure Supplement (RFES) to 10 accounting periods and remove Extended Ring Fence Expenditure Supplement (ERFES).

Policy Objective

The measure will improve help for oil companies without ring fence profits to preserve the value of their tax losses. It will achieve equal treatment of offshore and onshore expenditure and losses and simplify the existing legislation.

Background to the Measure

A call for evidence entitled *Review of the Oil and Gas Fiscal Regime* was launched on 14 July 2014 and closed on 3 October 2014. The initial findings of the review, including a summary of responses, were published on 4 December 2014.

Detailed Proposal

Operative Date

This measure will have effect for pre-trading expenditure and losses incurred in accounting periods ending on or after 5 December 2013.

Current Law

Under Chapter 5 (sections 307 to 329) of Corporation Tax Act (CTA) 2010, a company may claim RFES on accumulated qualifying expenditure and losses in up to six accounting periods. For claims made after 2012, the supplement is 10 per cent of the value of qualifying pre-trading expenditure, trading losses incurred after 2006 and supplement generated in previous accounting periods. The supplement may then be carried forward to offset future profits for corporation tax purposes.

Under Chapter 5A (sections 329A to 329T) of CTA 2010, a company may claim ERFES in an additional 4 accounting periods for onshore expenditure, losses and supplement. The supplement is 10 per cent of the value of onshore expenditure and losses incurred after 5 December 2013 and any supplement previously generated through onshore activities.

Proposed Revisions

Legislation will be introduced in Finance Bill 2015 to amend CTA 2010 to extend the number of claims available to companies involved in oil and gas related activities from 6 to 10 accounting periods. For claims in addition to their existing 6, companies will not be able to claim supplement on expenditure or losses incurred or supplement generated prior to 5 December 2013.

Sections 329A to 329T will be removed in their entirety.

Summary of Impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	-5	-15	-15	-10	-95
	These figures are set out in Table 2.1 of Autumn Statement 2014, as part of <i>Oil and gas: support for investment, and have been certified by the Office for Budget Responsibility</i> . The figures incorporate the yield from <i>Corporation tax: extension of Ring Fence Expenditure Supplement</i> . More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	This measure is expected to support companies involved in the exploration and appraisal of oil and gas projects and production companies making investments who are without ring fence profits.					
Impact on individuals, households and families	There is no expected impact on individuals, households or families because this is a change that affects offshore oil extraction only.					
Equalities impacts	There is no expected impact on equalities because this is a change that affects offshore oil extraction only.					
Impact on business including civil society organisations	<p>This measure will affect up to 200 companies. The measure will allow companies without existing ring fence profits to maintain the time value of their losses and pre-trading expenditure over a 10 year payback period, hence increasing the commercial viability of oil and gas activity.</p> <p>The removal of ERFES will ease the regulatory burden for companies with onshore oil related projects as they will no longer need to distinguish between onshore and offshore expenditure and losses.</p> <p>This measure will have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	There will be no significant operational impact on HM Revenue & Customs.					
Other impacts	<p><u>Sustainable development, wider environment and health</u>: by providing additional supplement on costs and losses, this measure supports costs associated with positive environmental impacts such as clean up costs. Beyond this, the oil and gas industry is heavily regulated to ensure its activities do not lead to pollution or disturbance to habitat or wildlife, and to ensure the health and wellbeing of its workers.</p> <p><u>Small and micro business assessment</u>: the impact of this measure on small businesses is not anticipated to differ from that on large businesses.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and Evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further Advice

If you have any questions about this change, please contact Lloyd Hopkin on 03000 532634 (email: lloyd.hopkin@hmrc.gsi.gov.uk).

Research and Development tax credits: increasing generosity

Who is likely to be affected?

All companies claiming Research & Development (R&D) tax credits.

General description of the measure

An increase in the rate of the 'Above the Line' (ATL) expenditure credit for large company R&D activity from 10 per cent to 11 per cent from 1 April 2015.

An increase in the rate of relief for small and medium enterprises (SMEs) from 225 per cent to 230 per cent from 1 April 2015.

Policy objective

R&D tax credits are a key element in the government's commitment to an internationally competitive tax system and in its objective for strong and sustainable private sector-led growth.

Raising the rate of both the ATL expenditure credit and the SME relief will increase the financial value of the relief, increasing the incentive to carry on R&D and improving the competitiveness of the UK as a location for R&D investment.

Background to the measure

The R&D relief regime is an incentive for R&D activity and investment in innovation.

The Government announced at Autumn Statement 2011 that it would introduce an ATL expenditure credit for large company R&D investment in April 2013.

The Government announced at Budget 2013 that the ATL expenditure credit would be introduced at a pre-tax rate of 10 per cent.

A distinct scheme exists for SMEs, which was originally introduced in Finance Act 2000.

The Government announced at Budget 2011 that it would increase the rate of the SME relief from 175 to 200 per cent from April 2011, then from 200 per cent to 225 per cent from April 2012.

The Government announced at Budget 2014 the rate of the credit payable to loss-makers under the SME scheme would increase from 11 per cent to 14.5 per cent.

This measure forms part of a package of wider changes to the support for R&D, intended to focus the relief better and to improve the administration, particularly for small companies.

Detailed proposal

Operative date

This measure will have effect in relation to qualifying expenditure incurred on and after 1 April 2015.

Current law

The legislation applicable to the ATL Expenditure Credit is contained at Corporation Tax Act 2009 (CTA 2009) Part 3 Chapter 6A (sections 104A to 104Y) with consequential amendments to Finance Act 1998, Finance Act 2007 and CTA2010.

It is a stand-alone credit to be brought into account as a receipt in calculating the profits of large companies for R&D expenditure incurred on or after 1 April 2013 known as the 'above the line' Research and Development expenditure credit (RDEC). The R&D expenditure credit does not alter the way qualifying activity is identified or how qualifying expenditure is calculated. Only the method of giving the relief is different from the previous tax relief for large companies or from the SME scheme.

The legislation for the SME R&D tax credit is at CTA 2009 Part 13 Chapter 2 (sections 1042 to 1062).

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend the R&D provisions in CTA 2009 in order to increase the rate of the expenditure credit from 10 per cent to 11 per cent and the rate of the SME scheme from 225 per cent to 230 per cent.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-40	-	-	-	-
	These figures are set out in Table 2.1 of Autumn Statement 2014, and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	R&D tax relief reduces the cost of R&D investment that companies make. Increasing the generosity of R&D tax credits is therefore likely to increase aggregate R&D expenditure, which will benefit the economy more widely through the positive spill over effects in terms of increased innovation and productivity in the wider economy.					
Impact on individuals, households and families	The measure will apply only to corporate entities within the charge to CT and so is not expected to have an impact on individuals, households or family formation, stability or breakdown.					
Equalities impacts	The measure will apply only to corporate entities within the charge to CT and so is not expected to have any equality impacts.					
Impact on business including civil society organisations	<p>In 2012-13, the latest year for which figures are available, 15,120 companies claimed R&D tax relief – an increase on previous years. The rate change increases the amount of relief companies can claim for a given level of expenditure without adding any significant cost or complexity to the claims process i.e. there are no reporting differences under the old and new schemes.</p> <p>This measure is expected to have a negligible impact on administrative burden for businesses.</p> <p>This measure will have no impact on civil society organisations.</p>					

Operational impact (£m) (HMRC or other)	There will be no significant impact on HM Revenue & Customs (HMRC).
Other impacts	<p><u>Small and micro business assessment</u>: this measure is expected to have a positive impact on companies which are small or micro businesses carrying on research and development as it increases their R&D relief.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

HMRC monitors claims for R&D relief and publishes an annual statistics release on the subject.

Further advice

If you have any questions about this change, please contact David Harris on 03000 586834 (email: david.harris@hmrc.gsi.gov.uk).

Corporation tax: research and development tax credits: consumables

Who is likely to be affected?

Companies carrying out research and development (R&D) activities.

General description of the measure

The measure restricts the expenditure in respect of consumable items that qualifies for R&D tax credits where the company sells the products of its R&D activity as part of its normal business. The revised definition of qualifying consumable items makes it clear that the cost of materials incorporated in such products that are then sold will not be eligible for the relief. The measure increases the focus of the tax credit regime on the real costs of carrying out R&D activity.

Policy objective

R&D tax credits are a key element in the government's commitment to an internationally competitive tax system and in its objective for strong and sustainable private sector-led growth. This measure ensures that they remain well targeted in incentivising R&D investment and that there is a level playing field between companies benefiting from R&D tax credits.

Background to the measure

The measure was announced at Autumn Statement 2014.

It affects only those entities within the charge to corporation tax (CT) as R&D tax credits are not available to unincorporated businesses liable to income tax.

The UK R&D regimes provide relief for expenditure on R&D, including the cost of materials and other items, such as water, fuel and power used up or transformed in the R&D activity. The definition of consumable items is common across each of the regimes; that is the tax credit schemes for large companies and Small and Medium Enterprises (SMEs), and the R&D Expenditure Credit scheme.

Detailed proposal

Operative date

This measure will have effect in relation to expenditure incurred on or after 1 April 2015.

Current law

The R&D relief regime is an incentive for R&D activity and investment in innovation. The legislation is in Part 13 Corporation Tax Act (CTA) 2009 and Chapter 6A of Part 3, CTA 2009. These provisions allow an enhanced tax deduction for relevant costs ("qualifying expenditure"), or in certain circumstances a payable tax credit instead of the deduction. Included in these costs is expenditure on software and consumable items. Consumable items is defined by section 1125 as including consumable or transformable materials.

Consumable or transformable materials are not further defined, however the guidelines produced by the Department for Business, Innovation and Skills state that the production of

goods and services is not R&D activity. It is however recognised that in practice R&D activity can happen in conjunction with production, and in a way that makes the attribution of costs to one activity or the other debatable.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend the R&D provisions in CTA 2009 in order to restrict the extent to which costs of materials and other consumable items are eligible for relief. In the circumstances where the R&D activity results in goods or services sold in the normal course of a company's business, the cost of consumable items reflected in those goods or services will not attract tax credits. Qualifying expenditure on consumable items will be limited to the cost of only those items fully used up or expended by the R&D activity itself and do not go on to be sold as part of a commercial product.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+20	-	-	-	-
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure will apply only to corporate entities within the charge to CT and so is not expected to have an impact on individuals, households or family formation, stability or breakdown.					
Equalities impacts	The measure will apply only to corporate entities within the charge to CT and so is not expected to have any equality impacts.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses.</p> <p>The measure will affect companies carrying out qualifying R&D activities. These are particularly prevalent in refineries, manufacturing, aeronautical, shipping and pharmaceutical sectors.</p> <p>There will be some negligible one-off costs for businesses, associated with familiarisation with the changes to the legislation and negligible ongoing costs will be from assessing the criteria for qualifying expenditure on consumable items.</p> <p>This measure is expected to have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	There will be no significant impact on HM Revenue & Customs.					
Other impacts	<p><u>Small and micro business assessment:</u> small and micro businesses are not disproportionately represented in the small group of entities in which R&D takes place in conjunction with normal production processes. This measure is expected to have a negligible impact.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and the R&D specialist units.

Further advice

If you have any questions about this change, please contact Martin Trott on 03000 585619 (email: martin.trott@hmrc.gsi.gov.uk).

Children's television tax relief

Who is likely to be affected?

Companies within the charge to corporation tax that are directly involved in the production of children's television programmes.

General description of the measure

The measure will extend the existing television tax reliefs for animation and high-end TV to children's programming. Relief will apply at a rate of 25 per cent on enhanceable expenditure for all eligible children's TV programmes. Children's programming will not be subject to the £1 million per programme hour threshold or the 30 minute slot length that apply to high-end TV programmes.

Policy objective

The measure aims to encourage the production of culturally British children's television programmes in the UK by introducing changes to the existing television tax relief.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The measure will have effect for qualifying expenditure incurred on and after 1 April 2015.

Current law

The current legislation for specific categories for television production (high-end and animation) is at Part 15A Corporation Tax Act 2009. The relief was introduced with effect from 1 April 2013.

Proposed revisions

As announced at Autumn Statement, legislation will be introduced in Finance Bill 2015 to provide tax relief to the makers of children's television programmes.

The relief will allow eligible companies engaged in the production of qualifying children's programmes to claim an additional deduction in computing their taxable profits, and where that additional deduction results in a loss to surrender those losses for a payable tax credit.

Both the additional deduction and the payable credit are calculated on the basis of UK core expenditure up to a maximum of 80 per cent of the total core expenditure by the qualifying company. The additional deduction is 100 per cent of qualifying core expenditure and the payable tax credit is 25 per cent of losses surrendered.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-5	-5	-5	-5	-5
	<p>These figures are captured within the total Annual Managed Expenditure set out at Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p>					
Economic impact	<p>This measure is expected to have a positive impact on the television industry, but is not expected to have significant wider macroeconomic impacts.</p>					
Impact on individuals, households and families	<p>The relief will only be available to television production companies making qualifying children's programmes, and so is unlikely to impact on individuals and households.</p> <p>The change is not expected to have any impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>The Government has carefully considered whether this measure impacts on people with protected characteristics and has not identified any equalities impacts.</p>					
Impact on business including civil society organisations	<p>The tax relief for children's television production will allow qualifying companies to claim a payable tax credit, supporting the children's programming sector. There are approximately 25-50 television production companies in the UK that may benefit from the relief.</p> <p>Because this relief is an extension to the existing television relief it is unlikely that many eligible companies will face some one-off and ongoing administrative costs in order to qualify for this relief as they will already have some knowledge of the existing relief. For the very few companies with no knowledge of any of the creative industry tax reliefs there may be one-off costs associated with familiarisation with new legislation, processes and requirements. The ongoing costs include costs of calculating and claiming the relief. It is estimated that, on average, up to 20 companies a year would be affected and companies will make one claim per year.</p> <p>This measure is expected to have a negligible impact on businesses and no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	<p>The estimated annual cost to HM Revenue & Customs of administering the new tax relief is likely to be negligible.</p>					
Other impacts	<p><u>Small and micro business assessment:</u> the government recognises that there may be some increase in administration impacts on small businesses. However, overall the tax relief will impact positively on qualifying small companies. There is also a specialist unit set up to help facilitate claims in the creative industries and who will administer claims for children's television tax relief.</p> <p><u>Competition assessment:</u> this relief is targeted at a specific sector. All companies in this sector are eligible, so introduction is unlikely to affect competition within the sector. There should not be any significant impact on competition with other business sectors.</p>					

	Other impacts have been considered and none have been identified.
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Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Kerry Pope on 03000 585740 (email: kerry.pope@hmrc.gsi.gov.uk).

Corporation tax: modernising the taxation of corporate debt and derivative contracts

Who is likely to be affected?

This measure affects companies subject to corporation tax, which issue or hold debt or which are party to derivative contracts.

General description of the measure

This measure updates the rules governing the taxation of corporate debt (known as loan relationships) and derivative contracts. It makes a series of changes to update the computation of profits and losses on these instruments and the detailed rules by which they are taxed.

Policy objective

This measure updates the rules to take account of developments in accounting and in business practice since their original introduction in 2006. It supports the Government's policy of simplifying taxation by addressing difficulties which have arisen in the application of the regime. It makes the rules more certain and easier to comply with by clarifying the structure and detailed rules, and makes the regime fairer by providing more robust protection against tax avoidance.

Background to the measure

At Budget 2013, the Government announced consultation on a package of proposals to modernise the corporation tax rules governing the taxation of corporate debt and derivative contracts, with a view to including the bulk of the resulting legislation in Finance Bill 2015.

A consultation document *Modernising the taxation of corporate debt and derivative contracts* was published on 6 June 2013, and the Government's response was published on 10 December 2013.

A Technical Note, setting out the framework of the changes and the Government's priorities in the light of consultation, was published on 8 April 2014.

Detailed proposal

Operative date

The changes made by this measure will have effect in respect of companies' accounting periods commencing on or after 1 January 2016, with two exceptions:

- A new provision which relieves credits which arise when debts of companies in financial distress are released, or the terms modified, will apply to releases and modifications on or after 1 January 2015.
- The new regime anti-avoidance rules will apply, where the conditions are met, in respect of arrangements entered into on or after 1 April 2015.

Current law

The current legislation is in Parts 5 and 7 of the Corporation Tax Act (CTA) 2009, dealing with loan relationships and derivative contracts respectively. Part 6 deals with matters which, while not within the definition of loan relationships, are brought within the Part 5 rules.

The Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 (SI 2004/3256) (known as the 'Disregard Regulations') provide detailed rules concerning the tax treatment of hedging relationships. The Loan Relationships and Derivative Contracts (Change of Accounting Practice) Regulations 2004 (SI 2004 / 3271) provide rules concerning changes in accounting practice.

Proposed revisions

Legislation will be introduced in Finance Bill 2015. The main changes are:

The relationship between accountancy and tax will be clarified and strengthened. In particular, sections 307 and 595 CTA 2009 will be amended to remove the requirement that amounts brought into account for tax must 'fairly represent' the profits, gains and losses arising.

Sections 308 and 597 will be amended to bring the calculation of taxable amounts in line with the usual approach to the computation of profits, for both commercial and tax purposes. Taxation will be based only on amounts recognised as items of accounting profit or loss, rather than on amounts recognised anywhere in accounts – in reserves or equity, for example. A transitional rule will ensure that this change is broadly tax neutral.

Section 322 will be amended and a new section 323A introduced to exclude taxable amounts which would otherwise arise where arrangements are made to restructure the debts of a company in financial distress with a view to ensuring its continued solvency. This will cover situations where debt is released, or where the terms are modified, supplementing and extending the existing rule which exempts credits arising in debtor companies when creditors exchange debt investment for an equity stake.

A new regime-wide anti-avoidance rule will be introduced into each of Parts 5 and 7, which will counter arrangements entered into with a main purpose of obtaining a tax advantage by way of the loan relationships or derivative contracts rules. As a consequence, a number of existing specific anti-avoidance rules will be repealed.

Further changes to Parts 5 and 7 will be made by way of secondary legislation in 2015, in particular to update the rules on forex hedging, convertible instruments and property-based derivatives.

Amendments will be made to secondary legislation by the end of 2014 to facilitate the transition to new accounting standards which many companies will make in 2015. This will permit companies to elect into, rather than out of, the Disregard Regulations; exclude certain transitional adjustments in respect of distressed debt; and preserve the foreign exchange treatment for 'permanent as equity' debt. More information on these accounting changes can be found at www.hmrc.gov.uk/accounting-standards.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>No impact on individuals or households has been identified. The measure is concerned with corporate taxpayers only.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	No impact on equalities has been identified.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible one off familiarisation impact on businesses overall. It will affect mainly large companies and that impact is expected to be negligible. The measure is expected to reduce ongoing costs due to simplification of the legislation.</p> <p>No impact on civil society organisations is anticipated.</p>					
Operational impact	Revised legislation should be easier for HM Revenue & Customs to operate and reduce resource needed to combat attempted avoidance.					
Other impacts	<p><u>Small and micro business assessment</u>: the interaction of small companies with the loan relationships and derivative contracts regimes is generally straightforward, and no material impact on them is anticipated.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The impact and operation of this measure will be continuously monitored by way of information collected from companies' tax returns and regular contacts with businesses and other stakeholders.

Further advice

If you have any questions about this change, please contact Andy Stewardson on 03000 586085 (email: andy.stewardson@hmrc.gsi.gov.uk).

Corporation tax: preventing abuse of late-paid interest rules

Who is likely to be affected?

Companies subject to corporation tax which are party to loans or deeply discounted securities from connected creditors in certain overseas territories.

General description of the measure

This measure repeals rules which require interest payable on loans to be relieved when paid rather than when accrued in certain circumstances. It also repeals parallel rules which apply to deeply discounted securities.

Policy objective

This measure removes an anti-avoidance rule which is no longer needed, and prevents artificial manipulation of the emergence of losses purely to obtain a tax advantage.

Background to the measure

The late-paid interest rules were intended to counter avoidance involving mismatches between relief for, and taxation of, interest. However, the anti-avoidance impact of the rule is now very limited, since its scope was restricted in 2009 to interest payable to connected tax haven companies.

In addition, some companies use the late interest rules to manipulate the emergence of tax losses, effectively sidestepping the group relief rules. Group relief rules are intended to allow surrender to other group companies of losses economically suffered in a period, but not unused losses brought forward from earlier periods.

Accordingly, the wide-ranging consultation on modernising the taxation of corporate debt and derivative contracts, announced at Budget 2013, included proposals for changes to these rules. The Government's response to the consultation was published on 10 December 2013, and a Technical Note providing an update and setting out priorities was published on 8 April 2014.

Other draft legislation for Finance Bill 2015 arising from the wider consultation will be published separately for comment on 10 December 2014. That legislation will include a regime-wide anti-avoidance rule for loan relationships, which will counter timing advantages in appropriate cases such as those originally targeted by the late-paid interest rules.

Detailed proposal

Operative date

The repeals will have effect in respect of new loans entered into on or after 3 December 2014. For loans entered into before 3 December 2014, the repeals will have effect in respect of interest accruing or discounts arising on or after 1 January 2016, unless material changes are made to the loan between 3 December 2014 and 31 December 2015, in which case the repeal will be effective from the date of the change.

Current law

The 'late interest rule' is in Chapter 8 of Part 5 Corporation Tax Act 2009 (CTA 2009). Sections 374, 375, 377 and 378 set out the four cases in which the rule applies: where a creditor and

debtor are connected; where the creditor is a participator in a close company; where a party to a loan has a major interest in another; and where a loan is made by trustees of an occupational pension scheme.

The rule applies where interest is unpaid 12 months after the end of the period in which it accrued and, in the case of the first and third cases, only where the creditor is resident in a non-qualifying' territory - broadly, an offshore tax haven. Where it applies, the interest is treated as accrued, and therefore relieved, only when actually paid.

A parallel rule applying to discounts on deeply discounted securities is in Chapter 12. Section 407 mirrors the first and third cases of the Chapter 8 rule.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to repeal sections 374 and 377, removing the first and third cases to which the Chapter 8 rule applies, and to repeal section 407.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	No impact on individuals or households has been identified. The measure is concerned with corporate taxpayers only. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	No impact on equalities has been identified.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. No impact on civil society organisations is anticipated.					
Operational impact	There will be no significant operational impact on HM Revenue & Customs.					
Other impacts	<u>Small and micro business assessment</u> : no impact on small companies is anticipated. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The impact of this measure will be continuously monitored by way of information collected from companies' tax returns and regular contacts with businesses and other stakeholders.

Further advice

If you have any questions about this change, please contact Andy Stewardson on 03000 586085 (email: andy.stewardson@hmrc.gsi.gov.uk).

(This TIIN was first published on 3 December 2014)

Air Passenger Duty: child exemption

Who is likely to be affected?

Airlines and other aircraft operators, and their passengers.

General description of the measure

The measure will extend the child exemption from Air Passenger Duty (APD) to include children under the age of 12 travelling in the lowest class of travel, with a further extension planned to include children under 16. The existing exemption for children under the age of 2 without their own seat continues to apply to children travelling in all classes.

Policy objective

This measure helps families by lowering the cost of air travel for children travelling in the lowest class of travel.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect in relation to the carriage of passengers on a chargeable aircraft on and after 1 May 2015 for children aged under 12 on the date of travel, and on and after 1 March 2016 for children aged under 16 on the date of travel.

Current law

Section 31 of Finance Act 1994 sets out APD exceptions to who is a chargeable passenger.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 31 of Finance Act 1994 to provide for the expanded exception.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-40	-80	-85	-90	-95
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					

Impact on individuals, households and families	This measure will save a family taking a flight in the lowest class of travel within the UK or Europe £13 per child under the age of 12; and £71 per child, to countries over 2000 miles away (on capital-to-capital distance). From 1 March 2016, savings will extend to families with children under 16.
Equalities impacts	The measure is neutral toward legally protected equality groups and does not affect family income from employment, welfare or other sources, and does not affect the cost of essential goods or educational attainment.
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations, affecting around 300 conventional airlines and some of the smaller operators.</p> <p>There is expected to be negligible one-off costs for airline operators due to familiarisation with the policy and system changes for some airlines to collect the number of tickets purchased for under 12 year olds in 2015-16 and for under 16s in 2016-17.</p> <p>There is expected to be a negligible on-going cost for airline operators. They will still declare passenger numbers on their returns to HMRC in the same way, though there may be some negligible increase in burden to calculate the correct figure for passengers aged 12 or over in 2015-16 and those 16 and over from 2016-17.</p> <p>As the Government expects airlines to make refunds available for all eligible bookings there may be an impact on them.</p> <p>The measure could lead to increased demand for air travel by families, benefitting airlines and travel companies.</p>
Operational impact (£m) (HMRC or other)	Costs to HM Revenue & Customs (HMRC) of implementing this change are expected to be negligible.
Other impacts	<p><u>Carbon assessment:</u> the change in carbon emissions will depend on the size of the change in demand for air travel and is expected to be negligible.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

This measure will be subject to ongoing monitoring through receipts and information collected on tax returns, as well as through communication with affected taxpayers.

Further advice

If you have any questions about this change, please contact Ann Little on 03000 586096 (email: ann.little@hmrc.gsi.gov.uk).

VAT: power to provide for refunds to certain persons

Who is likely to be affected?

Named public bodies which enter into shared service arrangements, where a funding agreement exists with HM Treasury.

General description of the measure

This measure will create a new section 33E of the Value Added Tax Act 1994 (VATA), which will refund to named non-departmental public bodies, and similar public bodies, the VAT incurred as a part of shared services arrangements used to support their non-business activities. Ordinarily VAT can only be recovered on purchases made to support a person's taxable business activities.

Policy objective

The measure will ensure that what would otherwise be irrecoverable VAT does not deter public bodies from sharing back-office services, where this would otherwise result in greater efficiencies of scale.

Background to the measure

The overall policy is for public bodies to enter into shared services arrangements. Where this happens the body or bodies providing services to the others engages in a business activity for VAT purposes, just as any supplier of this type of service does, and VAT is charged to the purchasers of the services. To date these services have mainly been in the fields of HR, recruitment and training, and IT services.

Government departments and NHS bodies recover the VAT incurred on certain outsourced services purchased for their statutory, non-business purposes. This is under section 41(3) of VATA. The eligible services are listed in a Treasury direction, and they include the type of service common to shared services arrangements. Local government bodies recover VAT under section 33 VATA.

There has been no provision to refund VAT to non-departmental public bodies sharing services with their parent department or between themselves. Many such bodies are not engaged in business activities which would allow the recovery of VAT under the normal VAT provisions. With the expected wider take-up of shared services, the Government wishes to ensure that these bodies are not at a VAT disadvantage when they enter into such arrangements. Because of competition issues, this will also include situations where they procure an eligible service directly from a private sector provider.

Detailed proposal

Operative date

This measure will have effect from the date of Royal Assent to Finance Bill 2015.

Current law

There are no special provisions in VAT legislation concerning the VAT incurred by non-departmental public bodies, and similar bodies, on the goods and services they purchase. However, due to their nature, a few such bodies do currently benefit from the existing VAT refund provisions in VATA.

Proposed revisions

A new section 33E VATA will refund VAT incurred by named bodies on goods and services purchased, and goods imported or acquired, for their non-business purposes. Before a body can be named, it (or its parent department) must have entered into an agreement with HM Treasury to adjust the overall level of its public funding to take into account the VAT that will be recoverable. This is because such funding includes tax liabilities.

Because it will not be possible to name bodies in primary legislation as and when such agreements are made with HM Treasury, the measure contains a power to make Treasury Orders to name the bodies. While it is expected that most bodies will be non-departmental public bodies, the measure is not limited to them as there are other types of arms-length public body that may qualify.

It is considered sensible for these bodies to have the same level of VAT recovery as is available to government departments under section 41(3) VATA. Consequently, the Treasury direction made under that provision, which lists the eligible services upon which VAT can be recovered, will also become the direction made for the same purpose under this measure.

In common with government departments, eligible bodies will have a shorter period in which to claim a refund.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	The measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any economic impact.					
Impact on individuals, households and families	The measure is not expected to have any impact on individuals as it concerns the funding of public bodies. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	The measure is not expected to have any equalities impact.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses. It will only impact on certain public bodies which enter into shared service arrangements.					
Operational impact (£m) (HMRC or other)	There will be no significant operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be monitored through information collected in tax returns and through communication with the affected taxpayer group.

Further advice

If you have any questions about this change, please contact Graham Spencer on 03000 585822 (email: graham.spencer@hmrc.gsi.gov.uk).

VAT: refunds of VAT to search and rescue charities

Who is likely to be affected?

Search and rescue charities namely charities whose main purpose is to search for and rescue people at risk of death or serious injury, charities whose main purpose is to support, develop and promote the activities of charities established to search for and rescue people, and air ambulance charities.

General description of the measure

This measure will refund to search and rescue charities VAT incurred on the purchase of goods and services, and the acquisition and importation of goods from outside the UK, used for their non-business activities. Ordinarily VAT can only be recovered on purchases made for taxable business activities.

Policy objective

The measure will give search and rescue charities broadly the same level of VAT recovery as is presently afforded to the established emergency services.

Background to the measure

The established emergency services (police forces, fire and rescue authorities, NHS ambulance trusts and the Maritime and Coastguard Agency) are already refunded some or all of the VAT they incur in relation to their statutory non-business activities. The policy is to extend this ability to recover VAT incurred by search and rescue charities. These charitable bodies participate in coordinated search and rescue alongside the emergency services and/or support, develop and promote these activities.

Detailed proposal

Operative date

The measure will have effect from 1 April 2015.

Current law

There are no special provisions in VAT legislation concerning the VAT incurred by search and rescue charities on the goods and services they purchase.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to add two new sections 33C and 33D to the Value Added Tax Act 1994 refunding VAT to search and rescue charities. These will be defined as charities whose main purpose is carrying out co-ordinated search and rescue, whose main purpose is to support, develop and promote the activities of charities established to search for and rescue people; or whose main purpose is to provide an air ambulance service. The term 'charity' will take its meaning from Schedule 6 of the Finance Act 2010.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-5	-10	-5	-5	-5	-5
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>The measure may have a small positive impact on individuals requiring the services of charitable search and rescue bodies since the measure benefits these bodies financially.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	The measure is expected to have no equalities impact.					
Impact on business including civil society organisations	<p>The measure is expected to have an impact on charitable bodies that participate in co-ordinated search and rescue alongside the emergency services, allowing them to claim VAT they incur in relation to their statutory non-business activities.</p> <p>The measure is expected to have no impact on businesses.</p>					
Operational impact (£m) (HMRC or other)	There will be no significant operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be monitored through information collected in tax returns and through communication with the affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Graham Spencer on 03000 585822 (email: graham.spencer@hmrc.gsi.gov.uk).

VAT: refunds to strategic highways companies

Who is likely to be affected?

The strategic highways company which is proposed to be established under section 1 of the Infrastructure Bill.

General description of the measure

This measure will refund to the strategic highways company the VAT incurred on certain services which it outsources.

Policy objective

To ensure that irrecoverable VAT does not act as a barrier to the outsourcing of services from the public sector to the private sector where this would result in efficiencies of scale.

Background to the measure

Government departments can reclaim the VAT incurred on certain services which they and their executive agencies have outsourced. The Highways Agency is an executive agency of the Department for Transport and thus the VAT it incurs on the purchase of any listed services is included in the Department for Transport's claim.

On 1 April 2015 the activities of the Highways Agency will be transferred to a strategic highways company. Since this company will not be an executive agency of the Department for Transport, and since it too will not be engaged in any substantial business activities, the existing legislation will not permit it to recover VAT. This measure will amend UK legislation to enable the new company to recover VAT, just as the Highways Agency does via the Department for Transport.

Detailed proposal

Operative date

This measure will have effect on and after 1 April 2015.

Current law

Section 41(3) of the Value Added Tax Act 1994 (VATA) refunds VAT incurred by government departments on supplies of goods and services to them, or importations or acquisitions made by them, in so far as the Treasury directs and provided the purchases are used for non-business purposes. A government department includes its executive agencies.

Sections 41(6) and 41(7) of the Value Added Tax Act 1994 have the effect of deeming other bodies to be government departments for these purposes.

Proposed revisions

This measure will add to the list in section 41(7) VATA a strategic highway company appointed under section 1 of the Infrastructure Act 2015, which the Government expects to be passed before 1 April 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals, households and families	The measure is expected to have no impact on individuals or households as it is only concerned with VAT for one publicly funded body. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	The measure is expected to have no equalities impact.					
Impact on business including civil society organisations	The measure is expected to have no impact on businesses or civil society organisations. It will only impact on the highways company that will take over from the Highways Agency.					
Operational impact (£m) (HMRC or other)	There will be no significant operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

As only one body is involved, this measure will be monitored through information collected on its tax returns and communication with it.

Further advice

If you have any questions about this change, please contact Graham Spencer on 03000 585822 (email: graham.spencer@hmrc.gsi.gov.uk).

VAT: refunds of non recoverable VAT for the London Legacy Development Corporation

Who is likely to be affected?

The measure applies to the London Legacy Development Corporation.

General description of the measure

This measure will specify the London Legacy Development Corporation (“LLDC”) as a body to which section 33 of the VAT Act 1994 applies. This will entitle the LLDC to refunds of VAT in respect of their non-business activities.

Policy objective

The Government’s objective is that irrecoverable VAT should not be a cost borne from local taxation. This is achieved by refunding to named bodies the VAT they incur on purchases made to support their non-business activities.

Background to the measure

During the bid to host the Olympic and Paralympics Games, promises were made to redevelop the Olympic Park after the Games had finished. The promise was to provide social, economic and environmental benefits for local communities. The Olympic Park is in a Mayoral Development area and the LLDC was established under the Localism Act 2011 for the purpose of providing this sustainable legacy. The Government wants to ensure that the associated VAT incurred in the redevelopment of the Olympic Park is refunded.

Detailed proposal

Operative date

The Statutory Instrument will have effect from 1 April 2015.

Current law

Section 33(1) requires the Commissioners of HM Revenue & Customs (HMRC) to refund to bodies the VAT they incur on purchases, acquisitions and imports made in connection with their non-business purposes. Some of these bodies are named in section 33(3), some are specified under the power to do so in section 33(3)(k).

Proposed revisions

The Treasury is using its power under section 33(3)(k) to specify the LLDC Corporation as a body to which section 33 applies, and which will therefore be entitled to reclaim VAT under section 33(1).

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer					
Economic impact	The measure is not expected to have any significant economic impacts					
Impact on individuals, households and families	This measure will have no direct impact on individuals and households as it applies only to the London legacy Development Corporation. This measure will have no impact on family formation, stability or formation.					
Equalities impacts	This measure will have no impact on any equality group.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses and civil society organisations. This is because the change only applies to the London Legacy Development Corporation.					
Operational impact (£m) (HMRC or other)	VAT refunds will be dealt with by established HMRC procedures. There will be no additional operational resource cost.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The VAT issues of the LLDC are dealt with by a dedicated unit within HMRC and normal audit activity will monitor whether the changes are working as intended.

Further advice

If you have any questions about this change, please contact Jo Turner on 03000 589470 (email: jo.turner@hmrc.gsi.gov.uk).

Alcohol duty: registration of alcohol wholesalers

Who is likely to be affected?

Businesses buying and selling alcoholic drinks for wholesale.

General description of the measure

This measure will introduce a requirement for wholesalers of alcohol, at or after the duty point, to be registered with HM Revenue & Customs (HMRC). Existing and new businesses trading wholesale in alcohol will be required to submit an application for registration. They must demonstrate to HMRC that they fulfil certain 'fit and proper' criteria, as well as complying with new record keeping obligations and operating due diligence when making purchases, to prevent exposure to the illicit alcohol market. Additionally, wholesalers and retailers of alcohol will be obliged to purchase alcohol only from registered wholesalers.

Policy objective

This measure is intended to reduce the prevalence of alcohol fraud in the wholesale and retail sectors. Creating a register of approved alcohol wholesalers will restrict the involvement of criminals and businesses willing to risk trading in illicit goods in this sector, consequently reducing the volumes of illicit (untaxed) alcohol entering retail supply chains. This will reduce unfair competition from illicit trading across the wholesale and retail sectors.

Background to the measure

This measure was announced at Autumn Statement 2013 following public consultation in 2012-13.

Detailed proposal

Operative date

The law will be enacted on and after the date of Royal Assent to Finance Bill 2015.

This measure will take effect from 1 October 2015 when a three month application window will open for wholesalers. HMRC will undertake a fifteen month programme of assurance activity from 1 January 2016 to assess whether all these businesses meet the 'fit and proper' criteria. Any new business which wishes to start trading and which has not applied to register before 1 January 2016 must apply to HMRC at least 45 working days before they intend to operate as HMRC will assess their 'fit and proper' status prior to their commencement. On and after 1 April 2017, the obligations for those who purchase alcohol from wholesalers will come into effect. This will include retailers of alcohol as well as wholesalers purchasing alcohol from other wholesalers.

In addition, new penalties will be introduced to encourage compliance but also deal with serious offenders. On and after 1 January 2016, wholesalers who are found to be either trading without having applied for registration before 1 January 2016, or trading beyond the conditions of their fit and proper approval, will be liable to a possible penalty. From 1 April 2017, new offences will also apply for those who buy from an unapproved wholesaler.

Current law

This measure introduces a new scheme. No current legislation applies to registration of wholesalers and no legislation applies to purchases of alcohol from a wholesaler.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend the Alcoholic Liquor Duties Act 1979 (ALDA 1979).

Secondary legislation will come into force on and after 1 October 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19																											
	nil	-5	+15	+235	+215																											
	These figures are set out in Table 2.2 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2013.																															
Economic impact	The measure is not expected to have any significant economic impacts.																															
Impact on individuals households and families	This measure is unlikely to have a direct impact on individuals and households as it is intended to reduce tax evasion, benefitting genuine alcohol wholesaler businesses and the Exchequer. This measure is not expected to have significant impacts on family formation, stability or breakdown.																															
Equalities impacts	The change is not expected to have a disproportionate impact on any protected equality groups.																															
Impact on business including civil society organisations	<p>There are approximately 21,000 businesses which will be expected to apply for registration for this scheme. HMRC expect that not all of these will be successful. As well as businesses which will be expected to register, also affected by this scheme will be alcohol retailers who will be expected to comply with due diligence requirements.</p> <p>There will be some additional burdens for businesses which include familiarisation with the legislation and the requirement to include the unique reference number on invoices. There is also an anticipated one-off burden on businesses who will be required to check HMRC's online lookup system to ensure all the suppliers they are currently dealing with are registered.</p> <p>The anticipated ongoing burden arises from the need to maintain record keeping on-site accessible to HMRC and the periodic online lookup to verify suppliers remain registered. There is an additional ongoing burden in the form of new businesses entering the market.</p> <p>In total, HMRC anticipates one-off costs across businesses of £9 million, and an additional annual burden of £3 million.</p> <table border="1"> <thead> <tr> <th></th> <th>Cost</th> <th>Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td colspan="3">Compliance Costs</td> </tr> <tr> <td>One-off Costs</td> <td>£9.2m</td> <td>N/A</td> </tr> <tr> <td>Average Annual Costs</td> <td>£2.6m</td> <td>5</td> </tr> <tr> <td>Total Costs (PV)</td> <td>£21.2m</td> <td>N/A</td> </tr> <tr> <td colspan="3">Compliance Benefits</td> </tr> <tr> <td>One-off Benefits</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Average Annual Benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Total Benefit (PV)</td> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table>						Cost	Time Period (yrs)	Compliance Costs			One-off Costs	£9.2m	N/A	Average Annual Costs	£2.6m	5	Total Costs (PV)	£21.2m	N/A	Compliance Benefits			One-off Benefits	N/A	N/A	Average Annual Benefit	N/A	N/A	Total Benefit (PV)	N/A	N/A
	Cost	Time Period (yrs)																														
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Total Benefit (PV)	N/A	N/A																														

	Net Benefit (NPV)	-£21.2m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£2m	£0m	£2m
	The impact on administrative burden (£2 million included in net benefit) represents the expected costs and benefits for the first year only. The £2.6 million included in compliance costs represent the average annual amount over the five years.		
Operational impact (£m) (HMRC or other)	This measure will cost HMRC approximately £6.2 million in one off IT costs and approximately £47 million in staffing and other resource costs for the 5 year period from 2014-15 to 2018-19. Early indications are that there could be a significant impact on the Tax Tribunal System and HMRC are working with the Ministry of Justice to better understand what that is and what the associated costs would be.		
Other impacts	<p><u>Carbon assessment:</u> the measure is not anticipated to have any significant impact on carbon emissions.</p> <p><u>Small and micro business assessment:</u> The requirements of the scheme do not differ depending on size of business. The scheme should result in a reduction in the undercutting of legitimate businesses by competition using illicit supplies of alcohol which can disproportionately hit smaller businesses. The anticipated one-off cost to small and micro sized businesses is estimated to be negligible, whereas the ongoing burden is estimated to be approximately £1 million per year.</p> <p><u>Justice impact test:</u> this has been discussed with Ministry of Justice and awaits further work.</p> <p>Other impacts have been considered and none have been identified.</p>		

Monitoring and evaluation

The measure will be monitored through information collected from tax receipts and tax gaps and the results of enforcement and compliance activity.

Further advice

If you have any questions about this change, please contact John Waller on 03000 588063 (email:john.c.waller@hmrc.gsi.gov.uk).

Tobacco duty anti-forestalling restrictions

Who is likely to be affected?

Manufacturers, importers, excise warehouse keepers, owners of tobacco goods in warehouses and registered consignees who remove, store or receive duty suspended cigarettes and other tobacco products intended for home use.

General description of the measure

This measure will give HM Revenue & Customs (HMRC) flexibility to impose forestalling restrictions against businesses that clear tobacco products in the three month period before a Budget. It will be exercised according to the circumstances faced at the time and the effectiveness of previous restrictions. Furthermore, it will provide certainty and reassurance to the tobacco industry on the scope of possible restrictions. The measure will also allow for appropriate sanctions to deter businesses from breaching the anti-forestalling restrictions.

Policy objective

This measure makes the anti-forestalling restrictions fairer by preventing tobacco manufacturers clearing large quantities of goods immediately before an increase in the rate of duty. The introduction of a new penalty will be effective, proportionate and dissuasive.

Background to the measure

This measure was announced at Budget 2014. All businesses directly affected by the changes were contacted by letter and their views sought on the proposed changes during summer 2014.

Restrictions have been imposed on clearances of cigarettes in the run up to Budget for the last thirteen years. The purpose of the restrictions is to prevent tax avoidance through clearing large quantities of goods immediately before an increase in the rate of duty. Restrictions imposed have succeeded in controlling the amount of forestalling. However, whilst the tobacco manufacturers comply with their quota limits in the last few years they have cleared a significant amount of product in March, ensuring that as much stock as possible is cleared at the lower, pre-Budget rate of duty.

Detailed proposal

Operative date

This measure will have effect in time to apply to the forestalling restrictions ahead of the 2016 Budget.

Current law

Section 128(1) of the Customs and Excise Management Act 1979 (CEMA) allows the Commissioners to issue Directions to restrict, for a specified period, the quantities of excise goods (in this case tobacco) that may be removed for home-use from duty suspended storage, or cleared at import for sale and consumption in the UK to quantities that appear reasonable.

Penalties are currently provided for by Sections 6(1)(b) and 7(2) of the Tobacco Products Duty Act (TPDA) 1979.

Proposed revisions

TPDA 1979 will include a new section 6A to provide a tobacco specific power to allow HMRC to vary the forestalling restrictions from year to year by public notice.

The primary legislation will set clear parameters within which the restrictions will apply and will give HMRC the power to vary the scope of the restrictions to include other tobacco products. HMRC will continue to monitor the anti-forestalling provisions and work closely with tobacco industry to minimise administrative burdens.

Under the general power HMRC will be able to adapt the formula to:

- change aspects of the current formula regarding the calculation of the total quantity of tobacco product involved with a minimum allowance specified as a proportion of annual clearances;
- introduce a cap of a maximum percentage of the total allocation which can be cleared in any one month with minimum percentage restrictions for a month specified in primary legislation; or
- introduce equal monthly restrictions within the overall period of the restriction.

TPDA 1979 will also include a new section 6B which will introduce a new financial penalty for non-compliance with the restrictions.

The new penalty will be based on twice the lost duty if tobacco products are cleared in excess of the allocation (the lost duty being the difference between the pre-Budget rate of duty and post budget rate of duty).

HMRC may reduce the penalty to 150 per cent of the lost duty in prescribed circumstances when a voluntary admission of an excess clearance is made.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	This measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	This measure will have a negligible impact on individuals, households and families. This measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure is not expected to have an equalities impact.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. There will be a small adjustment to the calculation of duty due in each month, but there will be no additional administrative burdens as a result of this measure. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	HMRC will incur a negligible cost for changing anti-forestalling restrictions each year.					

Other impacts	<u>Small and micro business assessment</u> : changes to tobacco anti-forestalling restrictions will affect all sizes of businesses, including small and micro business who remove certain tobacco products for home use. The impact on small and micro business is expected to be negligible. Other impacts have been considered and none have been identified.
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Monitoring and evaluation

HMRC intends to continue to review anti-forestalling arrangements annually, and this will inform the restrictions for the following year.

Further advice

If you have any questions about this change, please contact Louise Shelton 03000 588068 (email: louise.shelton@hmrc.gsi.gov.uk).

Fuel duty: aqua methanol set aside for use, or used, as fuel in any engine, motor or machinery

Who is likely to be affected?

Businesses producing and importing, and consumers of, hydrocarbon oils and alternative fuel products.

General description of the measure

This measure provides a separate rate of excise duty for aqua methanol that is set aside for use, or used, as fuel in any engine motor or other machinery.

Policy objective

Certain alternative fuels such as compressed natural gas, liquid natural gas and biomethane currently benefit from a lower rate of fuel duty than that applied to petrol and diesel, in recognition of their environmental benefits. From 1 April 2015, aqua methanol will be added to the list of cleaner fuels that will benefit from a reduced rate of fuel duty.

Background to the measure

At Autumn Statement 2013, the Government announced that the duty differential between the lower rate for alternative road fuel gases and the main rate for petrol/diesel will be maintained until 2024, with a review of the impact of these incentives at Budget 2018.

The Government announced at Budget 2014, that it will apply a reduced rate of fuel duty to aqua methanol. The rate is set at 7.90 pence per litre.

The duty incentive for aqua methanol will be reviewed at Autumn Statement 2016.

Detailed proposal

Operative date

The change will have effect on 1 April 2015.

Current law

Excise duty rates are in section 6 of the Hydrocarbon Oil Duties Act (HODA) 1979, which contains the rates for hydrocarbon oils; sections 6AA, 6AB, 6AD and 6AE contains the rates for biofuels; section 8 contains the rates for road fuel gases; section 11 contains rebated rates for heavy oils; section 14 contains the rebated rate for light oil used as furnace fuel; and section 14A contains the rebated rate for certain biodiesel.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to introduce a new rate of fuel duty for aqua methanol composed of 95 per cent pure methanol and 5 per cent water. Two statutory instruments will also be laid before Parliament to come into force at the same time:

- The Biofuels and Other Fuel Substitutes (Payment of Excise Duties etc.)(Amendment) Regulations 2015, provide for the administration and collection of excise duty charged on aqua methanol.

- The Aqua Methanol (Use as Additive or Extender) (Rates of Excise Duty) Order 2015 Order. This sets the rates for aqua methanol when used as an additive or extender in other fuels.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-5	-10	- 20	-40
	These figures were set out in Table 2.1 of Autumn Statement 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costing document published alongside Autumn Statement 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals, households and families	This measure is not expected to have an impact on family formation, stability or breakdown.				
Equalities impacts	This measure is not expected to have an impact on any equalities group.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. At present, few businesses are invested in producing aqua methanol for road fuel use. As a result, both the expected one off costs from familiarising with the new rate, and the ongoing costs from ensuring the correct, lower, duty rate is paid are expected to be negligible. This measure is expected to have no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	The measure is expected to increase availability of aqua methanol, and so could have an impact on compliance risk.				
Other impacts	<p><u>Carbon assessment</u>: The overall support for cleaner fuels measure is expected to deliver carbon savings.</p> <p><u>Small and micro business assessment</u>: small businesses will benefit where aqua methanol fuel is part of their ongoing running costs.</p> <p>Other impacts have been considered and none have been identified.</p>				

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Ademola Adetosoye on 03000 586040 (email: ademola.adetosoye@hmrc.gsi.gov.uk).

Aggregates levy: credits in Northern Ireland

Who is likely to be affected?

Anyone who accounted for aggregates levy at the full rate on aggregate that was commercially exploited between 1 April 2004 and 30 November 2010 in Northern Ireland (NI) following importation from another European Union (EU) Member State.

General description of the measure

The measure will entitle eligible claimants to a credit of 80 per cent of aggregates levy that was paid at the full rate on aggregate commercially exploited in NI between 1 April 2004 to 30 November 2010 (the relevant period), where the aggregate was imported from another EU Member State. Claimants will need to provide evidence to the Department of Environment (DoE) in NI to demonstrate that the quarry from which they obtained the aggregate met specified environmental standards.

Policy objective

This measure removes a distortion that arose from excluding aggregate that originated in other EU Member States from the tax benefit derived from participation in the Aggregates Levy Credit Scheme (ALCS). It does this by allowing a credit from aggregates levy for aggregate that was commercially exploited in NI during the relevant period following importation from an EU Member State other than the UK, where certain conditions are met.

Background to the measure

The aggregates levy was introduced in 2002 and is a tax on sand, rock and gravel commercially exploited in the UK. From the outset a credit scheme was introduced in NI to help aggregate producers there cope with the very different market conditions to those in Great Britain as a result of being the only part of the UK to share a land boundary with another EU Member State. This scheme was adjusted in 2004 in response to concerns that the levy was not having the intended effect in NI.

From 1 April 2004, the ALCS provided an 80 per cent credit from the aggregates levy to anyone who commercially exploited aggregate in NI, on condition that the aggregate originated there and that the quarry operator entered into an agreement with the DoE in NI. The agreements set targets for improvement in the environmental performance of the quarry's operations. DoE assessed the quarry's environmental standards and monitored performance against the agreement targets. Compliance was reflected by the issue of a certificate by DoE, which was used to support claims to HM Revenue and Customs (HMRC) for tax credit.

The ALCS received the European Commission's State aid approval in 2004 but, following a legal challenge by the British Aggregates Association, that approval was annulled by the European General Court in September 2010. As a result, the scheme was suspended from 1 December 2010, pending a full investigation by the Commission.

The Commission completed its investigation into the ALCS and published its decision on 7 November 2014. It concluded that it is broadly content with the scheme but requires the UK to correct the distortion of competition that arose from limiting the ALCS tax benefit to aggregate originating in NI.

HMRC published Revenue and Customs Brief 41/14 on 17 November 2014 setting out more detail on how the scheme will operate. Draft legislation was published on 10 December 2014.

Detailed proposal

Operative date

This measure will have effect on the date that Finance Bill 2015 receives Royal Assent for qualifying aggregate that was commercially exploited in NI during the relevant period. Claims must be submitted to HMRC within four years of the legislation coming into force.

Current law

The primary legislation for aggregates levy is set out in Finance Act (FA) 2001. The ALCS was introduced by section 30A of that Act which provided for regulations setting out how the scheme operated. These regulations - the Aggregates Levy (Northern Ireland Tax Credit) Regulations 2004 (SI 2004/1959) - were revoked by the Aggregates Levy (Northern Ireland Tax Credit) (Revocation) Regulations (SI 2010/2598) with effect from 1 December 2010.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to add sections 30B, 30C and 30D to FA 2001 to provide for credits of 80 per cent on aggregate where the full rate of levy was paid when the aggregate was commercially exploited in NI during the relevant period following its importation from another Member State. Secondary legislation laid before Parliament in spring 2015 will specify evidence needed to support claims, including details of the originating quarry.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
The Office for Budget Responsibility has included these numbers in its forecast.						
Economic impact	The measure is not expected to have any significant economic impact.					
Impact on individuals, households and families	This measure concerns the taxation of businesses. There will be no direct impact on individuals. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	This measure concerns the taxation of businesses and there will be no direct impact on individuals. As such it is very unlikely that there will be any impact on equality.					
Impact on business including civil society organisations	This measure is expected to have negligible impact on fewer than 100 businesses. A business wishing to claim a levy credit will need to supply DoE with details of the quarry in the other Member State from which it obtained the aggregate. DoE will investigate the environmental standards that applied at that quarry at the time of the purchase and, if satisfied that those standards were broadly equivalent to those met by quarries in NI under the ALCS, will issue the business with a certificate. The business will then need to write to HMRC to claim a levy credit, attaching a copy of the DoE certificate and other evidence supporting its claim.					

	Businesses affected by this measure will be familiar with the ALCS and, since the mechanism for claiming credits will be similar to that scheme, there should be little by way of familiarisation costs. The businesses should also be familiar with the procedures for claiming credits from HMRC.
Operational impact (£m) (HMRC or other)	Operational costs of the DoE in NI and for HMRC will be negligible.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through regular communications with the DoE in NI and HMRC's Environmental Taxes Unit of Expertise who will jointly manage its implementation.

Further advice

If you have any questions about this change, please contact Catherine Osborne on 03000 536971 (email: catherine.osborne@hmrc.gsi.gov.uk).

Landfill tax: compliance work in relation to lower rate

Who is likely to be affected?

Landfill site operators that are responsible for accounting for landfill tax in England, Wales and Northern Ireland; and operators of mechanical treatment plants and other waste industry interests that send waste fines for landfill in these parts of the UK.

General description of the measure

The measure will introduce a new, objective testing regime to help landfill site operators to identify the landfill tax liability of waste fines disposed of at landfill sites in England, Wales and Northern Ireland. In order to qualify for the lower rate of tax, waste fines must not exceed a 10 per cent threshold under an established scientific test (known as the 'loss on ignition test' (LOI)) undertaken on samples of waste. There will be a 12 month transitional period where the threshold will be 15 per cent.

Policy objective

The measure will help landfill site operators to identify the tax liability of waste fines sent for disposal at their sites by making available an objective scientific test to test samples. By prescribing the detailed specifications for the testing regime, as requested by the waste management industry, the Government is seeking to ensure that waste going to landfill is consistently declared at the prescribed rate, reducing the scope for errors and deliberate mis-description.

Background to the measure

Landfill tax was introduced on 1 October 1996 in support of the UK's waste policy. Less polluting materials are subject to a lower rate of tax and all other taxable waste is subject to the standard rate. The tax currently applies to waste disposed of at permitted landfill sites across the UK but from April 2015 it will no longer apply in Scotland.

Landfill site operators are responsible for ensuring the correct tax liability of waste is identified and charged. They raised concerns that the lower rate of tax was not being applied equitably and requested greater certainty on which to base their liability decisions, particularly in relation to fines - the smaller fractions of waste produced by any waste treatment process that includes an element of mechanical treatment. At present, fines are not separately identified within landfill tax legislation although they can be lower-rated if they comprise solely qualifying materials listed in legislation or mainly such materials, save for a small amount of non-qualifying material.

The Government responded by setting up a government-industry working group to consider the issues and develop proposals. Budget 2014 announced that, to assist landfill operators to determine the landfill tax liability of fines produced from the processing of waste at mechanical treatment plants, the Government would introduce an objective testing regime for waste sent to landfill, by April 2015.

A formal consultation was carried out during the summer on the proposals for how the testing regime will operate, including processes for the testing of samples and record-keeping requirements. The proposals set out in the consultation paper have been refined through further discussion with the government-industry working group. At Autumn Statement 2014 the Government published a summary of the responses received and its response to the

outcome of the consultation. Draft primary legislation is being published on 10 December 2014.

Detailed proposal

Operative date

This measure will apply to disposals to landfill made, or treated as made, on or after 1 April 2015.

Current law

Landfill tax primary legislation is contained in Finance Act (FA) 1996 – sections 39 to 71 and Schedule 5. Section 42(4) provides for material that is disposed of to landfill and is listed in a Treasury Order to be taxable at the lower rather than the standard rate of landfill tax. Such material is termed ‘qualifying material’ and is listed in the Landfill Tax (Qualifying Material) Order 2011 (the 2011 Order) in a number of groups. Section 63 of FA 1996 contains further provisions in relation to qualifying material, including that the Treasury Order may provide that material must not be treated as qualifying material unless prescribed conditions are met.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to add new provisions to section 63 of FA 1996 and amendments to Schedule 5. The new provisions will allow secondary legislation to specify the conditions that must be met for fines to qualify for the lower rate and provide for detailed specifications to be set out in a public notice published by HM Revenue & Customs (HMRC).

Secondary legislation to be laid before Parliament in spring 2015 will add a new Group to the 2011 Order covering fines from mechanical treatment plants and set out the conditions for these fines to be lower rated, including in relation to the:

- composition of fines to be disposed of;
- testing whether fines are qualifying material;
- level of the LOI threshold above which the lower rate will not apply;
- frequency with which fines must be tested;
- checks landfill site operators will need to undertake on those sending fines to their sites; and
- keeping of samples of material on which tests have been carried out.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
This measure is not expected to have an Exchequer impact.						
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	As landfill operators are responsible for arranging tests and paying landfill tax on waste to HMRC, this measure will not have a direct impact on individuals, households or families.					
Equalities impacts	This measure concerns the taxation of businesses and there will be no direct impact on individuals. As such it is very unlikely that there will be any impact on equality.					

<p>Impact on business including civil society organisations</p>	<p>This measure will affect operators of mechanical treatment plants and other producers of fines as well as landfill operators upon whom the tax liability falls, and any other customers upon whom additional cost or changes in tax liability may be passed. There are currently around 200 registered landfill site operators and 450 mechanical treatment plants that produce fines in England, Wales and Northern Ireland.</p> <p>Since the test will apply at the point the waste is tipped to landfill the main additional administrative burdens will be on operators of landfill sites. One-off costs may include:</p> <ul style="list-style-type: none"> • time needed to familiarise themselves with the new rules; • IT system changes; • LOI sampling training for site staff; • identifying and setting up suitable storage facilities. • Continuing costs may include: <ul style="list-style-type: none"> • the monetary fee of the LOI test charged by the laboratory; • sampling - the process for selecting a representative sample will be specified in legislation. Each test will require both the vehicle driver to remain with the load while it is tipped away from the tipping area in a safe environment and a landfill site operator to take the required sample; • sending samples to laboratories and ensuring that each can be attributed to the company that tipped the waste; • storing samples in case they need to be reviewed, including by HMRC; • maintaining a log of test results; • analysing test results; • reporting the results of failed tests to HMRC; • re-invoicing in cases where the original invoice has been based on the lower rate, and the waste subsequently fails the test; • additional credit control and site costs dealing with customer disputes • tracking of failures and reporting costs. <p>The cost of an LOI test on a sample is roughly £10 and is carried out by testing laboratories, taking one to two weeks. The test rate minimum should be one in every thousand tonnes, plus possible additional tests for failed samples and small producers, total fees paid by business for the tests would likely be between £50,000 and £100,000. This is included in the continuing costs shown below.</p> <p>Checks and testing may already be carried out by some landfill operators, significantly reducing the additional costs for those operators.</p> <p>This measure is expected to have no impact on civil society organisations.</p>
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		Cost	Time Period (years)
	Compliance Costs		
	One-off Costs	negligible	N/A
	Average Annual Costs	£0.2m	6
	Total Costs (PV)	£1.3m	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	N/A	N/A
	Total Benefit (PV)	N/A	N/A
	Net Benefit (NPV)	-£1.3m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0.2m	£0	£0.2m
Operational impact (£m) (HMRC or other)	This measure will have minimal operational impact on HMRC.		
Other impacts	<p><u>Small and micro business assessment</u>: small and large businesses will face the same cost per test.</p> <p>Other impacts have been considered and none have been identified.</p>		

Monitoring and evaluation

The measure will be monitored through regular meetings of the government-industry working group.

Further advice

If you have any questions about this change, please contact Phil Sears on 03000 585502 (email: phil.sears@hmrc.gsi.gov.uk).

Carbon price floor: fossil fuels used in a combined heat and power station to generate good quality electricity consumed on-site

Who is likely to be affected?

Businesses and organisations owning or operating combined heat and power (CHP) plant.

General description of the measure

This measure excludes from the carbon price support rates (CPS rates) fossil fuels used in a CHP station to generate good quality electricity that is self-supplied or supplied under exemption from the requirement to hold an electricity supplier licence.

Policy objective

The carbon price floor (CPF) was introduced in Great Britain in 2013, introducing CPS rates of climate change levy (CCL) and fuel duty on fossil fuels used in electricity generation. These rates top up the EU Emissions Trading System carbon price in order to create a long-term price for carbon in Great Britain and provide certainty for businesses investing in low carbon electricity generation.

CHPs provide one of the most cost effective approaches for making carbon savings and play an important role in achieving the government's environmental ambitions. This measure mitigates the impact of the CPF on CHP operations and provides a targeted means of reducing the cost of electricity for manufacturing sites that are supplied by carbon efficient CHPs. The government is committed to meeting its environmental goals whilst taking careful account of the costs of policies to ensure it does not impose unnecessary burdens on business and households.

Background to the measure

CHP stations are a class of technology that enables the efficient use of fuel by producing both electricity and heat in a usable form from the same input of fuel. Where the efficiency of the combined production of heat and electricity exceeds certain thresholds the electricity generated is deemed to be good quality. The efficiency of CHP stations is monitored and certified by the CHP Quality Assurance (CHPQA) programme, operated by the Department of Energy and Climate Change.

Natural gas, liquid petroleum gas or solid fossil fuels used in electricity generation are liable to the CPS rates of CCL. For CCL purposes, a self-supply is deemed to occur when these commodities are burnt to generate electricity in a CHP that has a generating capacity of more than 2 megawatts, with the operator of the CHP being required to pay the relevant CPS rate of CCL on that supply.

Oils and bioblends used in electricity generation are liable to the CPS rates of fuel duty. Insofar as a CHP achieves the efficiency threshold set by the CHPQA, duty on fuel can be reclaimed. The amount reclaimable is reduced by the relevant CPS rate to the extent that the fuel is used to generate electricity.

The effect of current CCL and fuel duty legislation is therefore that all commodities used in a CHP station to produce heat, steam or mechanical power are excluded from the CPS rates. Budget 2014 announced that this exclusion would be extended to fossil fuels used in a CHP station to generate good quality electricity consumed on-site. Since then HM Revenue and Customs (HMRC) have been working with industry representatives on the definition of on-site

and other details. The primary and secondary legislation was published in draft on 10 December 2014 along with explanatory material.

Detailed proposal

Operative date

This measure will apply to commodities liable to the CPS rate of CCL that are brought onto or arrive at the site of a CHP station on or after 1 April 2015; and to qualifying oils or bioblends used to generate electricity on or after 1 April 2015, irrespective of when that oil was supplied to the generator.

Current law

Schedule 6 to the Finance Act 2000 (Schedule 6) contains the CCL primary legislation. Paragraph 24(B) of Schedule 6 makes CPS rate commodities burned to generate electricity in a CHP station subject to a deemed self-supply. Paragraph 42A sets out the CPS rates applicable on such deemed self-supplies.

The Climate Change Levy (General) Regulations 2001 (SI 2001/838) (the general regulations) govern the administration of CCL. Regulation 51N and Schedule 3 set out how the proportion of fuel attributable to the generation of electricity is to be calculated.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) (the 2005 regulations) enable generators who use oil to generate electricity to reclaim the fuel duty paid on the oil when it leaves the refinery. Regulation 10 sets out the amount that can be reclaimed in relation to a CHP.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Schedule 6. Commodities liable to the CPS rates of CCL will be excluded from the scope of the deemed self-supply where these are used to generate good quality electricity which is self-supplied, or supplied under an exemption from the requirement to hold an electricity supplier licence under the Electricity Act 1989.

Two statutory instruments will be laid before Parliament to come into force on 1 April 2015:

- *The Climate Change Levy (General) (Amendment) Regulations 2015* will amend the general regulations to calculate the proportion of fuel that remains subject to a deemed supply for the purposes of the CPS rates of CCL.
- *The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendments for Carbon Price Support) Regulations 2015* will amend the 2005 regulations to adjust the amount of fuel duty that can be reclaimed by a CHP using oils.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	- 65	- 70	- 75	- 80
	These figures were set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals, households and families	This measure is not expected to have an impact on family formation, stability or breakdown.				
Equalities impacts	This measure is not expected to have an impact on any equalities group.				
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses.</p> <p>There will be an initial one-off cost to businesses in familiarisation with the exclusion and understanding the on-site definition. There will be continuing costs in determining how much electricity generated is good quality although this is not a new requirement.</p> <p>The measure is likely to affect about 350 owners or operators of CHPs. Many small, fully exempt CHP stations which consume all the electricity they generate themselves are likely to be relieved in full from paying the CPS rates. Industrial scale plants which generate more electricity than they consume on-site will continue to have a liability to the CPS rates. Manufacturers, industrial operators and other consumers supplied by CHPs are expected to benefit from reduced electricity costs.</p> <p>This measure is expected to have no impact on civil society organisations.</p>				
Operational impact (£m) (HMRC or other)	There will be no significant operational impacts.				
Other impacts	<p><u>Carbon assessment:</u> this measure provides a targeted means of reducing the cost of electricity for manufacturing sites that are supplied by carbon efficient CHPs and in the longer term could have the effect of reducing carbon leakage.</p> <p><u>Small and micro business assessment:</u> this measure is expected to have no impact on small and micro businesses. It impacts on businesses and organisations owning or operating CHP plants.</p> <p>Other impacts have been considered and none have been identified.</p>				

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups. The change will be monitored and reviewed as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact Andy Jameson on 03000 586082 (email: andy.jameson@hmrc.gsi.gov.uk).

Stamp duty land tax: reform of structure, rates and threshold

Who is likely to be affected?

Purchasers and vendors of UK residential property worth more than £125,000.

General description of the measure

The measure changes the rules for calculating the stamp duty land tax (SDLT) charged on purchases of residential properties. At present SDLT is charged at a single percentage of the price paid for the property, depending on the rate band within which the purchase price falls. From 4 December 2014, SDLT will be charged at each rate on the portion of the purchase price which falls within each rate band.

The new rates and thresholds are:

Property value band	Rate
£0 - £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001+	12%

Policy objective

This measure makes the tax system fairer and more efficient by removing the distortions associated with the current structure, which results in large increases in the amount of tax payable as soon as the price paid exceeds a rate threshold.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on and after 4 December 2014. Where contracts have been exchanged but transactions have not completed on or before 3 December 2014, purchasers will have a choice of whether the old or new structure and rates apply. This measure will apply in Scotland until 1 April 2015, when SDLT is devolved.

Current law

The main SDLT legislation is in Part 4 Finance Act 2003. Section 55 provides for the amount of tax chargeable and sets out separate tables of rates for purchases of residential and non-residential (or mixed residential and non-residential) property. Section 56 and Schedule 5 Finance Act 2003 provide for a separate SDLT charge on the net present value of the rent payable under a new lease.

Proposed revisions

A Bill will be introduced in December 2014 to amend section 55, to provide for a new method of calculating the amount of tax due in respect of transactions to which Table A (residential property) applies and to amend the tax rates and thresholds set out in Table A.

The changes will have effect on and after 4 December 2014 by virtue of a resolution under the Provisional Collection of Taxes Act 1968.

There will be no changes in respect of transactions to which Table B (non-residential and “mixed” property) applies, or to the Schedule 5 charge on the net present value of rent.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-395	-760	-840	-850	-815	-785
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	Removing distortions associated with the current structure of SDLT whilst lowering the cost of moving for the vast majority of the market will encourage more efficient use of the housing stock.					
Impact on individuals, households and families	<p>There are approximately 1,000,000 residential property transactions per year. All residential property transactions worth less than £937,500 will pay the same SDLT or less compared to the current system. This is equivalent to 98 per cent of transactions.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>The impact of these changes will reflect the demographic composition of buyers across the spectrum of property values.</p> <p>This measure is not expected to have an impact on any of the other legally protected equality groups.</p>					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses. Approximately 40,000 businesses (lawyers and conveyancers) are expected to incur negligible one-off costs due to familiarising themselves with the new structure of SDLT. The process of automatically calculating the amount of tax will be fully integrated into HMRC online systems from April. Before then HMRC is providing online calculators to reduce the administrative burden of the change in method to taxpayers. There may be an additional ongoing cost for the few businesses that do not file online. This is also anticipated to be negligible.</p> <p>This measure is expected to have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	Changes will be required to HM Revenue and Customs (HMRC) IT systems including online tax calculators. In advance of the main systems changes HMRC will support customers by providing a standalone online calculator, boosting Helpline capacity and contacting agents to inform them of the change in rules. The changes and interim support will cost £600,000 for IT and up to £1.25 million in staff time and other costs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored and assessed through information collected from tax returns, and published as Official Statistics.

Further advice

If you have any questions about this change, please contact the HMRC SDLT Helpline on 0300 200 3510 (from abroad +44 1726 209 042).

(This TIIN was first published on 3 December 2014)

Stamp duty land tax: alternative property finance

Who is likely to be affected?

Persons who finance property purchases using a home purchase plan authorised by the Financial Conduct Authority.

General description of the measure

This measure will expand the definition of a financial institution for the purposes of the stamp duty land tax (SDLT) alternative property finance reliefs to enable users of home purchase plans to benefit from the reliefs. Home purchase plans are a way of financing a home purchase that does not involve the payment of interest and are regulated in a similar way to conventional mortgages.

Policy objective

This measure makes the tax system fairer and more straightforward by ensuring that those who finance the purchase of their home using a home purchase plan pay the same level of SDLT as those who use a conventional mortgage.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for transactions with an effective date on or after the date on which Finance Bill 2015 receives Royal Assent.

Current law

Sections 72A to 73BA of the Finance Act (FA) 2003 provide relief from SDLT for additional charges that can arise when a property is purchased using alternative methods of financing a property purchase that do not involve the payment of interest. The relief is only available where the financier in the arrangements is a financial institution as defined by sections 73BA.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 73BA of FA2003 to include within the definition of a financial institution persons authorised and regulated by the Financial Conduct Authority to provide home purchase plans.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	The measure is not expected to have any significant economic impact.					
Impact on individuals, households and families	<p>These changes will allow individuals, households and families to access an alternative method of financing the purchase of a home, which does not require them to have a deposit or use a conventional debt based mortgage.</p> <p>It is expected that at least 2,000 households will benefit from these changes over the next few years.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	These changes are not expected to have an impact on any protected equality groups.					
Impact on business including civil society organisations	The impact on businesses and the third sector is expected to be minimal as this product is aimed at individuals purchasing residential property, although the availability of relief may encourage businesses/charities to provide home purchase plans. The cost of administering these changes is expected to be negligible.					
Operational impact (£m) (HMRC or other)	These changes are not expect to have any signification operational impact.					
Other impacts	<p><u>Small and micro business assessment:</u> the measure is expected to have negligible impact on small and micro businesses, the relief may encourage them to provide home purchase plans.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

These changes will be monitored through the SDLT compliance programme.

Further advice

If you have any questions about this change, please send an email to stampstaxes.budget&financebill@hmrc.gsi.gov.uk.

Stamp duty land tax treatment of shared ownership properties in lease and leaseback arrangements

Who is likely to be affected?

Qualifying bodies such as housing associations with shared ownership property stock and investors who wish to enter into lease and leaseback arrangements.

General description of the measure

This measure will extend the scope of stamp duty land tax (SDLT) multiple dwellings relief so that purchases from housing associations of superior leasehold interests in property subject to shared ownership leases can attract relief, where the transaction is part of a “lease and leaseback” arrangement. This will reduce the SDLT cost to investors participating in funding arrangements of this kind.

Policy objective

This measure may encourage private investment in shared ownership properties as the SDLT burden on investors is reduced, enabling more housing association properties to be built without reliance on grant, and may bring forward development plans. This will help achieve the Government’s objective of increasing the provision of low-cost homeownership.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for transactions with an effective date on or after the date on which Finance Bill 2015 receives Royal Assent.

Current law

Under section 58D and Schedule 6B Finance Act (FA) 2003, transactions involving interests in more than one dwelling can attract SDLT relief which reduces the amount of tax payable, subject to a minimum of 1 per cent of the chargeable consideration for the transaction. This reduces the SDLT burden on transactions of this kind closer to that which is borne by purchasers of individual dwellings.

This relief does not apply to superior freehold or leasehold interests in dwellings subject to a long lease (that is, a lease granted for more than 21 years). This excludes from relief purchases of “ground rents” of blocks of flats held on long leases at minimum rents.

Under Section 70 and Schedule 9 Finance Act 2003, special rules apply to simplify the SDLT treatment of purchases of individual dwellings from housing associations and certain other public sector housing bodies (known as “qualifying bodies”) under shared ownership lease arrangements.

Under section 71 Finance Act 2003, relief is available to exempt from charge to SDLT the “leaseback” transaction in a “sale and leaseback” or “lease and leaseback” arrangement undertaken for financing purposes.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Schedule 6B Finance Act 2003 to allow multiple dwellings relief for the grant of a superior leasehold interest where the vendor is a “qualifying body” for the purposes of the SDLT shared ownership legislation at Schedule 9 and the transaction is part of the “lease” element of a “lease and leaseback” arrangement and the “leaseback” element is eligible for relief under section 71.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>An increase in the supply of affordable housing would affect those who move into those houses.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>These types of properties are typically targeted at first-time buyers who, on average, are younger and have less income than non first-time buyers.</p> <p>Beyond that, this measure is not expected to have an impact on legally protected equality groups.</p>					
Impact on business, including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. This measure will only affect a very small number of investors who enter into lease and leaseback arrangements with housing associations. In order to claim relief from SDLT a claim must be made on the land transaction return form; we expect the additional administrative burden for businesses from this to be negligible.					
Operational impact (£m)	There are minimal operational impacts. No IT or staffing changes are needed for HMRC to administer the extended relief.					
Other impacts	<p><u>Small and micro business assessment</u>: this measure impacts mainly on investors and property developers. It is expected to have no impact on small and micro businesses.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

This measure will be monitored through information collected from SDLT returns and the SDLT compliance programme

Further advice

If you have any questions about this change, please contact Keith Brown on 03000 585733 (email: keith.brown@hmrc.gsi.gov.uk).

Capital gains tax: non-UK residents and UK residential property

Who is likely to be affected?

Non-UK resident persons that own UK residential property, in particular:

- non-UK resident individuals;
- non-UK resident trusts;
- personal representatives of a deceased person who was non-UK resident; and
- non-UK resident companies controlled by five or fewer persons, except where the company itself, or at least one of the controlling persons, is a 'qualifying institutional investor'.

It will also affect some UK resident individuals disposing of properties overseas, or who spend part of a tax year abroad.

General description of the measure

The measure will apply a capital gains tax (CGT) charge to gains accruing on the disposal of UK residential property by non-UK resident persons.

Policy objective

The measure improves the fairness of the tax system by addressing the current imbalance between the treatment of UK residents and non-residents disposing of UK residential property.

Background to the measure

This measure was announced at Autumn Statement 2013. The consultation "*Implementing a capital gains tax charge on non-residents*" ran between 28 March and 20 June 2014. A summary of responses to the consultation was published on 27 November 2014.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015.

Current law

Section 1 of the Taxation of Chargeable Gains Act 1992 (TCGA) provides, broadly, that a company is chargeable to corporation tax, and not CGT, in respect of chargeable gains accruing to them. Section 5 of the Corporation Tax Act 2009 then limits the charge to corporation tax to UK resident companies and non-UK resident companies that carry on a trade in the UK through a UK permanent establishment.

Section 2 of the TCGA provides that a person (other than a company) is chargeable to CGT in respect of chargeable gains accruing to him in a tax year if a residence condition is met. That residence condition limits the charge to CGT to UK residents.

The Taxes Management Act 1970 contains provision about returns and payment of CGT.

Sections 222 to 226B of the TCGA provides relief from CGT for a person's only or main residence ("private residence relief"), which includes allowing a taxpayer with more than one residence for a period to determine which is his main residence.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend sections 1 and 2 of the TCGA and insert new sections to bring non-UK residents within the charge to CGT when they dispose of a UK residential property interest.

Non-UK resident individuals and trustees may be able to benefit from private residence relief if they meet new qualifying conditions. But provisions will also restrict access to private residence relief for properties located in a territory in which the individual is not tax resident where the person does not spend a minimum of 90 midnights in the property over the year.

Non-resident institutional investors that are diversely owned, and companies that are not controlled by five or fewer persons will be exempt from the charge. Companies that are within the new charge and part of a group may treat the assets of the group on a 'pooled' basis, with gains and losses of different non-resident group members being offset in year, unrelieved losses carried forward, and transfers within the group on a tax-neutral basis.

Provisions will make clear that a residential property interest includes an interest in land that has at any time in the person's ownership consisted of or included a dwelling. The meaning of 'dwelling' will be based on that found within the annual tax on enveloped dwellings (ATED) legislation but will be modified, in recognition of changes to the provision of student accommodation, to make clear that purpose built student accommodation that is not linked to a specific institution is one of the classes of use not regarded as use as a dwelling.

Provisions will make clear that the CGT charge will be due to be paid within 30 days of the property being conveyed, unless the person has a current self-assessment record with HM Revenue & Customs (HMRC) when payment will be at the normal due date for the tax year in which the disposal is made.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	nil	+15	+45	+70
	These figures are set out in Table 2.2 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2013.				
Economic impact	The measure is not expected to have any significant economic impacts. Most non-residents will be subject to tax on their gains in their country of residence. This measure merely alters the balance of taxing rights, aligning the UK with most other countries.				
Impact on individuals, households and families	The measure will increase the CGT liability for non-residents disposing of UK residential property and will create parity between UK residents and non-residents disposing of UK residential property. The measure is not expected to impact on family formation, stability or breakdown.				
Equalities impacts	This measure is not expected to have a disproportionate impact on any protected group.				
Impact on business including	This measure will affect non-resident businesses. It is likely to mostly affect small non-resident property rental and investment businesses. It is estimated that there will be negligible one off costs for businesses making property				

<p>civil society organisations</p>	<p>disposals in future needing to familiarise themselves with the new legislation and reporting requirements.</p> <p>It is assumed that the majority of businesses will dispose of at most one residential property per annum. There will be additional administrative burdens each time a non-resident business makes a disposal of a property – they will need to complete a new return and pay within 30 days unless they already complete self-assessment returns for other reasons. These burdens are expected to be approximately £0.3 million per annum for approximately 4,000 property disposals in total per annum, if all non-resident businesses comply with their obligations.</p> <p>The measure will not impact on charities as they are exempt under the current legislation.</p> <p>Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.</p> <table border="1" data-bbox="416 745 1401 1592"> <thead> <tr> <th></th> <th>Cost</th> <th>Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td>Compliance Costs</td> <td></td> <td></td> </tr> <tr> <td>One off costs</td> <td>negligible</td> <td>N/A</td> </tr> <tr> <td>Average annual costs</td> <td>£0.3m</td> <td>5 years</td> </tr> <tr> <td>Total Costs (PV)</td> <td>£2.3m</td> <td>N/A</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>Compliance Benefits</td> <td></td> <td></td> </tr> <tr> <td>One off benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Average annual benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Total Benefit</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>Net Benefit</td> <td>-£2.3m</td> <td></td> </tr> <tr> <td>Impact on Administrative Burden (included in Net Benefit)</td> <td></td> <td></td> </tr> <tr> <td>Increase</td> <td>Decrease</td> <td>Net Impact</td> </tr> <tr> <td>£0.3m</td> <td>£0m</td> <td>£0.3m</td> </tr> </tbody> </table>		Cost	Time Period (yrs)	Compliance Costs			One off costs	negligible	N/A	Average annual costs	£0.3m	5 years	Total Costs (PV)	£2.3m	N/A				Compliance Benefits			One off benefit	N/A	N/A	Average annual benefit	N/A	N/A	Total Benefit	N/A	N/A	Net Benefit	-£2.3m		Impact on Administrative Burden (included in Net Benefit)			Increase	Decrease	Net Impact	£0.3m	£0m	£0.3m
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<p>Operational impact (£m) (HMRC or other)</p>	<p>HMRC will incur costs in implementing this measure of approximately £3.2 million. This will be additional work because these are a new group of customers with a possible increase in calls to the self-assessment help line from customers.</p>																																										
<p>Other impacts</p>	<p><u>Small and micro business assessment:</u> the impact of this measure on small businesses is not anticipated to differ from large businesses.</p> <p>Other impacts have been considered and none have been identified.</p>																																										

Monitoring and evaluation

The measure will be monitored through information collected by tax returns.

Further advice

If you have any questions about this change, please contact
Ursula Falconer on 020 7270 1264 (email: Ursula.Falconer@HMTreasury.gsi.gov.uk)
Sarah Adams on 020 7270 5549 (email: Sarah.Adams@HMTreasury.gsi.gov.uk) or
Alan McGuinness on 03000 585256 (email: alan.mcguinness@hmrc.gsi.gov.uk).

Capital gains tax: denying entrepreneurs' relief for disposals of goodwill to related companies

Who is likely to be affected?

Individuals, trustees and members of partnerships who transfer their business to a close limited company in relation to which they are a 'related party', and receive consideration in the form of cash or debt.

General description of the measure

The measure will mean that entrepreneurs' relief (ER) will not be available to reduce capital gains tax (CGT) on disposals of the reputation and customer relationships associated with a business (the 'goodwill') to a close company to which the seller is related. This change is made alongside a measure to restrict corporation tax deductions when goodwill is acquired from a related party on incorporation.

Policy objective

The measure removes an unfair advantage available to proprietors of businesses who sell their business to a close company to which they are related in order to extract funds from the business at a special, low, rate of CGT rather than the normal rates of income tax and national insurance contributions.

Background to the measure

The measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The measure will apply to disposals of goodwill to a related close company on or after 3 December 2014.

Current law

The ER provisions are at sections 169H – 169S Taxation of Chargeable Gains Act 1992 (TCGA). ER reduces the rate of CGT on the disposal of all or part of a business to 10 per cent, from the normal 18 per cent or 28 per cent. Gains and losses on relevant business assets (defined at section 169L) are combined and the net gain taxed at the reduced rate.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend TCGA in order to exclude goodwill from the definition of 'relevant business assets' at section 169L TCGA, so that gains on disposals of goodwill to a close company by an individual who is a related party (under the definition at section 835 Corporation Tax Act 2009) will be charged at the normal rates of CGT (subject to other reliefs).

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	+5	+30	+80	+110	+135	+155
	These figures incorporate the yield from the measure <i>Corporation Tax: restricting relief for internally-generated goodwill transfers between related parties on incorporation</i> . These figures are set out in Table 2.1 of Autumn Statement 2014, as part of <i>Self-incorporation: intangible assets</i> , and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	Individuals (including partners) who transfer their businesses to a company which they control in order to claim ER on the gains accruing will be most affected, though this will not necessarily result in a CGT charge in all cases. No impact on families or households because this measure affects individual business owners and partners, and only in those capacities.					
Equalities impacts	The measure is not expected to have a significant impact on those with legally protected characteristics. Those affected will broadly reflect the composition of ER claimants.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. The direct impact will be on individuals when they incorporate their business on the specified terms, rather than on the businesses itself or on incorporations generally. Capital gains tax incorporation relief remains available, subject to the relevant conditions being met, and where it is due there will be no CGT charge on the incorporation of a business. This measure is expected to have no impact on charities. Charities are exempt from tax on gains applied for charitable purposes.					
Operational impact (£m) (HMRC or other)	The additional costs and savings for HM Revenue and Customs in implementing this change are anticipated to be negligible.					
Other impacts	<u>Small and micro business assessment</u> : small and micro businesses which are carried on by individuals, alone or in partnership, can benefit from being transferred to a company under the same ownership. This measure does not obstruct such incorporations, for which tax relief remains available to the former proprietor. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through monitoring of disclosures of new avoidance schemes to circumvent the measure, and through regular communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk).
(This TIIN was first published on 3 December 2014)

Capital gains tax: allowing entrepreneurs' relief on deferred gains

Who is likely to be affected?

Individuals who defer gains eligible for capital gains tax entrepreneurs' relief (ER) into investments which qualify for the enterprise investment scheme (EIS), or who claim social investment tax relief (SITR).

General description of the measure

ER provides for a lower rate of capital gains tax (10 per cent) to be paid when disposing of all or part of a business where certain criteria are met. The measure will allow gains which are eligible for ER, but which are instead deferred into investments which qualify for EIS or SITR, to benefit from ER when the gain is realised (for instance on the disposal of the EIS shares or the SITR investment), subject to the normal conditions for ER applicable at the time of the original disposal.

Policy objective

This measure is likely to encourage more investment in businesses via EIS and SITR by allowing potential investors to benefit both from the deferral of gains which are reinvested under EIS or SITR and from ER on those same gains. It thereby supports the growth of social enterprises, start-up companies and small and medium sized businesses carried on by companies.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect for disposals of assets which give rise to gains potentially eligible for ER on or after 3 December 2014.

Current law

Chapter 3 of Part 5, and Schedule 5B of the Taxation of Chargeable Gains Act (TCGA) 1992 contain the rules for ER.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend TCGA by inserting new chapter 4 (containing sections 169T – 169V) into Part 5 in order to allow a person to claim ER on gains which have been deferred (held-over) under either EIS or the SITR rules when those gains or any part of them eventually become chargeable.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	nil	-5	-5	-5	-5
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have a significant economic impact.					
Impact on individuals, households and families	<p>The measure is not expected to impact adversely on individuals or households because it allows a relief to be claimed, at the discretion of individuals, in circumstances where it was not previously available. The information required to support a claim under this measure will be the same as would be required were a claim admissible at present.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	The measure is not expected to have a significant impact on those with legally protected characteristics. Those affected will broadly reflect the composition of ER claimants.					
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations.</p> <p>The measure is expected to increase the supply of new capital to businesses carried on by limited companies and by social enterprises.</p> <p>It may increase the take-up of shares offered by companies under the EIS scheme.</p> <p>Use of the EIS scheme involves minimal administrative costs for a company. There will be a slight increase in the processing of applications which companies are already undertaking. Based on EIS National Statistics fewer than 500 companies are likely to be affected by the measure.</p> <p>This measure does not impose new types of cost.</p>					
Operational impact (£m) (HMRC or other)	The additional costs and savings for HMRC in implementing this change are anticipated to be negligible.					
Other impacts	<p><u>Small and micro business assessment</u>: small and micro businesses which are carried on by companies are most likely to benefit from this measure as it is expected to increase the availability of new capital to them from investors.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk).

Annual tax on enveloped dwellings: increased charges

Who is likely to be affected?

Certain companies, partnerships with company members and collective investment schemes (collectively referred to as non-natural persons (NNPs)) which own residential property in the UK worth over £2 million, and which are not eligible for relief.

General description of the measure

The annual charges for the annual tax on enveloped dwellings (ATED) will be increased by 50 per cent above inflation (Consumer Prices Index (CPI)) so that the new charges are:

Property value	Annual charge in 2015-16
£2m-£5m	£23,350
£5m-£10m	£54,450
£10m-£20m	£109,050
£20m+	£218,200

Policy objective

The measure ensures that NNPs holding residential property in corporate and other 'envelopes' and not using them for a commercial purpose pay a fair share of tax. This improves the fairness of the way property is taxed.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The new charges will apply from 1 April 2015.

Current law

Section 94 of Finance Act (FA) 2013 gives rise to ATED charges in respect of a chargeable interest (the property) held by a NNP.

Section 99 FA 2013 details the amount chargeable by reference to various bands into which a property falls according to its value on a particular date.

Section 101 requires the charge to be increased annually by reference to the previous September CPI.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 amending FA 2013 increasing the amount of charge for 2014-15 to those set out above. These revised charges take into account the annual CPI increase.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	+10	+95	+50	+45	+90	+140
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>Individuals are not directly affected, as ATED charges apply only to NNPs. Approximately 4000 individuals are estimated to be indirectly affected through their interests in NNPs that purchase high value UK residential property, such as companies, partnerships including company members, and collective investment schemes.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>The impact of these changes will reflect the demographic composition of owners of high value enveloped property.</p> <p>This measure is not expected to have an impact on any of the legally protected equality groups.</p>					
Impact on business including civil society organisations	<p>Unincorporated businesses will be unaffected by this measure and will have no self assessment requirement. Most corporate businesses do not buy, hold or sell residential property worth over £2 million and will be similarly unaffected.</p> <p>Genuine businesses undertaking normal commercial transactions will be able to claim relief against the charges, so should not be impacted by this measure.</p> <p>The measure should not significantly impact on charities as these are exempt under the current legislation.</p>					
Operational impact (£m) (HMRC or other)	<p>Some minor changes will be required to HM Revenue & Customs (HMRC) systems. HMRC may see an increase in ATED-related capital gains tax returns where taxpayers decide to take the property out of the corporate envelope.</p> <p>Any additional compliance work arising will be resourced according to risk.</p> <p>Overall, this measure is unlikely to have any significant operational impacts.</p>					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored and assessed through existing data-gathering systems and information collected from tax returns. It will be published as Official Statistics.

Further advice

If you have any questions about these changes, please contact the HMRC Helpline on 0300 200 3510 (email: ated.technicalqueries@hmrc.gsi.gov.uk).

Annual tax on enveloped dwellings

Who is likely to be affected?

Companies, partnerships with company members, and collective investment schemes (collectively referred to as non-natural persons (NNPs)), in particular those required to submit detailed information for each property eligible for a relief from the annual tax on enveloped dwellings (ATED).

General description of the measure

This measure will reduce the administrative burden on those businesses who hold properties eligible for a relief from ATED and for which there is no tax liability.

The measure changes the filing obligations, information requirements, and in some cases the time limits for delivering a return. There will be no change in relation to properties which have an ATED liability.

This measure also makes a consequential change to the aggregation rule where connected persons hold different interests in the same property.

Policy objective

This measure contributes to making the tax system simpler by reducing the administrative burdens for those businesses which hold properties within ATED that meet the criteria to claim a relief.

It also makes a consequential change to the connected persons rule to ensure that the policy continues to work as intended following the reduction in the ATED entry threshold.

Background to the measure

At Budget 2014 the Government announced a lowering of the £2 million ATED entry threshold to £500,000. The Government consulted between July and September 2014 on options to simplify the administration of ATED for businesses. Currently, a business is required to provide detailed property information and deliver a return in respect of each property, even where it is eligible for a relief. This creates a significant administrative burden where there is no ATED liability.

Detailed proposal

Operative date

These measures will have effect for the chargeable period 1 April 2015 to 31 March 2016 and thereafter.

For chargeable persons who hold properties eligible for a relief from ATED, for the 2015-16 year only, returns must be filed by 1 October. For subsequent years the normal filing date of 30 April will apply. This revised time limit will enable HMRC to synchronise these changes with the new IT system to be launched during 2015.

Current law

Sections 159 and 160 of Finance Act 2013 and SI 2014/1844 make provision for an ATED returns. Section 161 of Finance Act 2013 requires a return to include the market value of the property.

Sections 132 to 150 of Finance Act 2013 set out the reliefs that are available from ATED and the conditions that need to be met in order for a property to be eligible for such a relief.

Section 110 of Finance Act 2013 provides that different interests held by connected persons in the same property should be aggregated and ATED paid on the aggregate amount (where that amount falls within the ATED entry threshold). However, where the connected person is an individual the company's interest must be more than £500,000 for the aggregation rule to apply.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Finance Act 2013 to introduce a new type of return, a "relief declaration return", for those persons holding properties eligible for a relief from ATED. For each type of relief being claimed a relief declaration return must be filed in respect of one or more properties held for that chargeable period. No details will be required of the individual properties eligible for that relief. A separate return will be required where a property is acquired during the year that qualifies for a different type of relief. The return will not require valuation details for relief properties. A return will be required, as now, in respect of any property which ceases to qualify for a relief, i.e. where ATED is due.

The overall result is that businesses who hold properties eligible for a relief will generally only be required to deliver one relief declaration return a year for all properties covered by a particular relief instead of, as now, multiple detailed returns. This offers a significant reduction in the administrative burden.

The regulations and the Published Returns Notice will be amended to provide for this new type of return.

Legislation will also be introduced in Finance Bill 2015 to amend the aggregation rule to introduce a limit of £250,000 for properties valued up to £2 million.

Summary of impact

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	These changes are not expected to have any direct impact on individuals as ATED is charged on companies, corporate partnerships and collective investment schemes falling within ATED. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impact	These changes are not expected to have an impact on any of the legally protected equality groups.					

Impact on businesses and civil society organisations	<p>ATED impacts on businesses holding UK residential property. An estimated 10,000 corporate businesses that buy or hold residential properties will be able to claim relief against the charge when the £2 million entry threshold is lowered in April 2016 to properties worth more than £500,000. The average annual reduction in administrative burden on business is expected to be £1.7 million as it reduces the number of relief returns that businesses need to file and the accompanying information that is required within the return. For example, a single return will cover multiple relievable properties eligible for the same type of relief instead of separate detailed returns being required for each individual relievable property.</p> <p>This measure will have no impact on civil society organisations as these are exempt under the current legislation.</p> <p>Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.</p>																																									
	<table border="1"> <thead> <tr> <th data-bbox="432 763 911 891"></th> <th data-bbox="911 763 1267 891">Cost</th> <th data-bbox="1267 763 1444 891">Time Period (yrs)</th> </tr> </thead> <tbody> <tr> <td colspan="3" data-bbox="432 891 1444 947">Compliance Costs</td> </tr> <tr> <td data-bbox="432 947 911 1003">One-off Costs</td> <td data-bbox="911 947 1267 1003">£ negligible</td> <td data-bbox="1267 947 1444 1003">N/A</td> </tr> <tr> <td data-bbox="432 1003 911 1059">Average Annual Costs</td> <td data-bbox="911 1003 1267 1059">N/A</td> <td data-bbox="1267 1003 1444 1059">N/A</td> </tr> <tr> <td data-bbox="432 1059 911 1115">Total Costs (PV)</td> <td data-bbox="911 1059 1267 1115">£ negligible</td> <td data-bbox="1267 1059 1444 1115">N/A</td> </tr> <tr> <td colspan="3" data-bbox="432 1115 1444 1171">Compliance Benefits</td> </tr> <tr> <td data-bbox="432 1171 911 1227">One-off Benefit</td> <td data-bbox="911 1171 1267 1227">N/A</td> <td data-bbox="1267 1171 1444 1227">N/A</td> </tr> <tr> <td data-bbox="432 1227 911 1283">Average Annual Benefit</td> <td data-bbox="911 1227 1267 1283">£ 1.7m</td> <td data-bbox="1267 1227 1444 1283">5</td> </tr> <tr> <td data-bbox="432 1283 911 1339">Total Benefit (PV)</td> <td data-bbox="911 1283 1267 1339">£ 8.3m</td> <td data-bbox="1267 1283 1444 1339">5</td> </tr> <tr> <td data-bbox="432 1339 911 1395">Net Benefit (NPV)</td> <td data-bbox="911 1339 1267 1395">£ 8.2m</td> <td data-bbox="1267 1339 1444 1395">5</td> </tr> <tr> <td colspan="3" data-bbox="432 1395 1444 1451">Impact on Administrative Burden (included in Net Benefit)</td> </tr> <tr> <td data-bbox="432 1451 911 1529">Increase</td> <td data-bbox="911 1451 1267 1529">Decrease</td> <td data-bbox="1267 1451 1444 1529">Net Impact</td> </tr> <tr> <td data-bbox="432 1529 911 1585">£0</td> <td data-bbox="911 1529 1267 1585">£0.7m</td> <td data-bbox="1267 1529 1444 1585">-£0.7m</td> </tr> </tbody> </table>				Cost	Time Period (yrs)	Compliance Costs			One-off Costs	£ negligible	N/A	Average Annual Costs	N/A	N/A	Total Costs (PV)	£ negligible	N/A	Compliance Benefits			One-off Benefit	N/A	N/A	Average Annual Benefit	£ 1.7m	5	Total Benefit (PV)	£ 8.3m	5	Net Benefit (NPV)	£ 8.2m	5	Impact on Administrative Burden (included in Net Benefit)			Increase	Decrease	Net Impact	£0	£0.7m	-£0.7m
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	<p>The impact on the administrative burden (included in net benefit) represents the expected savings for the first year. The £1.7m average annual benefit represents the average saving over five years.</p>																																									
Operational impact (£m) (HMRC or other)	<p>For HM Revenue & Customs this will mean a reduction in processing ATED returns. Some additional compliance work may be required to risk assess relief returns from existing risk profiling tools. The costs are expected to be negligible.</p>																																									
Other impacts	<p><u>Small and micro business assessment</u>: the impact of this measure is anticipated to be the same irrespective of business size.</p> <p>Other impacts have been considered and none have been identified.</p>																																									

Monitoring and evaluation

The measure will be monitored and assessed through information collected from tax returns.

Further advice

If you have any questions about this changed, please send an email to ated.technicalqueries@hmrc.gsi.gov.uk

Capital gains tax: changes to the threshold amount for ATED-related CGT

Who is likely to be affected?

Certain companies, partnerships with company members and managers of collective investment schemes which own residential property worth over £500,000 that does not form part of a genuine commercial activity, or is not used to house employees of that activity.

General description of the measure

The measure reduces the threshold on the proceeds of sale of a residential property above which capital gains tax (CGT) is payable, where the annual tax on enveloped dwellings (ATED) has been paid on the property.

Policy objective

The measure ensures that a seller's liability to CGT when they dispose of a property continues to be linked to their previous liability to ATED on the same property. This improves the fairness of the way property is taxed.

Background to the measure

Budget 2014 announced two new bands for ATED to bring properties worth between £500,000 and £2 million into the charge. It also announced that the ATED-related capital gains tax charge would apply to properties in the new ATED bands. The Tax Information and Impact Note on those changes was published on GOV.uk on 19 March 2014.

Detailed proposal

Operative dates

The measure will have effect in two stages. The threshold amount for consideration received will fall from £2 million to £1 million for disposals on or after 6 April 2015, and then to £500,000 for disposals on or after 6 April 2016.

Current law

Under sections 2B-2F and Schedule 4ZZA of the Taxation of Chargeable Gains Act 1992 (TCGA) a person other than an individual may be liable to CGT when they dispose of a residential property for consideration in excess of a 'threshold amount'. This threshold amount is currently £2 million (section 2D). Where a property was owned when this CGT became chargeable (in April 2013) gains are 'rebased' so that earlier increases in value are not charged to tax by section 2B.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 2D TCGA so that the threshold value for disposals on or after 6 April 2015 will be £1 million and for disposals on or after 6 April 2016 £500,000. Schedule 4ZZA TCGA will be amended to preserve the principle that increases in a property's value during a period before it became liable to ATED will not be charged to CGT under section 2B.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	+10	+95	+50	+45	+90	+140
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014 as part of <i>Enveloped Dwellings: Increased charge for properties over £2m</i> and have been certified by the Office for Budget Responsibility. The figures incorporate the yield from <i>Capital gains tax: changes to the threshold amount for ATED-related CGT</i>. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p>					
Economic impact	<p>The measure is not expected to have any significant economic impacts.</p>					
Impact on individuals, households and families	<p>Individuals are not directly affected as they are not within the charge to this tax. A small number of individuals will be indirectly affected through their interests in companies, trusts investing via companies, and collective investment schemes which hold residential property worth between £500,000 and £2 million.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>HM Revenue & Customs (HMRC) does not hold information on the protected characteristics of those who hold residential property through envelope entities such as company vehicles. The measure is not expected to have any equality impacts.</p>					
Impact on business including civil society organisations	<p>Unincorporated businesses will be unaffected by this measure and will have no self-assessment requirement. Most corporate businesses do not buy, hold or sell residential property worth over £500,000 and will be similarly unaffected.</p> <p>The small number of corporate businesses that do buy or hold residential properties worth more than £500,000 will in most cases be able to claim relief against the charges in a self-assessment return each year. They will not be required to accurately value residential properties eligible for relief and the administrative burden in most cases should be negligible.</p> <p>The measure should not significantly impact on charities. Any that may hold residential properties in this price range can claim relief from the charge, providing the property is used for charitable purposes.</p>					
Operational impact (£m) (HMRC or other)	<p>HMRC will incur some costs in implementing this measure but these are not anticipated to be significant.</p>					
Other impacts	<p><u>Small and micro business assessment:</u> many of the companies used to hold residential property are special purpose vehicles which own a single property, have few or no employees and do not undertake genuine commercial activities. These companies will be affected by this measure and by the complementary ATED measure which aim to discourage individuals from setting up such companies to hold such residential properties. However, where these (or other) companies carry on genuine commercial businesses, the available reliefs from the ATED charge aim to ensure that ATED, and hence CGT, will not be payable.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and tax receipts.

Further advice

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk).

Inheritance tax: simplifying charges on trusts and new rules to target avoidance through the use of multiple trusts

Who is likely to be affected?

Individuals settling property into relevant property trusts, trustees and their advisers.

General description of the measure

The measure will simplify the calculation of trust charges by removing the need to include non-relevant property in the calculation. It also introduces new rules about adding property to trusts on the same day to protect inheritance tax revenues from the use of multiple trusts. The measure also includes changes in the relevant property trust legislation to provide more certainty and to ease the effect of the legislation.

Policy objective

This measure will reform IHT for relevant property trusts and make the tax system fairer by removing the advantage under the current rules that enables individuals to create multiple trusts and avoid IHT through the use of multiple nil rate bands.

Background to the measure

Budget 2014 announced that the Government would consult on revised proposals for simplifying the calculation of IHT trust charges and dividing the nil rate band for trusts created by the same settlor. This was published in June 2014. The consultation closed on 29 August 2014.

Detailed proposal

Operative date

The measure will apply to all charges arising on or after the proposed commencement date of 6 April 2015 in respect of relevant property trusts created on or after the publication of draft legislation on 10 December 2014. To prevent forestalling, it will also apply to relevant property trusts created before 10 December 2014 where there are additions made to more than one trust on the same day. The new rules which ignore non relevant property in the calculation of the rate of charge on a 10 year anniversary will apply to all charges arising on or after 6 April 2015 regardless of when the trust was created.

The new rule about additions to existing trusts will not apply to a will executed before 10 December 2014 but this exclusion will be limited to deaths before 6 April 2016. This is to allow a period of time for those affected to change their will and avoid unwanted tax consequences.

With regard to the changes being made to other areas of the relevant property trust legislation, the amendments will apply to all charges arising on or after the date that Finance Bill 2015 receives Royal Assent except for those relating to appointments for the benefit of the deceased's surviving partner (section 144 of the Inheritance Tax Act 1984 (IHTA)) which will apply to all deaths on or after 10 December 2014.

Current law

The current law is contained in sections 62 and 66 to 68, section 71F, section 79, section 80 and section 144 IHTA1984.

Proposed revisions

Simplification of trust charges

Legislation will be introduced in Finance Bill 2015 to remove the requirement to include non-relevant property in the calculation for rate where appropriate for both the section 66 ten year and section 68 and section 69 exit charges.

Introduction of the new rules to target IHT avoidance

New section 62A introduces a rule to ensure that where property is added to two or more settlements on the same day and after the commencement of those settlements, the value of the added property together with the value of property settled at the date of commencement (that is not already in a related settlement) will be brought into account in calculating the rate of tax for the purposes of ten year charges under section 66, for exit charges before the first ten-year anniversary under section 68, for exit charges between anniversaries under section 69 for and for the charge on 18/25 trusts under section 71F.

Claims for conditional exemption

Section 79 is amended so that the requirement that a claim must be made and the property designated before the ten year charge is removed and will instead allow trustees to make a claim for exemption within two years of the ten year charge arising.

Settlements created by individuals before March 2006 giving themselves an interest in possession or to their spouse/widow/civil partner/surviving civil partner.

Section 80 is amended so that “a qualifying interest in possession” is substituted for “an interest in possession” in each place that it appears. This will mean that where one party to a couple succeeds to a life interest to which their spouse or civil partner was previously entitled during the latter’s lifetime and that interest is not a transitional serial interest section 80 will apply at that time (because neither spouse would then have a qualifying interest in possession) with the result that the settled property would be treated as being comprised in a settlement and therefore subject to the relevant property charges.

Appointments for the benefit of the deceased’s surviving partner

Section 144 is amended so that the provisions of section 65(4), which prevent a charge to tax arising in the first three months after the settlement commenced, or within a ten-year anniversary, shall not apply to appointments out of property settled by Will. This will ensure that where an appointment is made within three months of the date of death in favour of the deceased’s surviving spouse or civil partner, it can be read back into the will and exemption under section 18 can be given.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts					

Impact on individuals, households and families	Individuals will no longer have the advantage of multiple nil rate bands by creating multiple trusts but they will be able to settle property up to the value of the nil rate band into trust every seven years.
Equalities impacts	The Government has no evidence to suggest that the measure will have any adverse equalities impacts.
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Removing the requirement to include non-relevant property for the calculation of the rate for ten year anniversary and exit charges will result in a small reduction in the on-going administrative burden for trustees for around 1,000 trusts per year. It is estimated that the reduction in their administrative burdens will be negligible due to the relatively small number of trusts affected per year.
Operational impact (£m) (HMRC or other)	There will be no significant operational impact on HMRC because the problem of IHT avoidance is addressed through the rules on how property added to trusts on the same day is treated. There will be some costs for changes to HMRC's IT systems but these are not expected to be significant.
Other impacts	<u>Small and micro business assessment</u> : the measure will not affect small business in general but it will benefit trust administrators who run small businesses due to the reduction in complexity and administration burdens. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Tony Zagara on 03000 585265 (email: antonio.zagara@hmrc.gsi.gov.uk).

Inheritance tax: extending exemption for medals and other awards

Who is likely to be affected?

People in the armed forces, police, fire brigade, ambulance service and personnel in other “first response” organisations and individuals recognised by the Crown for their achievements and service in public life.

General description of the measure

The measure extends the exclusion from inheritance tax (IHT) that applies to medals and other decorations that are awarded for valour and gallantry to all decorations and medals awarded by the Crown or by another country or territory outside the UK to the armed forces, emergency services personnel and to individuals in recognition of their achievements and service in public life.

Policy objective

The measure will provide that all medals and decorations awarded by the Crown or by a country or territory outside the UK to armed forces personnel, emergency services personnel or to individuals for public service or achievement in public life will be treated as excluded property and therefore not be subject to IHT.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The revised legislation will have effect in relation to transfers of value made or treated as made on or after 3 December 2014.

Current law

Excluded property is defined in section 6 of the Inheritance Tax Act (IHTA) 1984. Section 6(1B) says that a decoration or award is excluded property if it was awarded for valour or gallant conduct and it has never been the subject of a disposition for a consideration in money or money's worth.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to treat all medals and decorations awarded by the Crown or a country or territory outside the United Kingdom to armed forces personnel, emergency services personnel and individuals for achievements and services in public life as excluded property.

New subsection 1BA IHTA 1984 sets out the circumstances under which decorations and awards will be treated as excluded property provided they do not consist of money. For example if a policeman received a bonus payment for public service as well as a medal or decoration, the bonus payment would not be treated as excluded property.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
		negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will exempt from IHT medals and decorations awarded to members of the armed forces and emergency services and individuals in recognition of their achievements and service in public life.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	<p>The Government has no evidence to suggest that the measure will have any adverse equalities impacts.</p> <p>Those individuals in the armed forces and emergency services benefiting from this exemption will reflect the demographics of the organisations in which they serve.</p> <p>This measure is not expected to have a disproportionate impact on any protected group.</p>					
Impact on business including civil society organisations	The measure is expected to have no impact on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact on HM Revenue & Customs (HMRC).					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Tony Zagara on 03000 585265 (email: tony.zagara@hmrc.gsi.gov.uk).

Inheritance tax: exemption for emergency service personnel and humanitarian aid workers

Who is likely to be affected?

People in the armed forces, police, fire brigade, ambulance service, personnel in other “first response” organisations and humanitarian aid workers responding to emergency circumstances.

General description of the measure

At Budget 2014, the Government announced it would extend the existing exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services responding to emergency circumstances. Following consultation over the summer, this has been extended to cover humanitarian aid workers responding to humanitarian emergencies. Emergency services personnel (either volunteers or employed) involve those in the police, fire service, other search and rescue services (e.g. Coastguard), medical, ambulance or paramedic services, and those transporting organs or other medical equipment. Humanitarian aid workers involve those providing humanitarian assistance on behalf of the Government, charities and international organisations.

Policy objective

The measure will provide that IHT will not be charged on the estates of emergency service personnel and humanitarian aid workers whose death has been caused directly or hastened by injury or illness while responding to emergency circumstances.

Background to the measure

This measure was announced at Budget 2014. A consultation document was published on 23 July 2014.

Detailed proposal

Operative date

The revised legislation will be effective for all deaths on or after 19 March 2014.

Current law

IHT rules do not apply to the estates of members of the armed forces whose death can be attributed to or is hastened by:

- (a) injury or illness suffered whilst on active service; or
- (b) where someone already has a pre-existing disease which is aggravated by the wound inflicted, accident occurring or disease contracted whilst on active service.

The legislation is at section 154 of Inheritance Tax Act (IHTA) 1984.

The provision also prevents IHT being charged on assets that pass on the death of a current or former member of the armed forces who dies as a result of a wound, accident or disease inflicted when they were on active service or other service of a warlike nature.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to extend this treatment to members of the emergency services and humanitarian aid workers responding to emergency circumstances.

New section 155A provides an IHT exemption for constables and armed service personnel targeted because of their status.

New Section 153A IHTA covers the death of emergency service personnel and humanitarian aid workers whether they are employed or acting in a voluntary capacity responding to emergency circumstances. The new legislation sets out who qualifies, the circumstances in which IHT will not be charged and defines the term “emergency responder”.

Section 154 IHTA 1984 is also amended so that the treatment available to emergency service personnel also applies to members of the armed forces and under the same circumstances.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	negligible	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	The measure is not expected to have any significant economic impacts					
Impact on individuals, households and families	<p>This measure would exempt from IHT the estates of individuals in the armed forces and emergency services whose death can be attributed to, or hastened by, injury or illness suffered whilst responding to emergency circumstances.</p> <p>This measure is not expected to impact on family formation, stability or breakdown</p>					
Equalities impacts	<p>Those benefiting from this exemption will reflect the demographics of the armed forces and emergency services in which they serve. It is expected that the majority will be male.</p> <p>Approximately 70 per cent of those who have qualified for the exemption in the past 10 years have been aged 70 years and older.</p> <p>This measure is not expected to have a disproportionate impact on any protected group.</p>					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact on HM Revenue & Customs (HMRC).					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be kept under review through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Tony Zagara on 03000 585265 (email: tony.zagara@hmrc.gsi.gov.uk).

Inheritance tax: interest changes to support the new digital service

Who is likely to be affected?

Personal representatives and advisors or agents who administer the estate of a deceased person, trustees and other individuals who are liable to inheritance tax.

General description of the measure

The measure makes amendments to legislation relating to late payment interest to:

- extend the power to make regulations to allow the instalment interest provisions relating to certain financial institutions and companies to be updated; and
- clarify the period from when interest is charged.

Policy objective

These amendments will complement other changes which will be included in secondary legislation to support the digitisation of inheritance tax as part of the Government's digital strategy to improve the process for customers and the administration of the tax.

Background to the measure

At Autumn Statement 2013 the Chancellor announced that HM Revenue & Customs (HMRC) will provide an online service in 2015-16 for people to submit inheritance tax returns and settle the tax affairs of those who have died. To support the introduction of the new online service, various legislative changes will be made in primary and secondary legislation to facilitate the new online processes and to align the treatment of interest and penalties for inheritance tax purposes with other taxes. The amendments made by this measure are a part of those changes and will ensure that the relevant interest provisions are updated and apply correctly when the new online service becomes available from 2015-16. HMRC are continuing to develop the new online service and expect to publish draft regulations in early 2015.

Detailed proposal

Operative date

The amendments will come into force at an appointed day to be specified in regulations. This is expected to be at the same time as the new online service becomes available.

Current law

The current relevant legislation is in:

- sections 147(4), 234(3)(c) and 234(4) of Inheritance Tax Act 1984, and
- paragraphs 7 to 9 and 14 of Schedule 53 to Finance Act (FA) 2009 (which are not yet in force but are expected to be commenced when the online service is introduced).

Proposed revisions

Legislation will be included in Finance Bill 2015 to:

- extend the power to make regulations under section 107(4) and (5) FA 1986 in connection with section 234(3) and (4) IHTA to paragraph 7(7) and (8) of Schedule 53 FA 2009;
- amend paragraph 9 of Schedule 53 FA 2009 to refer to the end of the month in which the testator died to align the provisions with those in section 233(1)(b) IHTA.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The changes will only affect personal representatives dealing with the estate of a deceased person, trustees and other individuals who are liable to inheritance tax and hence who may be charged interest on unpaid tax. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	The changes are not expected to adversely or disproportionately impact any equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The changes will also affect solicitors, estate practitioners, accountants and other professional advisers and agents who deal with the small number of estates, trusts and lifetime transfers likely to be affected by this measure. They will need to understand and apply the changes to their clients' tax affairs.					
Operational impact (£m) (HMRC or other)	No additional operational impacts are expected from the legislative changes needed to support the new online processes.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Danka Wigley on 03000 585277 (email: danka.wigley@hmrc.gsi.gov.uk).

Improving the operation of the Construction Industry Scheme

Who is likely to be affected?

Businesses and individuals who are subcontractors or contractors participating in the scheme. Also commercial third party software developers, agents and accountants and payroll bureaux representing those operating and participating in the scheme.

General description of the measure

A series of changes will be introduced to improve the operation of the Construction Industry Scheme (CIS) making it easier for businesses to access gross payment status, reduce administration burdens and move more transactions online. These include:

- the threshold for the turnover test will be reduced to £100,000 in multiple directorships;
- the initial and annual compliance tests will focus on fewer obligations;
- the nil return obligation will be amended;
- joint ventures where there is already one member with gross status will be allowed easier access to gross payment status;
- allow an earlier repayment to liquidators in insolvency proceedings; and
- mandation of filing of CIS returns and online verification.

Policy objective

The aim of this measure is to reduce the costs on both businesses and HM Revenue & Customs (HMRC) by making the scheme simpler to administer. It will achieve this by allowing more sub-contracting businesses to achieve and maintain gross payment status so improving their cashflow. Moving more transactions online will simplify processes for businesses and agents, reducing their administrative burden through reduced contact with HMRC. By simplifying the tax system for these business, this measure will improve the competitiveness of UK tax administration in the construction sector.

Background to the measure

The Government announced at Budget 2014 consultations to review improvements to the scheme.

A consultation document entitled *Improving the operation the Construction Industry Scheme (CIS)* was published on 27 June 2014 with proposals to reduce the administrative burden of operating the scheme. A separate informal consultation was circulated to large business on 3 July 2014 with revisions to reporting obligations for large payments and improvements in registration for joint ventures. The Government's aims were supported by most respondents to the consultations. A summary of responses and a technical note is published today on GOV.uk. Guidance to reflect changes from April 2015 will be available from March 2015.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015 for nil returns, joint ventures and repayments in cases of insolvency; 6 April 2016 for mandating online filing of CIS returns and changes to gross payment status tests and 6 April 2017 for mandating of online verification.

Current law

The current legislation setting out requirements of the compliance tests is at Schedule 11 to the Finance Act (FA) 2004.

Further provisions are covered in:

- Paragraph 7, part 2 and paragraph 11, part 3 of Schedule 11, FA 2004 for the turnover test and the prescribed amount of turnover is at Regulation 28 of (SI2005/2045).
- Regulation 4 (10) of SI2005/2045) for nil returns
- Section 70 FA 2004 for monthly return requirements
- Section 69 FA 2004 for verification
- Regulation 56 (5) of SI2005/2045.

Proposed revisions

Regulations will be introduced to take effect from 6 April 2015 to:

- amend parts 2 and 3 of Schedule 11 to FA 2004 to relax the requirements for joint ventures to gain gross payment status where one member already has it;
- amend Regulation 4 (10) of (SI2005/2045) to replace the nil return obligation with a voluntary notification; and
- amend Regulation 56 (5) of (SI2005/2045) to allow an earlier repayment to liquidators where a company is in insolvency proceedings.

Further regulations will be introduced later to:

- amend Section 135 (1) of FA 2002 to facilitate mandatory online filing of CIS returns and mandatory online verification; and
- amend Schedule 11 to FA 2004 to allow a simplified compliance test.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any significant economic impact.					
Impact on individuals, households and families	The simplification proposals for acquiring gross payment status will benefit some of the approximately 90,000 active subcontractors who currently have net payment status but meet turnover level requirements for gross status. Approximately 5 per cent of sole-trader contractors (2000) may require additional support as legislation is introduced to make verification and online filing mandatory. The measure is not expected to impact on family formation stability or breakdown.					

Equalities impacts	The majority of those using the scheme are male. There will be some equalities impacts when online filing and online verification is mandated for contractors who are not able to access a digital channel or object to online filing and/or verification on religious grounds. In these cases where HMRC is satisfied a customer is unable to access a digital channel, provision for capture of the data in non-digital format will be made. The same criteria used for assessing customers in the Real Time Information programme will be used. The Government does not expect the number of contractors who are not able to access digital channels to be significant.
Impact on business including civil society organisations	<p>These proposals are expected to relieve some of the regulatory burden of the CIS scheme.</p> <p>The following measures, nil returns, joint ventures and repayments are expected to have a negligible impact on businesses. The measures simplifying the qualifying conditions for gross payment status will Benefit companies and partnerships by increasing their cash-flow.</p> <p>The main changes to the CIS will take place in 2016 and 2017 and it is anticipated that it will affect approximately 40,000 businesses. Approximately 5 per cent of sole-trader contractors (2000) may require additional support as legislation is introduced to make verification and online filing mandatory.</p> <p>Estimates of the impact on businesses will be established and published once details of the measure have been finalised.</p>
Operational impact (£m) (HMRC or other)	HMRC will incur costs to make changes to, or introduce new, IT systems to enable improvements to the CIS scheme. There will be annual administrative savings for HMRC once the new processes are implemented. The levels of costs and savings will depend on the final design of the changes and these will be established as the details of the new processes are developed.
Other impacts	<p><u>Small and micro business assessment</u>: the revised tests for gross payment status will benefit small contractors if they apply.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Julie Campbell on 03000 586670 (email: Julie.campbell1@hmrc.gsi.gov.uk).

Direct recovery of debts due to HMRC from debtors' bank and building society accounts

Who is likely to be affected?

Individuals and businesses who have debts payable to the Commissioners for Revenue and Customs under or by virtue of an enactment or under a contract settlement.

General description of the measure

The measure will allow HM Revenue & Customs (HMRC) to secure payment of tax and tax credit debts directly from debtors' bank and building society accounts in credit.

Policy objective

This measure will make the tax system fairer for those who do pay what they owe. It will enable HMRC to collect money directly from the bank and building society accounts, including ISAs, in credit, from debtors who have the means to pay but choose not to do so.

Those affected will have debts to HMRC which they have chosen not to pay despite numerous attempts from HMRC to elicit payment. This includes a guaranteed face-to-face visit to every debtor whose debts are considered for recovery through this measure.

Background to the measure

This measure was announced at Budget 2014.

A consultation document was published on 6 May 2014. The formal consultation was open until 29 July 2014.

The Government published its response to the consultation on 21 November 2014.

Detailed proposal

Operative date

This measure will be legislated for in a Finance Bill in 2015, during the next Parliament.

Current law

Currently HMRC does not have the power to hold and then remove debts direct from bank accounts of debtors without first applying to the courts under part 72 Civil Procedure Rules 1998 (CPR 1998) for a third party debt order; in Scotland section 128 FA is relied upon for similar provisions.

Although the principles that underpin this measure could previously be found in section 61 TMA 1970 and can now be found in Sch. 12 of the Tribunals, Courts and Enforcement Act (these provide for taking control of goods), the intention of this policy is to introduce separate provisions specific to recovery of debts direct from bank and building society accounts, including ISAs, of debtors that are in credit.

Proposed revisions

Legislation will be introduced in a Finance Bill in 2015, during the next Parliament, to enable HMRC to collect tax and duties from credit balances in accounts to satisfy HMRC debts.

Secondary Legislation will be published in spring 2015 and will introduce the direct recovery process and safeguards.

HMRC estimates DRD will apply to around 17,000 cases a year. HMRC will only take action against debtors who owe over £1,000 of tax or tax credits debt. HMRC will always leave a minimum aggregate of £5,000 across debtors' accounts, and will only put a hold on the funds in the affected account up to the value of the debt.

Following consultation and feedback from stakeholders, including professional and representative bodies, the safeguards for DRD have been strengthened further. These revised safeguards were set out in the Government's consultation response published on 21 November.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	+20	+110	+130	+115	+95
	<p>The figures include those attached to the original policy announcement, and were set out in Table 2.1 of Budget 2014 and certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014.</p> <p>The figures include the adjustments set out in Table 2.1 of Autumn Statement 2014, which cover the effect of the safeguards, as part of <i>HMRC: operational measures</i>, and have also been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>The figures also include adjustments for the impact of other measures and updated analysis.</p> <p>Revised estimates will be presented in Table 2.2 of Budget 2015.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will impact on non-compliant individuals (including self-employed taxpayers) and businesses who refuse to pay what they owe. Around 17,000 non-compliant individuals and businesses are likely to be affected by this measure each year.</p> <p>The measure is not expected to impact on family formation, stability or breakdown. Some families who own joint accounts may be affected by this policy. HMRC is introducing safeguards so that only a pro-rata proportion of the balance in a joint account will be affected. All account holders will be notified when action has been taken, and all account holders will have equal rights to object or appeal. Accounts held by family members on behalf of children, who are minors, will be protected.</p>					
Equalities impacts	<p>This measure targets only those debtors who have the means to pay but choose not to. HMRC will always leave a minimum aggregate of £5,000 across debtors' accounts, and will only put a hold on the funds in the affected account up to the value of the debt. All debtors who are considered for debt recovery through this measure will first receive a face-to-face visit from an HMRC agent, which will provide a further opportunity to identify vulnerable customers and offer the support they need.</p>					

Impact on business including civil society organisations	<p>This measure will impact on non-compliant individuals and businesses with debts over £1,000 who have not complied with their legal obligations.</p> <p>Deposit-takers will be required to provide information to HMRC and hold and transfer sums from customers' accounts to HMRC. However, banks will have the option to re-coup some of their costs by deducting a small administrative fee from debtors' accounts.</p>
Operational impact (£m) (HMRC or other)	<p>The additional costs for HMRC for implementing this change are estimated to be in the region of £800,000 over five years.</p>
Other impacts	<p><u>Justice impact test:</u> the measure includes a right of objection to HMRC followed by a right of appeal to the County Court. It is estimated that approximately 200 objections to HMRC will be generated each year. A small number of these may be followed by appeals to the County Court which will have an impact on HM Courts & Tribunals Service.</p> <p><u>Small and micro business assessment:</u> the measure will have no impact on compliant businesses. The majority of debtors affected by this measure are self-employed.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups. The Government has committed to an HMRC-led review of this policy after two years of operation, to be laid before Parliament.

Further advice

If you have any questions about this change, please contact Andrew Willis on 03000 579079 (email: andrew.willis@hmrc.gsi.gov.uk).

Strengthening penalties for offshore non-compliance

Who is likely to be affected?

Individuals, personal representatives and trustees with hidden income, gains or assets overseas.

General description of the measure

The measure will extend, update and complement the existing penalty regime for non-compliance which involves an offshore matter, supporting the overall offshore evasion strategy, ensuring taxpayers pay their fair share and penalising those who do not. There are four elements:

1. extending the existing offshore penalty regime to include inheritance tax (IHT);
2. extending the offshore penalty regime to offences where the proceeds of non-compliance are hidden offshore;
3. updating the territory classification system to reflect the new Common Reporting Standard (CRS); and
4. introducing a new aggravated penalty of moving hidden funds to avoid the CRS.

Policy objective

This measure makes the tax system fairer, by strengthening civil sanctions for the small minority who evade tax by hiding taxable income, gains and assets offshore, and contributes to building the deterrent effect.

Background to the measure

This measure was announced in Autumn Statement 2013. A consultation document entitled *Tackling offshore tax evasion: Strengthening civil deterrents* was published on 19 August 2014. The consultation closed on 31 October 2014.

Detailed proposal

Operative date

Following the numbering above:

1. this measure will have effect on and after 1 April 2016;
2. this measure will have effect on and after 1 April 2016;
3. this measure will have effect on and after 1 April 2016; and
4. this measure will have effect on and after the date that Finance Bill 2015 receives Royal Assent.

Current law

Under Paragraphs 4, 6 and 6 of Schedule 24 to the Finance Act (FA) 2007, Schedule 41 to the FA 2008 and Schedule 55 to FA 2009 respectively, the rate of penalty applicable for non-compliance involving “an offshore matter” (defined at Paragraphs 4A, 6A and 6A of the above Schedules) may be higher than applying to domestic matters, but is restricted to income tax and capital gains tax only.

Paragraph 21A of Schedule 24 FA 2007 details the criteria which HM Treasury must consider in order to classify a territory into one of three categories, which link the existence of and level of information exchange to the rate of the penalty applicable.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend FA 2007, FA 2008 and FA 2009, so that the offshore penalty regime:

1. includes IHT;
2. covers cases where the proceeds of domestic non-compliance are situated or held outside of the UK;
3. has four (instead of three) levels of penalty, where the existing lowest level will apply to territories that adopt automatic exchange of information under the CRS; territories will be re-classified in a new Statutory Instrument; and
4. includes a new type of penalty which is triggered following a movement of offshore assets to continue evading tax.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. This measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	There are no expected impacts on tax compliant individuals and households. The measure will only affect non-compliant individuals who become liable to a penalty for carelessly or deliberately submitting inaccurate information or failing to notify HM Revenue & Customs (HMRC) about their taxable income or gains from activities and sources or assets held offshore. Where applicable all current safeguards such as recourse to an HMRC Review, independent Tribunal, reasonable excuse and reasonable care claims will continue. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	Any affected equality groups are likely to be those over represented amongst those of above average wealth.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations.
Operational impact (£m) (HMRC or other)	HMRC will incur approximately £0.5 million in IT change costs.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected in compliance work to ensure the legislation operates as intended.

Further advice

If you have any questions about this change, please contact Amit Puri on 03000 526801 (email: amit.puri@hmrc.gsi.gov.uk).

Country-by-country reporting

Who is likely to be affected?

Multinational enterprises (MNEs) with a parent company in the UK.

General description of the measure

The measure will enable the introduction of a new statutory requirement for MNEs to make an annual country-by-country report to HM Revenue & Customs (HMRC) showing for each tax jurisdiction in which they do business,

- the amount of revenue, profit before income tax and income tax paid and accrued; and
- their total employment, capital, retained earnings and tangible assets.

MNEs will also be required to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of business activities within a selection of broad areas which each entity engages in.

The obligation to file a country-by-country report will be introduced in two stages. At this initial stage, this measure will enable regulations to be made at a later date which will give effect to the scope and detail of the obligation.

Policy objective

This measure will provide HMRC with information about multinational companies' global activities, profits and taxes. This will help HMRC to better assess international tax avoidance risks. It is intended that the information reported by MNEs will be shared with other relevant tax jurisdictions so that they too can identify when MNEs have engaged in certain forms of base erosion or profit shifting activity.

Background to the measure

The Government announced on 20 September 2014 that it would implement the country-by-country reporting template developed by the Organisation for Economic Co-operation and Development (OECD) as part of its project to strengthen international standards on Base Erosion and Profit Shifting (BEPS). The template is contained in the OECD's report "Guidance on Transfer Pricing Documentation and Country-by-Country Reporting" published on 16 September 2014.

Regulations enabled by this measure will be made once the OECD has completed further work on how the reports should be filed and how the information in them may be shared between relevant countries, and after a period of consultation in the UK.

Detailed proposal

Operative date

This measure will have effect on and after the date of Royal Assent to Finance Bill 2015.

Current law

There is no current law for country-by-country reporting.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to give the Treasury the power to make regulations to require MNEs to provide HMRC with a country-by-country report.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+5	+5	+10	+10	+15
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	As this measure applies only to MNEs, it is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	As this measure does not apply to individuals there is unlikely to be an equalities impact.					
Impact on business including civil society organisations	This measure will affect UK-headed multinational groups. This measure will provide the basis for an obligation for approximately 1400 UK-headed multinational groups to complete a template every year.					
	There is expected to be a negligible one-off cost in the first year as businesses will need to familiarise themselves with the new requirements, gather relevant information and provide training to staff. Businesses will also incur an annual on-going administrative burden associated with populating the template. One-off costs are estimated as negligible, with annual costs to businesses affected by the measure of £0.2 million.					
	This measure is expected to have no impact on civil society organisations.					
		Cost		Time Period (yrs)		
	Compliance Costs					
	One-off Costs	negligible		N/A		
	Average Annual Costs	£0.2m		5		
	Total Costs (PV)	£1.9m		N/A		
	Compliance Benefits					
	One-off Benefit	N/A		N/A		
	Average Annual Benefit	N/A		N/A		
	Total Benefit (PV)	N/A		N/A		
	Net Benefit (NPV)	-£1.9		N/A		
	Impact on Administrative Burden (included in Net Benefit)					

	Increase	Decrease	Net Impact
	£0.2m	£0	£0.2m
Operational impact (£m) (HMRC or other)	There will be no significant operational impact on HMRC until regulations are made. Thereafter, there will be a modest cost to HMRC from receiving and processing the reports and also from responding to requests to exchange information from tax authorities in other jurisdictions estimated at £100,000 for 2017-18 and £200,000 a year thereafter.		
Other impacts	Other impacts have been considered and none have been identified.		

Monitoring and evaluation

Monitoring and evaluation requirements will be established during the second stage of implementation as detailed regulations are developed.

Further advice

If you have any questions about this change, please contact Anne Stark on 03000 585904 (email: anne.b.stark@hmrc.gsi.gov.uk).

Disclosure of Tax Avoidance Schemes regime changes

Who is likely to be affected?

Firms and individuals who engage in tax avoidance either as promoters who design and sell avoidance schemes, or those who use them.

General description of the measure

This measure strengthens the Disclosure of Tax Avoidance Schemes (DOTAS) regime by: updating the rules determining what has to be disclosed to ensure avoidance being marketed and used now is disclosed; changing the information that must be provided to HM Revenue & Customs (HMRC); enabling HMRC to publish information about promoters and disclosed schemes; and establishing a taskforce to enforce the strengthened regime.

Policy objective

While the majority of taxpayers in the UK comply in full with their tax obligations without resorting to tax avoidance schemes, a minority try to avoid tax, usually using schemes that do not deliver the tax results they promise. The Government has made clear that it will act against them and therefore wants to ensure that those who design or market tax avoidance schemes cannot side step the DOTAS rules. For this reason some features of DOTAS need updating.

Background to the measure

DOTAS was introduced in 2004 to provide early information to HMRC about tax avoidance schemes and their users. It has been amended a number of times to ensure it remains up-to-date and can identify tax avoidance schemes as the tax avoidance market changes.

The intention to strengthen DOTAS in Finance Bill 2015 was announced at Budget 2014 and was followed by a consultation which ran until 23 October 2014. A response document and draft legislation for consultation was issued 10 December 2014. Alongside this HMRC has looked into options aimed at increasing DOTAS compliance and transparency that can accompany these changes.

Detailed proposal

Operative date

Changes to primary legislation included in Finance Bill 2015 will come into force on the date of Royal Assent. Changes that will be made through secondary legislation will be made and come into force shortly after Royal Assent. Further changes to secondary legislation under existing powers will come into force at a later date.

Current Law

DOTAS is provided for in Part 7 of the Finance Act (FA) 2004. The detail of what has to be disclosed and the information that must be provided to comply with the regime is set out in regulations. The main regulations impacted by this measure are in SI2006/1543, SI2012/1836, S2011w/170 and SI2004/1865.

Section 98C Taxes Management Act 1970 which provides for penalties for persons who fail to comply with the regime.

Regulations currently provide for hallmarks to cover schemes involving income tax, corporation tax, capital gains tax, inheritance tax, stamp duty land tax and the annual tax on enveloped dwellings.

DOTAS also requires disclosure of certain schemes involving National Insurance contributions. Section 132A of the Social Security Administration Act 1992 provides for regulations to extend DOTAS tax legislation to National Insurance contributions.

Proposed revisions

A number of changes will be made to Part 7 of FA 2004 and in regulations to the hallmarks:

- The rules defining promoters are being changed to ensure disclosure is made by persons resident in the UK where a promoter not resident in the UK fails to disclose. This includes a power to enable HMRC to identify users of undisclosed tax avoidance schemes so that they can be pursued for disclosure.
- The penalty applicable to scheme users who fail to correctly report their use of the scheme to HMRC is increased.
- The descriptions of what has to be disclosed will be updated in regulations.
- HMRC will be able to publish information about promoters and disclosed schemes.
- An employer who enters into a scheme in relation to the employment of its employees will have to provide employees with the SRN and will have to periodically provide HMRC with information about the employees.
- The period during which HMRC may issue a scheme reference number (SRN) is increased from 30 to 90 days.
- HMRC will be able to include additional information in the form used by promoters to provide the SRN to clients and by clients to provide the SRN to others.
- People will be able to voluntarily provide information to HMRC to assist in determining whether there has been a breach of any DOTAS rules.
- The changes will be extended to schemes avoiding National Insurance contributions.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	+30	+50	+70
These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the office for budget responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.						
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	There will only be an impact on those individuals who engage in tax avoidance. It is expected that most of these to be seeking to reduce their tax liability at higher or additional rates.					
Equalities impacts	The measure will not have a disproportionate negative impact on protected groups or families. This measure seeks to ensure that taxpayers pay the tax intended by Parliament. Those engaged in, or promoting tax avoidance will be impacted.					
Impact on business including civil society organisations	The measure is expected to have a negligible impact on businesses and civil society organisations. There will only be an impact on businesses if they participate in avoidance schemes. This measure will have no impact on businesses and civil society organisations undertaking normal commercial transactions.					

Operational impact (£m) (HMRC or other)	Dealing with outputs from the legislative changes, such as additional scheme disclosures and reporting of reference numbers, will have a negligible impact on HMRC. The additional staff for the taskforce are expected to cost in the region of £2 million per annum.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC monitors the information it receives from promoters and users of disclosed tax avoidance schemes. HMRC checks that information for completeness and accuracy and seeks out non-compliance through a combination of monitoring of the market, intelligence, engagement with promoters and information from HMRC's compliance work. HMRC uses that information to inform DOTAS policy development.

Further advice

If you have any questions about this change, please contact Gary Coombs on 03000 589577 (email: gary.coombs@hmrc.gsi.gov.uk) or Alex Wakefield on 03000 589760 (email: alexander.wakefield@hmrc.gsi.gov.uk).

Promoters of Tax Avoidance Schemes

Who is likely to be affected?

Promoters of avoidance schemes under the Finance Act (FA) 2014 Promoters of Tax Avoidance Schemes legislation, the intermediaries that continue to represent promoters after monitoring has commenced and clients using the monitored promoter's products.

General description of the measure

The legislation allows HM Revenue and Customs (HMRC) to issue conduct notices to promoters and subsequently monitor promoters who breach a conduct notice. Monitored promoters are subject to new information powers and penalties which will also apply to intermediaries that continue to represent them after the monitoring commences. This measure will include associated and successor entities of promoters in the high-risk promoter regime. A small number of other changes are also included in this measure, aimed at ensuring the 2014 legislation functions as intended.

Policy objective

The changes to this legislation are part of the Government's strategic response to avoidance and to deter the use of avoidance schemes through influencing the behaviour of promoters, their intermediaries and clients.

Background to the measure

The legislation was enacted in Finance Act 2014, following a consultation on the tax aspects entitled *Raising the Stakes on Tax Avoidance* which ran from 12 August until 4 October 2013, and applied to tax. The National Insurance Contributions Bill (NICs) 2014 includes legislation which will effectively mirror the tax provisions for NICs purposes. The Government announced in 2014 its intention to introduce a threshold condition for associated and successor entities. Including associated and successor entities in the high-risk promoter regime is vital to ensuring that the rules cannot be circumvented, which agreed with the consultation responses.

This Tax Information and Impact Note (TIIN) updates the TIIN published on 19 March 2014.

Detailed proposal

Operative date

The measure will have effect from the date that Finance Bill 2015 receives Royal Assent.

Current law

The current law is set out in Section 234 to 283, and Schedule 34 to 36 of Finance Act 2014.

Proposed revisions

First, Schedule 34 be amended to allow HMRC to issue Conduct Notices to a broader range of connected persons under the common control of a promoter of tax avoidance schemes.

Second, Part 5 of the 2014 Act be amended to provide that the three year time limit for issuing notices to promoters who have failed to disclose avoidance schemes to HMRC under DOTAS applies from the date when the failure comes to the attention of HMRC rather than the date of the underlying failure.

Thirdly, a new threshold condition will be introduced into Schedule 34 for failing to comply with NICs disclosure requirements.

Finally, Schedule 34 will be amended to ensure that the threshold conditions take account of decisions by independent bodies in matters of all relevant forms of professional misconduct.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+5	+35	+35	+35
	These figures were set out in Table 2.1 of Budget 2013 as the <i>Avoidance schemes: enhanced information powers</i> policy measure and have been certified by the Office of Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals, households and families	<p>The measure will mainly impact on those individuals who are, or work for, monitored promoters.</p> <p>There may also be an impact on the users of avoidance schemes. Individuals who use avoidance schemes will generally be higher rate taxpayers.</p> <p>It is not expected that the measure would adversely affect households and families.</p>				
Equalities impacts	<p>HMRC does not hold information about the protected characteristics of promoters and users of schemes but there is no reason to suppose that there is any particular equality impact.</p> <p>It is not expected that the measure would impact adversely or disproportionately on equality groups.</p>				
Impact on business including civil society organisations	<p>Approximately twenty promoters were considered to be within the scope of the 2014 legislation. These changes secure the original policy intent. Some of the initially identified promoters are expected to improve their behaviour without HMRC using their powers under the legislation, others are expected to require formal action. Over time it is possible that other promoters under common control will be identified as having breached a threshold condition and become subject to this legislation.</p> <p>The measure is expected to have a negligible impact on businesses. There will only be an impact on businesses if they participate in or promote avoidance schemes</p> <p>This measure will have no impact on and civil society organisations or businesses undertaking normal commercial transactions.</p>				
Operational impact (£m) (HMRC or other)	Dealing with the additional information and reporting of information will have negligible impact on HMRC.				

Other impacts	<u>Small and micro business assessment:</u> businesses of any size develop market and use tax and NICs avoidance schemes. HMRC expects this measure will have little, if any impact on small businesses either in absolute terms (considering the overall effect on them) or in relative terms (considering the effect on specific businesses). Other impacts have been considered and none have been identified.
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Monitoring and evaluation

The measure will be monitored using information collected from the limited population of designated promoters and their users.

Further advice

If you have any questions about this change, please contact Simon Galloway on 03000 585154 (email: simon.galloway@hmrc.gsi.gov.uk).

Pension Flexibility 2015

Who is likely to be affected?

- Individuals who have reached the normal minimum pension age, (normally age 55), who have money purchase pension savings in a registered pension scheme or non-UK pension scheme;
- Individuals with drawdown pensions;
- Beneficiaries of people who have died with pension savings in a registered pension scheme or non-UK pension scheme;
- Scheme administrators of registered pension schemes; and
- Scheme managers of non-UK pension schemes.

General description of the measure

A number of changes are being made to pension tax rules to reflect the greater flexibility individuals will have to access their pension savings from age 55. The changes will:

- allow all of the funds in a money purchase arrangement to be taken as an authorised taxed lump sum, removing the higher unauthorised payment tax charges;
- increase the flexibility of the income drawdown rules by removing the maximum 'cap' on withdrawal and minimum income requirements for all new drawdown funds from 6 April 2015;
- enable those with 'capped' drawdown to convert to a new flexible drawdown fund once arranged with their scheme should they wish;
- enable pension schemes to make payments directly from pension savings with 25 per cent taken tax-free (instead of a tax-free lump sum);
- introduce a limited right for scheme trustees and managers to override their scheme's rules to pay flexible pensions and lump sums from money purchase pension savings;
- remove some restrictions on lifetime annuity payments;
- ensure that individuals do not exploit the new system to gain unintended tax advantages by introducing a reduced annual allowance for money purchase savings where the individual has flexibly accessed their savings;
- increase the maximum value and scope of trivial commutation lump sum death benefits;
- provide new information requirements to ensure that individuals who have flexibly accessed their pension savings are aware of the tax consequences of doing so;
- restrict and reduce certain tax charges that apply to death benefits;
- enable persons other than dependants to inherit unused drawdown funds and provide that where the death occurred before age 75, lump sum death benefits and drawdown pension from these funds can be paid tax free, subject to the member having sufficient available lifetime allowance;
- allow annuities paid to a beneficiary on the death of the member before age 75 to be paid tax free; and,
- make changes to the rules for individuals who have received UK tax relief in respect of pension savings in non-UK pension schemes, so that the flexibilities and restrictions to relief will apply equally to them.

Policy objective

These measures make the tax system fairer by ensuring people have more choice about how they access their money purchase pension savings. They also make changes to prevent this new flexibility being exploited by individuals to gain a tax advantage.

Background to the measure

The Government announced at Budget 2014 proposals to allow people aged 55 and above, from April 2015, access to their money purchase pension savings as they wish during retirement, subject to their marginal rate of income tax.

A consultation document *Freedom and Choice in Pensions* published on 19 March 2014, set out the Government's proposals for reform and invited comments on the proposals.

A summary of responses to the consultation was published on 21 July 2014.

Draft legislation was published on 6 August 2014 for a 4 week technical consultation.

A further announcement in relation to death benefits was made on 29 September 2014.

The Taxation of Pensions Bill was introduced to Parliament on 14 October 2014.

The Government announced at Autumn Statement 2014, further changes in relation to death benefits.

This Tax Information and Impact Note (TIIN) updates the TIIN published on 7 November 2014.

Detailed proposal

Operative date

These measures will have effect for pensions to which individuals become entitled on or after 6 April 2015.

The changes relating to the annual allowance and trivial commutation lump sums will have effect from 6 April 2015.

The changes relating to lump sum death benefits will have effect in relation to lump sums paid on or after 6 April 2015.

The changes relating to the taxation of payments from a beneficiary's drawdown fund will have effect for any payments of income withdrawal from 6 April 2015 from a drawdown fund, but only where there had been no payments of any drawdown pension from that fund before 6 April 2015.

The changes relating to the taxation of annuities paid to a beneficiary on the death of the member before age 75 will have effect for annuities where there has been no payment to the beneficiary before 6 April 2015.

The changes relating to individuals who were entitled to drawdown pension before 6 April 2006 and have not to date had any benefit crystallisation event occur in relation to them and individuals who were in flexible drawdown before 6 April 2015, where the flexible drawdown nomination was made on or after 27 March 2014, will have effect for benefit crystallisation events occurring on or after 6 April 2015.

Current law

Registered pension schemes are tax-advantaged vehicles intended to encourage saving for retirement. The legislation is mainly set out in Part 4 of Finance Act (FA) 2004 and supporting regulations.

Types of Arrangement

An arrangement is defined by the type of benefits that will ultimately be provided from the arrangement (section 152 FA 2004). There are three main types of benefits that can be provided, defined benefits, cash balance benefits or other money purchase benefits (often known as defined contribution benefits). Where defined benefits are payable this is a defined benefit arrangement, where cash balance or other money purchase benefits are payable, this is a money purchase arrangement.

Authorised Payments

Section 164 FA 2004 details payments that a registered pension scheme is authorised to make to or in respect of members. These include the payment of pensions to members and dependants under sections 165 and 167 respectively. For money purchase pension savings, pensions can be paid as:

- a scheme pension – pension paid by the scheme administrator, or an insurance company selected by the scheme administrator, payable for life and except in certain specified circumstances cannot reduce;
- a lifetime annuity – an annuity paid for life or, if greater, a guaranteed period of up to 10 years, for which the member had the opportunity to select the insurance company and which except in certain specified circumstances cannot reduce; or
- a drawdown pension – there are two types of drawdown pension, capped drawdown and flexible drawdown.

Capped drawdown

Pension rule 5 in section 165 imposes a limit on the amount of drawdown pension that the drawdown pensioner may withdraw from their capped drawdown pension arrangement during a drawdown pension year. The current limit is 150 per cent of a value called the 'basis amount'. A drawdown pension year is the period of 12 months starting on the anniversary of when the individual first became entitled to the drawdown pension.

The basis amount is defined in Schedule 28 to FA 2004 and in the Registered Pension Schemes (Relevant Annuities) Regulations 2006, SI 2006/129. The basis amount is also commonly referred to as the amount of an 'equivalent annuity'.

Withdrawals are taxed as 'PAYE pension income' under section 683 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003).

Flexible drawdown

Where a drawdown pensioner (or dependant) meets the flexible drawdown conditions there is no limit on the amount that they can take each year as drawdown pension. One of the required conditions is that the individual is receiving a guaranteed minimum pension income of £12,000 a year.

Members who have entered into flexible drawdown can continue to make contributions to a registered pension scheme in the year after they entered flexible drawdown, but in order to prevent the recycling of withdrawals to obtain further tax relief, section 227A FA 2004 effectively reduces the annual allowance for these members to nil.

Lump Sums

Authorised payments of lump sums to members are set out under section 166 FA 2004 and to lump sums following the member's death in section 168 FA 2004.

Trivial commutation

A trivial commutation lump sum can be paid when the member is 60 or over and the total value of their pension rights under all registered pension schemes is no more than the commutation limit, and the lump sum extinguishes all of the rights the member has under the scheme. The current trivial commutation limit is £30,000.

Small pots

The Registered Pension Schemes (Authorised Payments) Regulations 2009 (SI 2009/1171) allow for up to three small personal pension funds of £10,000 or less to be paid out as lump sums. Also a lump sum can be paid where, were it not for the fact that the lump sum would not extinguish all of the rights under the scheme because of an annuity in payment, the lump sum could have been paid as a trivial commutation lump sum. There is no limit on the number of lump sums up to £10,000 that may be paid out of an occupational pension scheme.

Pension commencement lump sums

A tax-free lump sum, known as the pension commencement lump sum ('PCLS'), can be paid in connection with the member becoming entitled to a pension. Aside from the temporary changes mentioned in the paragraph below, the PCLS must be paid no more than six months before the member becomes entitled to the associated pension and no more than 12 months after the entitlement to the associated pension arises. The PCLS must be paid from the same scheme as the associated pension. Paragraphs 1 to 3A of Schedule 29 to FA 2004 set out the conditions for a lump sum to be a PCLS.

Schedule 5 of FA 2014 introduced a number of temporary changes to the PCLS rules where the intended PCLS is paid before 6 April 2015. These changes allow for a lump sum to be an authorised PCLS where entitlement to the associated pension occurs more than six months after payment of the PCLS, provided the entitlement to the associated pension arises by 5 October 2015. The changes also allow for the associated pension to be paid from a scheme other than the scheme from which the PCLS is paid.

Annual allowance

Tax relief on pension savings to registered pension schemes in respect of an individual is restricted by an annual limit of relief, the annual allowance. With effect from the 2014-15 tax year, the annual allowance is £40,000. Section 227 FA 2004 provides for the annual allowance charge to apply where the individual's total pension input amounts exceed the individual's available annual allowance. The annual allowance charge is charged at the individual's marginal tax rate. Unused annual allowance can be carried forward for up to three years.

Death benefits

A registered pension scheme is only allowed to pay out benefits as authorised payments following the death of a scheme member in two forms, either as a pension or as a lump sum benefit. The type of benefits that can be paid depend on the exact circumstances and the type of pension scheme and largely mirror the type of benefits that the member could have had from the scheme before death. Pension death benefits can only be paid to dependants of the member, and are taxable on the recipient at their marginal rate.

International

Where UK pensions tax relief has been provided to individuals who are members of overseas schemes, there are similar limitations to those that exist for registered schemes on the amount of tax relief available, what benefits can be provided from the UK tax relieved savings and information requirements. The legislation broadly puts members of overseas pension schemes who receive UK tax relief in the same position as members of UK registered pension schemes.

Proposed revisions

Legislation will be introduced in the Taxation of Pensions Bill 2014 to amend FA 2004 and ITEPA 2003, as well as certain regulations made under FA 2004.

Flexi-access drawdown funds

The changes will introduce a distinction between drawdown pension funds created before 6 April 2015, to which the existing rules in Schedule 28 FA 2004 may continue to apply, and drawdown pension funds first created on or after 6 April 2015, which are 'flexi-access drawdown funds'. There are no restrictions on the amount of withdrawals that can be made from 'flexi-access drawdown funds'.

The existing rules in Schedule 28 FA 2004 will apply to funds added on or after 6 April 2015 to drawdown pension funds that were set up before 6 April 2015 but only where they are used for capped drawdown. Alternatively a member with any existing drawdown pension fund may convert it into a flexi-access drawdown fund in order to be able to make unrestricted withdrawals of pension from the fund. All existing funds used for pre-6 April 2015 flexible drawdown will automatically become flexi-access drawdown funds.

Uncrystallised funds pension lump sum

To enable people to access flexibly any money purchase pension savings that haven't yet come into payment without first creating a flexi-access drawdown fund, an uncrystallised funds pension lump sum, or UFPLS will be payable. They will be payable only if the individual has lifetime allowance available. 75 per cent of each payment will be taxable as pension income at the individual's marginal rate of tax and 25 per cent will be tax-free, the equivalent of a PCLS for each payment. The exception to this is where the savings derive from disqualifying pension credits. They will be taxable in full as a tax-free lump sum may already have been paid in connection with these funds before the pension-sharing order. A payment of an UFPLS will be a benefit crystallisation event.

The money purchase annual allowance

A £10,000 annual allowance for money purchase pension savings will apply to individuals who have accessed their pension savings flexibly from an UFPLS, a flexi-access drawdown fund or a flexible annuity. The £10,000 annual allowance will also apply to payments of a scheme pensions set up on or after 6 April 2015 from a scheme with less than 12 pensioner members.

However, such individuals will retain an annual allowance for defined benefits pension savings of up to £40,000, depending on the value of new money purchase pension savings.

The £10,000 annual allowance will not apply to an individual by virtue of their receiving a small pot lump sum.

Unused annual allowance brought forward from earlier tax years will not be available to increase the £10,000 annual allowance for money purchase pension savings.

New rules for calculating the value of savings in hybrid arrangements for the purposes of the money purchase annual allowance will be introduced, but these rules will not apply to arrangements that existed as hybrid arrangements before 15 October 2015.

Reporting requirements

New reporting requirements for scheme administrators and individuals are being introduced to ensure that where an individual has flexibly accessed their pension savings;

- schemes of which they are a member are aware of this;
- the individual gets the right information to declare on their self assessment tax return and calculate the annual allowance charge due; and
- HM Revenue and Customs is provided with sufficient information to ensure the right amount of tax is paid.

Death Benefits

Changes are being made so that any individual can inherit unused drawdown funds or uncrystallised money purchase funds on the death of the member, where those funds are used to provide a drawdown pension or pay a lump sum death benefit. For someone who is not a dependant, there will be a new nominee's flexi-access drawdown fund. In addition any beneficiary (that is, a dependant or a nominee) with unused drawdown funds on their death can pass those funds to a successor to be designated to provide a drawdown pension for that individual (a successor's flexi-access drawdown fund) or to be paid as a lump sum death benefit.

Where the death of the member or beneficiary occurred before age 75 any payments of income withdrawal to the beneficiary or successor can be made tax-free providing the funds are designated within a two-year period. A new BCE will be introduced, to test any uncrystallised funds on the death of the member that are designated within the two-year period to a dependant's or nominee's flexi-access drawdown fund where the member dies under age 75. Any excess in consequence of this BCE will be subject to the lifetime allowance charge. Where the designation is not made within two years, or the member has reached age 75 at the time of their death, all payments of drawdown pension will be subject to the recipient's marginal rate, but will not be tested against the lifetime allowance.

Similar changes are also being made in respect of annuities so that pension death benefits from money purchase arrangements in the form of an annuity can be paid to anyone, not just a dependant, and that payments from the annuity can be made tax free where the member died before age 75.

The requirement for certain lump sums death benefits to be paid as authorised payments within a two-year period will be removed. However lump sums not paid within this period will be taxable at the recipient's marginal rate.

International

Changes are being made to FA 2004 to give HM Revenue and Customs powers to make regulations requiring scheme managers of qualifying recognised overseas pension schemes (QROPS) or former QROPS, to provide information about the scheme.

A number of consequential changes are made to FA 2004 and ITEPA 2003 to enable QROPS to make authorised payments to members from uncrystallised funds, the equivalent to an UFPLS.

Miscellaneous changes

Other changes to FA 2004 will:

- allow lifetime annuities to reduce as well as increase in value, however where an individual is paid an annuity that can reduce other than in prescribed circumstances, this will trigger the money purchase annual allowance so that they;
- remove the maximum ten-year guarantee period for lifetime annuities, which enables annuities to continue to be paid after the member's death;
- reduce the age limit for taking trivial commutation and small pot lump sums from age 60 to the normal minimum pension age (currently 55), or when the ill-health condition has been met in relation to the individual, if earlier;
- amend the definition of a trivial commutation lump sum so that they will be payable from defined benefits arrangements only and require the lump sum to extinguish the member's entitlement to all defined benefits under the scheme;
- increase the maximum trivial commutation lump sum death benefit to £30,000;
- extend the trivial commutation lump sum death benefit rules to allow the remainder of a guaranteed pension up to a value of £30,000 to be taken as a lump sum on death rather than continue to pay it as a pension;
- remove the facility to pay winding-up lump sum death benefits because all such lump sums are also trivial commutation lump sum death benefits;
- provide that where an individual became entitled before 6 April 2006 to what is now a capped drawdown pension and no benefit crystallisation event has yet occurred, the amount of lifetime allowance treated as used up by that pension when the first benefit crystallisation event occurs will be reduced to 80 per cent of the maximum drawdown pension payable under that arrangement;
- where an individual becomes entitled to a lifetime annuity before the normal minimum pension age and without the ill-health condition applying, the amount treated as crystallised by that annuity at age 55 will be the higher of the annual rate of the annuity multiplied by twenty and the original value of the sums and assets used to buy the lifetime annuity;
- when an individual under age 55 with a protected pension age transfers benefits in payment as part of a recognised transfer, the transfer won't cause any pension payment made before the member's 55th birthday to be unauthorised; and,
- reduce the rate of the special lump sum death benefits charge, in respect of members who are aged 75 or over at the time of death, and the serious ill-health lump sum charge, from 55 per cent to 45 per cent.

FA 2004 will also be amended to allow scheme trustees and managers to make payments under the new pension flexibility rules, even if not permitted by the scheme rules.

Repeals

Two statutory instruments that would have ceased to have any effect from 6 April 2015 have been repealed:

- The Registered Pension Schemes (Relevant Income) Regulations 2011 (SI2011/1783)
- The Registered Pension Schemes (Prescribed Requirements of Flexible Drawdown Declarations) Regulations 2011 (SI2011/1792)

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-5	+320	+600	+910	+1,220	+810
	The Exchequer impacts above from the Budget 2014 announcement on pensions flexibility were certified by the Office for Budget Responsibility and were set out in Table 2.1 of the Budget document.					
	Following a consultation period the Government decided that: <ul style="list-style-type: none"> • Individuals with funded Defined Benefit (DB) schemes will continue to be allowed to transfer their pots to DC schemes. • Those who choose to flexibly access their DC pension savings will have their Annual Allowance reduced. Existing rules on small pots will continue. • The tax treatment of pension death benefits and payments from joint life and guaranteed annuities will change. 					
	The Exchequer impacts of these subsequent decisions are set out in the table below and in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+60	-25	-25	+30	-10
Economic impact	This measure may result in a shift in households' portfolio composition towards other financial and non-financial assets.					
Impact on individuals, households and families	With a requirement for individuals to have a minimum annual pension income of £12,000 (£20,000 before 27 March 2014) around 5,000 people a year accessed their pension savings flexibly. With the removal of the pension income requirement from 6 April 2015 we expect around 130,000 individuals a year to access their pension flexibly. These changes are not expected to have an impact on family formation, stability or breakdown.					

Equalities impacts	<p>These measures will affect individuals age 55 or over and have relatively little impact on other age groups. We would expect these measures to affect proportionately more men than women, disabled people and ethnic minority groups as they are more likely to have pension savings in excess of the trivial commutation limit.</p> <p>No other impacts are anticipated in respect of groups sharing other protected characteristics.</p>
Impact on businesses and civil society organisations	<p>There will be additional ongoing burdens for pension schemes and employers to provide information and guidance to individuals, and to update their systems. We anticipate increased numbers of individuals requesting transfers from defined benefits pensions, and increased requests from pension members for information on the value of contributions to their pensions.</p> <p>There will also be some one-off burdens for pension schemes and employers including: legal and consultation advice, training and familiarisation.</p>
Operational impact (£m) (HMRC or other)	<p>The additional costs for HM Revenue and Customs in implementing this change are initially estimated to be less than £1 million for changes to various IT systems and £2 million for staff resources.</p>
Other impacts	<p><u>Small and micro-business assessment:</u> the impact on small and micro businesses has been considered. As the changes are intended to provide individuals with greater flexibility in how they take their pension benefits, it would not be appropriate for the measure to apply differently according to the size of the firm.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

These measures will be kept under review through the monitoring of information collected on tax returns, and tax records.

Further advice

If you have any questions about this change, please contact Samantha Skill on 03000 564149 or Neeta Ruparelia on 03000 564289 (email: pensions.policy@hmrc.gsi.gov.uk).

National Insurance contributions: abolition of employer contributions for apprentices under 25

Who is likely to be affected?

Employers of apprentices under the age of 25.

General description of the measure

From April 2016 employers of apprentices under the age of 25 will no longer be required to pay secondary Class 1 (employer) National Insurance contributions (NICs) on earnings up to the Upper Earnings Limit (UEL), for those employees.

Policy objective

The Government is committed to ensuring more people can access high quality apprenticeships. Apprenticeships offer young people an alternative to university as a path into skilled employment. This measure is intended to support employers who provide apprenticeships to young people by removing the requirement that they pay secondary Class 1 NICs on earnings up to the UEL, for those employees. This should also support youth employment.

Background to the measure

The measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect from 6 April 2016.

This measure will be legislated for through the National Insurance Contributions (NICs) Bill, which is currently before Parliament. The measure will be introduced as an amendment to the Bill. The measure is expected to require a change to payroll software. HM Revenue & Customs (HMRC) will discuss implementation with external stakeholders in the New Year to understand how best to deliver this measure.

Current law

Section 6(1) of the Social Security Contributions and Benefits Act 1992, and the Northern Ireland equivalent makes employers liable to pay Class 1 secondary (employer) NICs on earnings paid to employees over the age of 16, provided the earnings exceed the Secondary Threshold which is currently £153 per week. Secondary Class 1 NICs are payable at a single percentage rate, currently set at 13.8 per cent, though the rate can be varied in certain circumstances. These will include a zero percentage rate for earners under 21 years of age from 6 April 2015.

Proposed revisions

Legislation will be introduced in the NICs Bill which will remove from employers who employ apprentices under the age of 25 the need to pay secondary Class 1 (employer) NICs on the

earnings they pay to those apprentices which are below the UEL. The legislation will provide a power to alter the age at which the zero rate of secondary Class 1 NICs applies for employed earners engaged in apprenticeships, by reference to that earner's age, and a power to define "apprentice" for the purpose of applying the zero rate. HM Treasury and HMRC will discuss the definition of apprenticeships with external stakeholders in the New Year to understand how best to deliver this measure.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	-105	-110	-120	-125
	These figures are set out in Table 2.1 of the Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement 2014.					
Economic impact	Reducing employer NICs should have a positive effect on the number of apprentices employed, improve skills in the workforce and support youth employment.					
Impact on individuals, households and families	While there are no direct impacts on individuals, households and families one of the goals of the measure is to support youth employment and thereby benefit individuals and households, especially those in lower income groups and areas particularly affected by youth unemployment.					
Equalities impacts	The measure targets apprentices under the age of 25 in order to improve their prospects in the employment market. There is a strong policy rationale for focusing help on reducing youth unemployment, and this measure aims to help those at the younger end of the employment scale where unemployment levels are at their most acute. It builds on a previous announcement that from April 2015 employers are exempt from employer NICs on all earnings up to the Upper Earnings Limit (UEL) paid to employees under the age of 21					
Impact on business including civil society organisations	<p>There will be some additional cost to employers to update their systems to take advantage of the abolition of employer NICs for apprentices aged between 21 and 25. There are estimated to be around 180,000 employers offering apprenticeships in the UK. The ongoing administration costs relate to employers who may need to monitor their payroll returns to ensure they are claiming the exemption where applicable. This is expected to have an ongoing estimated cost of £0.6m per year. We assume for employers who outsource their payroll that their payroll provider will absorb the cost of this change.</p> <p>Anticipated one-off costs relate to training and familiarisation: In total, HMRC anticipates one-off costs across employers of around £3.6 million.</p>					
			Cost		Time Period (yrs)	
Compliance Costs						

	One-off Costs	£3.6m	N/A
	Average Annual Costs	£0.6m	5
	Total Costs (PV)	£6.6m	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	N/A	N/A
	Total Benefit (PV)	N/A	N/A
	Net Benefit (NPV)	-£0.6m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0.6m	£0m	£0.6m
Operational impact (£m) (HMRC or other)	The additional costs for HMRC for implementing this change are estimated to be in the region of £2.5 million for IT changes and £2.5 million over 5 years for staff resources and customer information and support.		
Other impacts	<p><u>Small and micro business assessment</u>: the benefit for smaller businesses will significantly outweigh any costs.</p> <p><u>Competition assessment</u>: this measure is not targeted at any specific sector. All employers are eligible, so its introduction is unlikely to affect competition.</p> <p>Other impacts have been considered and none have been identified.</p>		

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Joanne Collings on 03000 575869 (email: joanne.collings@hmrc.gsi.gov.uk).

National Insurance contributions: Employment Allowance extension to personal carers

Who is likely to be affected?

Individuals who employ a personal carer.

General description of the measure

The measure will extend the “employment allowance” relief to individuals who employ care and support workers. Employers will be entitled to deduct up to £2,000 per annum from their liability to pay secondary Class 1 (‘employer’) National Insurance contributions (NICs).

Policy objective

Employers who employ staff for purposes connected with their personal, family or household affairs are currently excluded from claiming the employment allowance, which would reduce their NICs liability by up to £2,000 a year. Removing this exclusion from care and support workers will support individuals who need to purchase care for themselves or others.

Background to the measure

This measure was announced at Autumn Statement 2014. The employment allowance was introduced in April 2014 to support businesses and charities with the costs of employment.

Detailed proposal

Operative date

It is proposed that this measure will have effect on and after 6 April 2015.

Current law

Section 2(3) of the National Insurance Contributions Act 2014 excludes individuals employing staff for purposes connected to their personal, family or household affairs from claiming the NICs employment allowance. Section 5(1)(b) of the National Insurance Contributions Act 2014 gives the power to make regulations that amend the cases where a person cannot qualify for the employment allowance.

Proposed revisions

Section 2(3) of the National Insurance Contributions Act 2014 will be amended through secondary legislation. Affirmative regulations will be laid before Parliament in early 2015 setting out the detail of these provisions.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-10	-10	-10	-10	-10
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>The measure is expected to have a positive impact on individuals who employ care and support workers by cutting employment costs by up to £2,000 a year.</p> <p>The measure will support families who employ care and support staff to care for their relatives by relieving employment costs.</p>					
Equalities impacts	<p>An extension of the employment allowance to personal carers is likely to benefit more women than men. Women are more likely to be primary carers, and as a result prevented from working themselves. In 2011 57.7 per cent of unpaid carers were female and 42.3 per cent were male in England and Wales (Office of National Statistics, 2013). By relieving the cost of employing a care and support worker this measure could decrease the demands made on unpaid carers.</p> <p>For demographic and social reasons, women are also more likely than men to employ carers for themselves, and so accordingly will benefit more from this measure.</p>					
Impact on business including civil society organisations	<p>The measure is not expected to increase administration or general costs. The allowance is simple to claim as it is delivered through standard payroll software and HM Revenue and Customs' (HMRC) Real Time Information system. Employers will be able to claim their eligibility through their regular payroll process.</p> <p>This measure is expected to have no impact on civil society organisations.</p>					
Operational impact (£m) (HMRC or other)	HMRC will incur some costs implementing this change but these are expected to be negligible.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure may be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Emma Barker on 03000 586788 (email: emma.robinson3@hmrc.gsi.gov.uk).

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