HM Revenue
& Customs

HM Treasury

Overview of Legislation in Draft

10 December 2013

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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 2013 and where appropriate, consultations on policy have been carried out over the spring and summer. The Government's responses to these consultations are 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 2014.

What has been published?

The Government is publishing draft clauses for Finance Bill 2014 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 **Tuesday 4 February 2014**.

1 Overview of measures

1.1 This chapter provides a brief description of the measures for which draft legislation was published on 10 December 2013 including measures announced since Budget 2013. Most of the measures are intended for inclusion in Finance Bill 2014, although a small number of policies to be given effect through secondary legislation or through other bills have also been included.

Personal tax

1.2 Income tax personal allowances for 2014-15 – At Budget 2013, the Government announced that for 2014-15, people born after 5 April 1948 will be entitled to a personal allowance of £10,000. From 2015-16, the default will be an annual increase by the Consumer Prices Index (CPI). The Government also announced that the basic rate limit will be £31,865 in 2014-15. A Tax Information and Impact Note for these changes was published at Budget 2013.

1.3 Income tax: indexation – At Budget 2011, the Government announced its intention to move the indexation assumption for all direct taxes to the CPI. This transition began in April 2012. The CPI change for personal allowances and income tax limits for individuals will be made in Finance Bill 2014. Subsequent legislation will then be introduced to override this for the starting rate limit for savings income, adjusted net income limit, married couples allowances and blind persons allowance so that they rise by the Retail Prices Index (RPI) for the 2015-16 tax year.

1.4 Transferable tax allowances for married couples – As announced in the Autumn Statement, legislation will be introduced, effective from 2015-16, to allow a spouse or civil partner to transfer £1,000 of their personal allowance to their spouse or civil partner. This option will be available where neither spouse or civil partner is a higher or additional rate taxpayer. From 2016-17, the transferable amount will reflect increases to the personal allowance. Assuming the basic rate of income tax is 20 per cent, the recipient's tax liability will be reduced by up to £200 for the tax year.

1.5 Increase in limits under employee share schemes – As announced in the Autumn Statement, the Government will increase the maximum value of shares that employees can acquire under all-employee Share Incentive Plans (SIP), and Save As You Earn option schemes (SAYE) from 6 April 2014. Finance Bill 2014 will introduce legislation to increase the individual limits under SIP to:

- £3,600 on the 'free' shares companies can award to employees; and
- £1,800 on the 'partnership' shares employees can purchase.

A Treasury Order will increase the amount that employees can save under SAYE arrangements and apply towards the purchase of shares to £500 per month.

1.6 Government response to Office of Tax Simplification (OTS) review of tax advantaged share schemes – As announced in December 2012, and following consultation, legislation will be introduced to give effect to several of the OTS's proposals to simplify the tax rules for employee share schemes. The main changes are the switch from HMRC approval of tax advantaged schemes to self certification by businesses, and online filing of information and returns on employee share arrangements. These changes will take effect from 6 April 2014.

1.7 Government response to OTS review of unapproved share schemes – As announced at Budget 2013, and following consultation over the summer, legislation will be introduced to give effect to a number of the OTS's proposals to simplify the tax rules for non-tax advantaged ('unapproved') share schemes. It will change the basis of taxation of shares and options granted to internationally mobile employees, introduce a new rollover relief for certain share exchange arrangements, extend corporation tax relief for employee share acquisitions, and apply other simplifications to tax rules. A response to the consultation was published on 10 December 2013.

1.8 Tax incentives for employee ownership trusts – As announced at Budget 2013, and following consultation over the summer, legislation will be introduced to provide a relief from capital gains tax (CGT) on disposals of shares in a trading company (or a holding company of a trading group) to a special trust which operates for the benefit of all employees, and which result in the trust holding a controlling interest in the company. The legislation will also ensure that transfers of shares and other assets to such a trust will be exempt from inheritance tax providing certain conditions are met. The relief and exemption will take effect from 6 April 2014.

1.9 From 1 October 2014 bonus payments made to employees of companies which are controlled by a qualifying trust (or a company in a group headed by such a company), will be exempt from income tax up to a cap of £3,600 in a tax year. The legislation will also ensure that employers are not prevented from claiming a corporation tax deduction to which they would otherwise be entitled because a bonus paid to their employees is exempt from income tax. A response to the consultation was published on 10 December 2013.

1.10 Social investment tax relief – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to provide a range of income and CGT reliefs to provide incentives for investment by individuals in qualifying social enterprises. These changes will come into effect from 6 April 2014. A response to the consultation was published on 10 December 2013.

1.11 Tax exemption for employer expenditure on recommended medical treatment – As announced in Budget 2013, legislation will be introduced to exempt from income tax expenditure by employers on recommended medical treatment where an employee has been absent from work due to ill-health or injury. Following consultation, the Government will extend the exemption to medical treatments recommended by employer-arranged occupational health services. The exemption will be subject to an annual cap of £500 per employee, and is likely to come into effect in autumn 2014. A response to the consultation was published on 10 December 2013.

1.12 Exemption threshold for employer provided beneficial loans – As announced at Budget 2013, legislation will be introduced to increase the exemption threshold for employer-related loans to be treated as earnings, from £5,000 to £10,000. These changes will take effect from 6 April 2014.

1.13 Pensions tax relief – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced in Finance Bill 2014 to provide transitional protection ('individual protection 2014') from the pensions lifetime allowance charge, as a consequence of the reduction in the standard lifetime allowance to £1.25 million from 6 April 2014. A response to the consultation was published on 10 December 2013.

1.14 Interest relief on loans to purchase life annuities – As announced in Budget 2013, the Government consulted on the impact of withdrawing the relief for interest on loans to purchase life annuities, following a recommendation from the OTS. In light of the responses received, the Government has decided to retain the relief, and therefore no new legislation is required. A response to the consultation was published on 10 December 2013.

1.15 Capital gains tax: annual exempt amount (AEA) – As announced in Autumn Statement 2012, legislation will be introduced to ensure that the AEA will increase to £11,000 in 2014-15 and £11,100 in 2015-16. A Tax Information and Impact Note was published on 11 December 2012.

1.16 Capital gains tax private residence relief final period exemption – As announced in the Autumn Statement, legislation will be introduced to reduce the final period of ownership of a property which qualifies for private residence relief from 36 months to 18 months. A new relief will be introduced so that some disabled people and people moving into care homes will get final period exemption for the last 36 months. The changes will come into effect from 6 April 2014.

1.17 Inheritance tax (IHT): nil-rate band – As announced on 11 February 2013, legislation will be introduced to extend the freeze on the inheritance tax nil-rate band at £325,000 until 2017-18. A Tax Information and Impact Note was published on 20 March 2013.

1.18 Inheritance tax: periodic charges on trusts – As announced at Budget 2013, and following consultation over the summer, legislation will be introduced to align the filing and payment dates for IHT trust charges to six months after the month in which a chargeable event occurred. The new legislation will also treat trust income that has remained undistributed for more than five years at the date of the trust's 10 year anniversary, as if it was part of the trust capital for the purposes of the 10 year anniversary charge to IHT. The changes will be effective in relation to tax charges arising on or after 6 April 2014. A response to the consultation was published on 10 December 2013.

1.19 Vulnerable beneficiary trusts – As announced in the Autumn Statement, legislation will be introduced to:

- extend from 5 December 2013 the CGT 'uplift' provisions that apply on the death of a beneficiary of a vulnerable beneficiary trust; and

- extend from 2014-15 the range of trusts that qualify for special income tax, CGT and IHT treatment.

1.20 Cultural Gifts Scheme (CGS) – As announced in the Autumn Statement, legislation will be introduced to ensure the CGS works as intended in relation to Estate Duty. The amendment will ensure that donors of objects, on which there is potentially a charge to Estate Duty, are not financially better off by donating the object under the CGS, than selling the object on the open market. The changes will take effect on and after the date of Royal Assent to Finance Bill 2014.

1.21 Changes to qualifying loan interest relief – As announced in the Autumn Statement, legislation will be introduced to extend the income tax relief for payments of interest on loans to acquire an interest in a close company or an employee-controlled company. Currently relief is available for investment in companies which are resident in the UK. For interest payments on or after 6 April 2014, relief will be extended to include investments in companies resident in states in the European Economic Area other than the UK.

1.22 Company car tax rates 2016-17 – As announced in Budget 2013, legislation will be introduced to increase the appropriate percentages for calculating the benefit charge for cars with a CO_2 emissions figure by two percentage points for each band, with the maximum appropriate percentage remaining at 37 per cent. Legislation will also be introduced to remove the three percentage point diesel supplement, so that diesel cars will be subject to the same level of tax as petrol cars.

Finance Bill 2014 will also introduce legislation to increase the appropriate percentage for cars without a CO_2 emissions figure. The appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of:

- 1,400 or less will increase from 15 per cent to 16 per cent; and
- 1,401 – 2000 will increase from 25 per cent to 27 per cent.

Finally, legislation will be introduced to increase the appropriate percentage for cars registered before 1 January 1998. The appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of:

- 1,400 or less will be 16 per cent,
- 1,401 – 2000 will be 27 per cent, and
- 2,001 or more will be 37 per cent.

These changes will come into effect from 2016-17.

1.23 Company cars: repeal of section 114(3) Income Tax (Earnings and Pensions) Act (ITEPA) 2003 – As announced in the Autumn Statement, legislation will be introduced to repeal section 114(3) ITEPA 2003, which prevents a car benefit charge if the provision of a company car or van constitutes earnings from employment under any other provision. By repealing section 114(3) ITEPA 2003, it will allow HMRC to rely on the provision at section 64 ITEPA 2003, which ensures that the full amount of a car or van benefit is subject to tax, if an amount could be both earnings under section 62 ITEPA 2003 and treated as earnings under the benefits code. This change will come into effect from 2014-15.

1.24 Company cars: payments for private use of a company car or van – As announced in the Autumn Statement, legislation will be introduced to amend sections 144(1) and 158(1) Income Tax (Earnings and Pensions) Act (ITEPA) 2003, putting beyond doubt that payments for private use of a company car or van need to be made in the tax year in which private use was undertaken. This change will come into effect from 2014-15.

Corporate Tax

1.25 Corporation tax rates – The main rate of corporation tax for financial year 2015 of 20 per cent was announced in Budget 2013. The Government proposes to include legislation in Finance Bill 2014 to:

- impose a corporation tax charge for the financial year 2015;
- set the main rate of corporation tax on oil and gas ring fence profits of companies for financial year 2015;
- set the small profits rates and marginal relief fractions for financial year 2014, and repeal the small profits rate provisions for non ring fence profits from 2015 onwards;
- amend the mechanism for fixing the ring fence rates and fraction, which will in future be in Part 8 Corporation Tax Act 2010 that contains the oil activities legislation; and
- simplify rules which ensure the right tax is paid at the right time by companies under common control; including new rules for oil and gas ring fence profits, patent box small company treatment, capital allowances on long-life assets and the profit threshold for Quarterly Installment Payments.

1.26 Code of Practice on Taxation for Banks – As announced in Budget 2013, legislation will be introduced to require HMRC to publish an annual report on the Code of Practice on Taxation for Banks (the Code) from 31 March 2015. The report will list all banks, building societies and investment firms which have unconditionally adopted the Code, as well as those that have not. In addition it may name any bank, building society or investment firm which HMRC considers has not complied with the Code.

1.27 Bank levy rates – The Government intends that the bank levy should raise at least £2½ billion each year. To ensure this, and to offset the benefit to the banking sector from reductions to the main rate of corporation tax announced since 2010, the full bank levy rate will increase from 0.142 per cent to 0.156 per cent. The half rate for chargeable equity and long term chargeable liabilities will be increased from 0.071 per cent to 0.078 per cent. The changes will take effect from 1 January 2014.

1.28 Bank levy review – When the bank levy was introduced on 1 January 2011, the Government committed to a review in 2013 to ensure it was operating efficiently. Following consultation over the summer, the Government announced in the Autumn Statement that it will introduce legislation amending Schedule 19, Finance Act 2011 to give effect to changes that arise from this review. A response to the consultation was published on 10 December 2013.

1.29 UK oil and gas fiscal regime: new onshore allowance – As announced in Budget 2013, a new allowance will be introduced to promote early investment in shale gas. Following consultation, the Government has decided that the allowance will apply to all onshore projects, both for conventional and unconventional hydrocarbons.

1.30 The allowance will remove an amount equal to 75 per cent of capital expenditure incurred by a company in relation to an onshore site from its adjusted ring fence profits for the purposes of supplementary charge. The allowance will be subject to a capacity limit of 7 million tonnes for production yield per site. The allowance will not be available for existing onshore projects which have already received development consent. New onshore oil and gas fields will be removed from the scope of existing field allowances. Transitional arrangements will be put in place for companies currently developing projects. The changes will apply to the qualifying capital expenditure a company incurs on onshore oil and gas projects on or after 5 December 2013. A response to the consultation was published on 10 December 2013.

1.31 UK oil and gas fiscal regime: extension of the Ring Fence Expenditure Supplement for onshore activities – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to extend from 6 to 10 the number of accounting periods a company can claim Ring Fence Expenditure Supplement (RFES), in relation to qualifying expenditure or losses on onshore oil and gas activity. These changes will apply to losses or qualifying pre-commencement expenditure arising or 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. A response to the consultation was published on 10 December 2013.

1.32 UK oil and gas fiscal regime: substantial shareholding exemption – As announced in the Autumn Statement, legislation will be introduced to extend the scope of the substantial shareholding exemption, to treat a company as having held a substantial shareholding in a subsidiary being disposed of for the 12 month period before the disposal where that subsidiary is using assets for oil and gas exploration and appraisal activity that have been transferred from other group companies, and where the other conditions for the exemption are met. These changes will take effect from Royal Assent to Finance Bill 2014.

1.33 UK oil and gas fiscal regime: reinvestment relief for pre-trading companies – As announced in the Autumn Statement, legislation will be introduced to create an exemption to prevent a chargeable gain being subject to a corporation tax charge, where an asset is disposed of in the course of oil and gas exploration and appraisal activities, and the proceeds are then used for the same purposes. These changes will take effect from Royal Assent to Finance Bill 2014.

1.34 Consultation on tax support to the film industry – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to amend film tax relief. Subject to State aid approval, film tax relief will be available for surrenderable losses at a rate of 25 per cent up to the first £20 million of each production’s qualifying core expenditure (to a maximum of 80 per cent of the qualifying production core expenditure) and 20 per cent thereafter (to a maximum of 80 per cent of the qualifying production core expenditure) for all productions. The minimum UK spending requirement will also change from 25 per cent to 10 per cent. The changes will take effect from 1 April 2014. A response to the consultation was published on 10 December 2013.

1.35 Review of loan relationships and derivative contracts – The Government will introduce legislation to enhance existing anti-avoidance provisions at section 492 Corporation Tax Act 2009 (CTA 2009), to prevent abuse of the 'bond fund' rules in Chapter 3 of Part 6, CTA 2009, and to clarify and rationalise certain aspects of those rules. Legislation will also be introduced to clarify and rationalise the taxation of corporate partners, where loan relationships and derivative contracts are held by a partnership. These changes follow consultation over the summer on the review of the legislation governing the taxation of corporate debt and derivative contracts. Draft legislation for Finance Bill 2014 will be published for consultation in January 2014. Further changes in connection with this review will be introduced in Finance Bill 2015 and in secondary legislation. A response to the consultation was published on 10 December 2013.

1.36 Changes to the debt cap provisions – As announced in the Autumn Statement, legislation will be introduced to:

- put beyond doubt the way the grouping rules for the World Wide Debt Cap (WWDC) apply to companies without ordinary share capital; and

- enable regulations to be made, which include conditions to be met by companies making an election to transfer WWDC liabilities to another group company.

The first change applies for periods of account starting on or after 5 December 2013. The second change will take effect from Royal Assent to Finance Bill 2014.

1.37 Amending loss relief provisions – As announced in the Autumn Statement, legislation will be introduced to amend and supplement existing corporation tax provisions, to ease the rules restricting the availability of relief for corporation tax trading losses when companies change ownership. The changes will take effect for any changes of company ownership which occur on or after 1 April 2014.

1.38 Controlled foreign companies (CFC): profit shifting – As announced in the Autumn Statement, legislation will be introduced to switch off the partial exemption rules for a CFC's interest receipts that arise from an arrangement with a main purpose of transferring profits from intra-group lending out of the UK. The legislation will also amend the anti-avoidance rule relating to the transfer of external debt to the UK to ensure that the rule works as intended. The changes will take effect from 5 December 2013.

1.39 Business Premises Renovation Allowance (BPRA) – Following the publication of a Technical Note during the summer, legislation will be introduced with effect from April 2014 to clarify the scope of BPRA to ensure that the relief is limited to building and renovation works, and associated services. A response to the Technical Note was published on 10 December 2013, and is available on the HMRC website.

1.40 Capital allowances: mineral extraction allowances – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced relating to the treatment of mineral extraction allowances, where the mineral extraction activity enters or ceases to be within the charge to UK tax. The changes will take effect from April 2014.

1.41 UK management of offshore funds – The Government's Investment Management Strategy was published at Budget 2013. As part of this strategy, legislation will be introduced to widen the scope of section 363A of the Taxation (International and Other Provisions) Act 2010. The current provisions treat offshore funds that are undertakings for collective investment in transferable securities as not being resident in the UK if they are resident in another Member State for the purposes of any tax imposed under the law of that state on income. Following consultation over the summer, section 363A will be amended to include alternative investment funds from 5 December 2013.

1.42 Section 212 Finance Act 2012: Insurers' Solvency 2 regulatory capital securities – As announced in the Autumn Statement, the Prudential Regulatory Authority is now requiring insurers to issue Solvency 2 compliant capital instruments in advance of agreement to Solvency 2. The tax treatment of these instruments is uncertain under current tax legislation, as the legislation was not designed with these instruments in mind. As Solvency 2 is not in force, the existing power contained in Finance Act 2012, and which allows HM Treasury to make Regulations, cannot be used to set out the tax treatment of these instruments. The Government will therefore introduce legislation to expand the existing power to clarify the tax treatment of these instruments.

1.43 Loan relationships: release of debts: financial institutions in resolution – As announced on 26 November 2013, and taking effect from that date, legislation will be introduced to amend the corporation tax rules on loan relationships that apply to cases where credits are not required to be brought into account on the release of debts. It will include the case where a debt is released as a result of the application of any of the stabilisation powers under Part 1 of the Banking Act 2009.

1.44 Abolition of Schedule 19 – As announced in Budget 2013, legislation will be introduced to abolish the special stamp duty reserve tax charge on collective investment schemes in Schedule 19 Finance Act 1999. The charge will be abolished with effect from 30 March 2014.

1.45 Stamp duty and stamp duty reserve tax on junior shares – As announced in Budget 2013, legislation will be introduced to abolish stamp duty and stamp duty reserve tax on transfers of eligible securities traded on a recognised growth market. These changes will take effect from 28 April 2014.

1.46 Stamp duty land tax (SDLT): charities relief – As announced in the Autumn Statement, legislation will be introduced to make it clear that partial relief from SDLT is available where a charity purchases an interest in land jointly, as tenants in common, with a non-charity purchaser. The charity will be able to claim relief on the proportion of the purchase attributable to it. The changes will take effect from Royal Assent to Finance Bill 2014.

1.47 Stamp duty: House of Commons resolution provisions – As announced in the Autumn Statement, legislation will be introduced to ensure that any resolution for stamp duty will remain effective until replaced by an equivalent provision in the finance act. The measure is in line with the changes made to the Provisional Collection of Taxes Act 1968 by Finance Act 2011, as regards resolutions for other taxes and duties. These changes will take effect from Royal Assent to Finance Bill 2014.

1.48 Corporate Gift Aid for Community Amateur Sports Clubs – As announced in the Autumn Statement, legislation will be introduced to allow tax relief on gifts of money from companies to Community Amateur Sports Clubs. Tax relief on qualifying donations will apply to gifts made on or after 1 April 2014.

Indirect tax

1.49 Remote gambling tax reform – As announced at Budget 2012, and following consultation, legislation will be introduced to amend general betting duty, pool betting duty and remote gaming duty. These duties are currently charged on UK operators' betting and gambling profits irrespective of the customer's location. From 1 December 2014 these duties will be charged on operators' betting and gambling profits from transactions with UK customers, irrespective of whether the operator is in the UK or elsewhere. A response to the consultation, and draft legislation covering the changes were published on 16 August 2013 on the GOV.UK website; updated draft legislation and an information note were published on 10 December 2013.

1.50 Vehicle excise duty (VED) for heavy goods vehicles (HGVs) – As announced at Budget 2013, the Government will introduce legislation to reduce and restructure rates of VED for HGVs in the HGV Road User Levy, and to withdraw reduced pollution certificate (RPC) discounts over time. Rates changes will come into effect from 1 April 2014. RPC discounts will cease from 1 April 2014 for HGVs in the levy, and from 1 April 2016 for HGVs outside of the levy on Euro I, II and III RPCs, and 1 January 2017 on Euro IV and V RPCs.

1.51 Vehicle excise duty (VED) – As announced in the Autumn Statement, the Government will introduce legislation to reduce tax administration costs and burdens by making the following changes:

- motorists will be able to pay their VED by direct debit annually, biannually, or monthly should they wish to do so. A 5 per cent surcharge will apply to biannual and monthly payments; and
- a paper disc will no longer be issued and required to be displayed on a vehicle windscreen.

These changes will take effect from 1 October 2014.

1.52 Climate change levy (CCL): carbon price support rates for coal – As announced, legislation will be introduced to correct the carbon price support rates of CCL for coal and other solid fossil fuels from 1 April 2014 and 1 April 2015.

1.53 Climate change levy: exemptions for energy used in metallurgical and mineralogical processes – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to exempt from CCL supplies of taxable commodities used in metallurgical and mineralogical processes. The changes will take effect from 1 April 2014.

1.54 Aggregates levy: suspension of certain exemptions, exclusions and reliefs – Following on from the Written Ministerial Statement of 13 September 2013, legislation will be introduced to suspend elements of the aggregates levy that are subject to a formal State aid investigation by the European Commission. The legislation will make provision for the suspended elements of the levy to be reinstated should the European Commission decision allow, and to enable revenue received as a result of the suspensions to be repaid. The affected materials will become taxable when commercially exploited on or after 1 April 2014. Draft legislation will be published later in December 2013 once consultation responses have been fully evaluated.

1.55 VAT: changes to the place of supply rules – As announced at Budget 2013, legislation will be introduced to:

- change the place of supply from where the supplier is established to where the customer belongs. This change will be effective from 1 January 2015; and

- provide suppliers the option of registering in just one Member State, and accounting for VAT due in the other member states through a single Mini One Stop Shop VAT return. Businesses will be able to register for the system from October 2014, and use it in relation to supplies made on or after 1 January 2015.

In addition, legislation will be introduced to change the place of belonging for certain legal persons to ensure the UK aligns with the other member states, and to close a minor loophole that could be used in avoidance schemes. This change will be effective from 1 January 2015.

1.56 VAT: refunds for the Health Research Authority and Health Education England – As announced in Budget 2013, the Care Bill (currently going through Parliament) will introduce two new health service bodies, Health Education England and the Health Research Authority. Finance Bill legislation will be introduced to add these organisations, once established, to the named bodies which are entitled to recover the VAT paid in relation to certain non-business activities.

1.57 VAT: treatment of refunds made by manufacturers – It was announced in Budget 2013 that, following consultation, legislation would be introduced in Finance Bill 2014 to allow manufacturers to reduce their VAT payments to take account of refunds they make to final consumers. These changes will now be made by secondary legislation, and the draft regulations will be published alongside a response to the consultation later in December 2013.

Anti-avoidance

1.58 Compensating adjustments – As announced by the Exchequer Secretary to the Treasury on 25 October 2013, legislation will be introduced to prevent people avoiding tax by exploiting the compensating adjustments mechanism in the transfer pricing rules. The changes will take effect from 25 October 2013.

1.59 Offshore employment intermediaries – As announced in Budget 2013, strengthened legislation will be introduced to prevent offshore employment intermediaries being used to avoid employment taxes. To support compliance for this change, legislation will be introduced requiring a quarterly return. The change also introduces a certification scheme for the oil and gas industry. A response to the consultation was published on 14 October 2013.

1.60 Onshore employment intermediaries: false self-employment – As announced in the Autumn Statement, legislation will be introduced to prevent employment intermediaries being used to avoid employment taxes by disguising employment as self employment. A consultation document was published on 10 December 2013.

1.61 Establishing charities for tax avoidance – As announced in the Autumn Statement, legislation will be introduced to prevent a charity from being entitled to claim charity tax reliefs if one of the main purposes of establishing the charity is for tax avoidance. Draft legislation will be published in January 2014.

1.62 Venture Capital Trusts (VCT) scheme changes – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to restrict income tax relief on individuals' investments in VCTs, which are:

- conditional on a share-buy buy-back, or where a share buy-back is conditional upon the investment; or
- made within a six month period of a sale of shares in the same VCT.

This will apply in relation to shares issued on or after 6 April 2014.

The changes will also allow investors to subscribe for and hold their shares in a VCT via a nominee, whilst still qualifying for VCT income relief. These changes will take effect from Royal Assent to Finance Bill 2014. A response to the consultation was published on 10 December 2013.

1.63 Partnerships – As announced in Budget 2013, and following consultation over the summer, legislation will be introduced to counter:

- the disguising of employment relationships (and consequential reduction of employment taxes) in relation to salaried members of Limited Liability Partnerships (LLPs);
- tax-motivated allocations of business profits or losses in partnerships (not just LLPs) where the partners include both individuals and companies (mixed membership partnerships); and
- tax-motivated disposals of assets through partnerships.

Legislation will also be introduced for setting up a collection mechanism for partnerships (including LLPs) operating as Alternative Investment Fund Managers (AIFMs). It will allow income tax at the additional rate to be paid by the partnership (rather than the individual members of these partnerships) on profits which the members are prevented from accessing as a result of the AIFM Directive (2011/61/EU). The legislation also includes provisions concerning the tax treatment of the profits when they 'vest' with the members.

These changes will take effect from April 2014, with the exception of anti-avoidance provisions in the mixed membership partnership rules which come into force from 5 December 2013. A response to the consultation and a Technical Note were published on 10 December 2013. Associated changes are being introduced as part of the National Insurance Contributions Bill 2013, taking effect from 6 April 2014.

1.64 Artificial use of dual contracts by non-domiciles – As announced in the Autumn Statement, legislation will be introduced to prevent high earning non-domiciled individuals from avoiding tax by dividing the duties of a single employment into a UK and an overseas contract. From April 2014, UK tax will be levied on the full employment income where the division of duties and remuneration between a UK and overseas contract is artificial, and where tax is not payable on the overseas contract at a rate broadly comparable to UK tax rates. Draft legislation will be published in January.

1.65 High-risk promoters and "follower penalties": an update – As announced in Autumn Statement 2012, and following consultation over the summer, legislation will be introduced to allow HMRC to:

- designate promoters if they meet certain objective criteria; and
- follow up tribunal or court decisions in HMRC's favour in avoidance cases.

Designated promoters will be named by HMRC, and they and their intermediaries will be subject to new information powers and penalties. Customers of designated promoters will have to tell HMRC they have used such a promoter. Taxpayers will be issued with a notice requiring them to act on a decision reached at the tribunals or courts in HMRC's favour in avoidance cases. This notice will also be the trigger for a requirement to pay the tax in dispute rather than waiting for the dispute to be settled as is currently the case.

The responses document to the summer consultation on the promoter and the "follower penalty" measures will be published in January 2014 alongside the draft legislation for these measures. The changes will come into effect from Royal Assent to Finance Bill 2014. The Government has also announced a consultation, beginning in January, with a view to extending the criteria for requiring early payment of the tax in avoidance disputes.

1.66 Avoidance scheme using total return swaps – As announced in the Autumn Statement, legislation will be introduced to close down an avoidance scheme involving total return swaps. Provisions will be introduced which will apply where two companies in a group enter into arrangements involving a derivative contract, under which payments are made which equate, in substance, to a payment of the profits of the whole or part of the business of a group company. Any payments made under such a contract will not be allowed as deductions or be taxable as receipts. The changes will take effect from 5 December 2013.

1.67 Double taxation relief: revenue protection – As announced in the Autumn Statement, legislation will be introduced to ensure that the amount of foreign tax credit from non trading credits is to be limited to the amount of corporation tax on each non trading credit less any related debits. Legislation will also be introduced to reduce the credit allowed or deduction given, where a repayment is made by a foreign tax authority, and there are arrangements in place which enable another person to receive the repayment of foreign tax. The changes will come into effect from 5 December 2013.

1.68 Close company loans to participators – The Government consulted over the summer on options to reform the structure and operation of the tax charge on loans from close companies to their participators, to make the rules fairer and simpler. In light of responses received, the Government is not intending fundamental reform of the loans to participators regime, or to change its operational structure. HMRC will continue to engage with interested parties to consider in more detail suggestions and concerns put forward during consultation about smaller adjustments to the regime. A response to the consultation was published on 10 December 2013.

1.69 UK oil and gas: bareboat chartering – As announced in the Autumn Statement, legislation will be introduced to cap the amount allowed as a deduction for companies operating in the UK Continental Shelf. The cap will be calculated by reference to the historic capital cost of the asset which is subject to the lease, and will consist of a proxy for capital expenditure at a rate of 4 per cent per calendar year, plus an amount to represent the possible finance costs of newer assets which will be set at 5 per cent on borrowing of half the cost.

1.70 Legislation will also be introduced to provide a new form of ring fence applicable to the composite activity which is the subject of this measure. Whilst profits within this ring fence will only be taxed at standard corporation tax rates (and not the higher rates which apply to oil producers), those profits will no longer be able to be reduced by other tax reliefs derived from activity outside the UK Continental Shelf. The changes will have effect in respect of leasing payments made on and after 1 April 2014, and a Tax Information and Impact Note will be published alongside the draft legislation in January 2014.

Tax administration

1.71 Administration of the Scottish rate of income tax – As announced in Budget 2013, legislation will be introduced to require the Comptroller & Auditor General to make annual reports direct to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax. The Scottish rate was legislated for in the Scotland Act 2012, and will be introduced in April 2016. The legislation will ensure that the auditing and reporting arrangements envisaged during the passage of the Scotland Act 2012 can be fully implemented.

1.72 Customs and excise modernisation – As announced in Budget 2013, legislation will be introduced to provide for the issue of a penalty to third-country travellers who have failed to declare goods in excess of their allowance, when stopped before clearing customs controls. This penalty will come into effect shortly after Royal Assent to Finance Bill 2014.

1.73 Modernisation of ships' stores - As announced in Budget 2013, legislation will be introduced to clarify that surplus stores can remain on board a ship or aircraft without payment of duty, and make provision for the introduction of procedures to account for duty retrospectively on stores consumed in port, or on an intra-UK flight, and impose penalties for failing to do so. It will also make provision to allow the Commissioners for HMRC to make regulations for an authorisation procedure to control goods moving from warehouses to be shipped as stores, and to specify the circumstances in which goods can be shipped or carried as stores without payment of duty. These circumstances will include the journeys on which stores can be shipped or carried without payment of duty. The measure also imposes a penalty for contravening any provision of the regulations. The changes will take effect from late summer 2014.

Secondary legislation

1.74 Real Estate Investment Trusts; including REITs as institutional investors – Following consultation, secondary legislation will be introduced to include REIT's as "institutional investors" for the purposes of the REITs regime rules. The draft legislation has been published for comment by 10 January 2014. These changes will have effect from 1 April 2014.

1.75 Climate change levy (CCL) – Exemption for solid fuels used in certain gasification processes – As announced in the Autumn Statement, secondary legislation will be introduced to extend the existing mixed use exemption from the climate change levy. This will apply to solid fuels (in practice mainly coal and coke) used partly as fuel, and partly for its structural properties when gas is extracted from waste. The changes will take effect from 1 April 2014.

A Tax Information and Impact Notes

Introduction

1.76 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.

1.77 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

1.78 All of the tax policy changes contained in this document have been tested against the same list of possible impacts as for impact assessments.[1] 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.

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.

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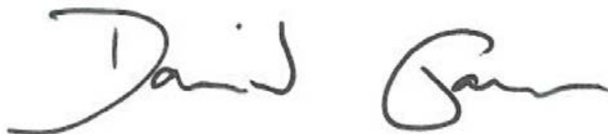
[1] https://www.gov.uk/producing-impact-assessments-guidance-for-government-departments

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.



David Gauke MP
Exchequer Secretary to the Treasury

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HM Revenue
& Customs

Transferable tax allowances for married couples and civil partners

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

This measure will allow a spouse or civil partner who is not liable to income tax above the basic rate to transfer up to £1,000 of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate.

Policy objective

This measure recognises marriage and civil partnerships in the income tax system. Taking the tax liabilities of a couple together, it can provide a financial benefit where one spouse or civil partner has an income less than their personal allowance.

Background to the measure

This measure was confirmed on 5 December 2013.

Detailed proposal

Operative date

This measure will have effect from the 2015-16 tax year, commencing 6 April 2015.

Further details on making claims will be set out in due course.

Current law

Sections 35, 36 and 37 of the Income Tax Act 2007 (ITA) provide a personal allowance for people according to their date of birth and their income. These personal allowances provide an amount of tax-free income for a tax year.

These allowances cannot be transferred to another individual.

Sections 45 and 46 ITA provide married couple's allowance to married couples or civil partnerships where one or both spouses or civil partners were born before 6 April 1935. The allowance is given effect as a reduction to an individual's income tax liability (for 2014-15, up to £816.50 and a minimum of £314). Sections 47 to 52 ITA provide for the transfer of married couple's allowance between spouses or civil partners including the transfer of unused relief.

Section 6 ITA provides the main rates of income tax (basic rate, higher rate and additional rate). Section 10 provides the basic rate limit. Section 13 ITA provides alternative rates of income tax for dividends otherwise taxable at the main rates. Dividends otherwise taxable at the basic rate of income tax are taxable at the dividend ordinary rate. Section 12 provides a starting rate for savings, which is an alternative rate of income tax available in limited circumstances.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to provide that from the 2015-16 tax year, a spouse or civil partner who is not liable to income tax because their income is below their personal allowance or who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will be able to elect to transfer £1,000 of their personal allowance to their spouse or civil partner. There will be a corresponding reduction to the transferring spouse's or civil partner's personal allowance.

A spouse or civil partner who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will be able to claim the transferred personal allowance. The transferred allowance will be given effect as a reduction to the recipient's income tax liability at the basic rate of tax.

From 2016-17 the transferable amount will be increased to reflect increases to the personal allowance for those born after 5 April 1948.

Further provisions will account for changes to individuals' marital or civil partnership status such as divorce, dissolution and death.

Married couples or civil partnerships entitled to claim the married couple's allowance will not be entitled to make a transfer.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-495	-600	-660	-775
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	This measure is expected to increase real household disposable incomes. This might feed through to higher consumption or savings in the household sector.					
Impact on individuals and households	4.1 million non-taxpayer/basic rate taxpayer married couples stand to gain an average of £196 between them. Around 295,000 individuals may lose by an average of £99 (in 2015-16), where their reduced allowance brings them into tax. However in these cases the couple will still see a financial benefit.					
Equalities impacts	Couples will benefit as a unit, but the majority (84 per cent) of individual gainers will be male. This reflects earning patterns in the population more generally. 35 per cent of couples who stand to gain will be above state pension age. No other equalities impacts are expected. Further details on the claims process will be set out in due course. HM Revenue & Customs (HMRC) will ensure that everyone who is entitled is able to claim the transferable allowance.					

Impact on business including civil society organisations

In line with the current Pay As You Earn (PAYE) process, where the transfer of allowances is given effect via individuals' PAYE tax codes, employers and pension providers will need to process and operate revised codes at the time of the initial claim or when circumstances change. Generally speaking, changes to individuals' tax codes are a routine annual event for employers and pension providers and ad hoc changes to tax codes occur regularly throughout the year.

However, it is estimated that in 2015-16, the cost across 1.6 million employers and pension providers of processing PAYE tax codes to reflect transferred allowances may be up to £5.8 million. In subsequent years, the additional cost across employers and pension providers may be up to £0.8 million. There are also likely to be negligible one-off costs in 2015-16 due to employers and pension providers familiarising themselves with the change to the legislation.

	Cost	**Time period (years)**
Compliance Costs		
One-off Costs	Negligible	N/A
Average annual costs	£1.7m	5
Total Costs (PV)	£8.7m	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
Total Benefit (NPV)	-£8.7m	
Impact on Administrative Burden (included in Net Benefit)		
Increase	**Decrease**	**Net Impact**
£5.8m	£0	£5.8m
Note: The impact on administrative burden (included in net benefit) represents the expected cost for the first year. The £1.7 million included in compliance costs represents the average amount over five years.		

Operational impact (£m) (HMRC or other)	There will be set-up costs for HMRC including the development costs associated with processing claims and other IT change to enable the transfer to be implemented using existing PAYE and Self Assessment processes. There will also be ongoing costs to the Department.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC and HM Treasury will monitor take-up.

Further advice

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

HM Revenue
& Customs

Increasing Share Incentive Plans and Save As You Earn limits

Who is likely to be affected?

Participants in the two tax advantaged all-employee share schemes: Share Incentive Plans (SIP) and Save as You Earn Option Schemes (SAYE), and businesses who offer these schemes.

General description of the measure

The measure will increase the maximum value of SIP free shares (shares that can be awarded annually to an employee) from £3,000 to £3,600, and increase the maximum value of SIP partnership shares (shares an employee can purchase annually) from £1,500 to £1,800 (or no more than 10 per cent of an employee's salary for the year). The maximum ratio of matching shares to partnership shares that can be awarded will remain at 2 to 1. The maximum monthly amount that an employee can contribute to SAYE savings arrangements will increase from £250 to £500.

Policy objective

This measure aims to encourage further employee share ownership.

Background to the measure

This measure was announced in Autumn Statement 2013.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2014.

Current law

The limits on the value of shares that can be awarded under SIP can be found in Schedule 2 to the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). Paragraph 35 provides for the maximum annual award of free shares and paragraph 46 provides for the maximum amount that can be deducted annually from an employee's salary for partnership shares. The maximum ratio of matching shares to partnership shares is set out at paragraph 60.

The maximum monthly amount that employees can contribute to SAYE savings arrangement is set out at paragraph 25 of Schedule 3 to ITEPA.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Schedule 2 to ITEPA. This will increase the maximum amount that can be deducted from an employee's salary annually for SIP partnership shares to £1,800, and increase the maximum annual award of SIP free shares to £3,600.

Schedule 3 to ITEPA will be amended by Treasury Order. This will increase the maximum amount that an employee can contribute to SAYE savings arrangement to £500 per month.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-5	-5	-5	-5	-5
	These figures are set out in Table 2.1 of the Autumn Statement, as part of *Employee ownership: further support*, 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.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure will have no adverse impact on individuals or households but it will allow participants in SAYE and SIP to obtain more tax advantaged shares under the schemes.					
Equalities impacts	This measure is not expected to have a disproportionate impact on any protected group.					
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)	It is not anticipated that implementing this change will incur any significant costs for HM Revenue & Customs.					
Other impacts	Small and micro business assessment: some small businesses may increase the amount of tax advantaged shares that they can award under SIP and SAYE. No other issues specific to smaller businesses have been identified. 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 Hasmukh Dodia on 03000 585201 (email: hasmukh.dodia@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Employee share schemes: Office of Tax Simplification recommendations

Who is likely to be affected?

Businesses that award employment-related securities (ERS) (such as shares) or ERS options to employees.

Payroll and share plan administrators.

General description of the measure

The measure will give effect to a number of changes to the rules for employee share arrangements, as recommended by the Office of Tax Simplification (OTS). The changes include the replacement of the current arrangements for HM Revenue & Customs (HMRC) approval of Share Incentive Plans (SIP), Save As You Earn Option Schemes (SAYE) and Company Share Option Plans (CSOP) with self certification of these schemes by businesses; as well as new digital filing arrangements for the ERS information companies are required to submit to HMRC. New 'purpose tests' will be applied for SIP, SAYE and CSOP schemes, and the measure also includes technical clarifications in relation to the operation of these schemes.

Policy objective

These changes support the Government's objective to simplify the tax system.

Background to the measure

In July 2011, the Government asked the OTS to identify potential simplifications of the tax rules for employee share schemes. The OTS published recommendations on tax advantaged employee share schemes in March 2012. These included proposals that there should be:

- self certification of SIP, SAYE and CSOP schemes by businesses (rather than an HMRC approval procedure);
- online filing of share scheme returns; and
- changes to the SIP, SAYE and CSOP purpose tests and to associated rules that prohibit scheme features that are not essential or reasonably incidental to the provision of shares or share options to employees.

In June 2012, the Government launched a consultation on recommendations made by the OTS. A summary of responses to this consultation, including confirmation that the Government intended to proceed with the three OTS proposals set out above, was published in December 2012.

In May 2013, HMRC published details of its proposed arrangements for self certification of SIP, SAYE and CSOP schemes and digital filing of ERS forms and returns.

Detailed proposal

Operative date

The changes will take effect on 6 April 2014.

Current law

Many of the rules in relation to ERS and ERS options are set out in the Income Tax (Earnings and Pensions Act) 2003 (ITEPA).

The ITEPA requirements that SIP, SAYE and CSOP schemes must be approved by HMRC before they are operated can be found at Part 10 of Schedule 2 (SIP), Part 8 of Schedule 3 (SAYE) and Part 7 of Schedule 4 (CSOP).

ITEPA provisions concerning the duties of employers to provide information to HMRC about ERS and ERS options can be found at section 421J–421L. There are also specific provisions in relation to tax advantaged employee share schemes, which can be found at paragraph 93 of Schedule 2 (SIP), paragraph 45 of Schedule 3 (SAYE) and paragraph 33 of Schedule 4 (CSOP). For the Enterprise Management Incentives scheme (EMI) the relevant information requirements can be found at paragraphs 44 and 51–52 of Schedule 5.

The current purpose tests for SIP, SAYE and CSOP (which set out what the purpose of a scheme must be and prohibit the inclusion of features not essential or reasonably incidental to that purpose) can be found at paragraph 7 of Schedule 2 (SIP), paragraph 5 of Schedule 3 (SAYE) and paragraph 5 of Schedule 4 (CSOP).

The other changes within this measure concern the technical rules governing the operation of SIP, SAYE and CSOP, which can generally be found in Schedule 2 (SIP), Schedule 3 (SAYE) and Schedule 4 (CSOP) to ITEPA.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend ITEPA so as to remove the current requirement that a SIP, SAYE or CSOP scheme must be approved by HMRC before it can be operated. This will be replaced with new requirements in relation to the self certification of schemes by businesses. ITEPA will also be amended to provide for digital filing of ERS information to HMRC, including annual return forms and notifications of options granted under EMI. These changes will be accompanied by new HMRC compliance, penalty and assessment powers, information requirements, and appeal rights for businesses.

Legislation will also be introduced in Finance Bill 2014 to amend ITEPA to provide new purpose tests for SIP, SAYE and CSOP, and to clarify or simplify certain requirements of these schemes. This includes requirements in relation to the provision of information by companies to scheme participants; variations of share capital; company events that are subject to overseas legislation; and the exchange of options.

Summary of impacts

Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="6">This measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">It is anticipated that any impact upon individuals and households will be negligible as most of the changes within this measure concern the reporting and information requirements upon companies. Where these changes could affect an individual (for example the modifications of the technical rules for SIP, SAYE or CSOP), the effect should largely be to clarify the relevant scheme rules, as currently applied by HMRC.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">Detailed information on the award of ERS or ERS options to individuals with protected characteristics is not available. However it is not anticipated that any of the proposed changes will impact disproportionately on any individuals with protected characteristics. Where individuals are able to demonstrate a particular difficulty in submitting returns digitally, appropriate reasonable adjustments will be made.</td></tr>
<tr><td rowspan="6">Impact on business including civil society organisations</td><td colspan="6">The measure simplifies and streamlines a number of processes used by businesses that award ERS or ERS options. There will be around 21,000 ERS arrangements in the UK for which businesses/agents will have to become familiar with the new reporting requirements, and around 3,000 CSOP, SAYE and SIP schemes for which self certification will be required. There will be some one-off costs for businesses, associated with familiarisation with the changes and the self certification of SIP, SAYE and CSOP schemes, but these are estimated to be negligible.

It is estimated that there will be annual savings of around £300,000 per year in administrative costs for businesses. These savings will arise from introduction of digital filing arrangements for annual ERS returns and for notifications of EMI options. It is estimated that:

• 15 minutes of time on average will be saved per scheme by businesses due to digital filing of annual returns for approximately 75 per cent of 21,000 employee share schemes in the UK; and

• 18,000 employees will be granted EMI options per year, and the average time saving for businesses per employee due to digital notification of these grants will be 10 minutes.

Reductions in businesses' postage costs from being able to submit information to HMRC digitally rather than by post are also included in the estimates.</td></tr>
<tr><td colspan="2"></td><td colspan="2">Cost</td><td colspan="2">Time Period (yrs)</td></tr>
<tr><td colspan="6">Compliance Costs</td></tr>
<tr><td colspan="2">One-off Costs</td><td colspan="2">Negligible</td><td colspan="2">N/A</td></tr>
<tr><td colspan="2">Average Annual Costs</td><td colspan="2">N/A</td><td colspan="2">N/A</td></tr>
<tr><td colspan="2">Total Costs (PV)</td><td colspan="2">N/A</td><td colspan="2">N/A</td></tr>
</table>

	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£0.3m	5
	Total Benefit (PV)	£1.5m	N/A
	Net Benefit (NPV)	£1.5m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	**Decrease**	**Net Impact**
	N/A	£0.3m	-£0.3m
Operational impact (£m) (HMRC or other)	There will be net additional costs to HMRC, estimated at £3.5 million, from introducing the new digital filing system. There may be some ongoing administrative savings for HMRC with the move to self certification and digital filing, but these are not anticipated to be significant.		
Other impacts	Small and micro business assessment: the impact on small businesses is expected to be broadly similar to that for other businesses. As set out above, these changes should reduce administrative costs for businesses that award ERS or ERS options to employees. 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 Andrew Ellis on 03000 585259 (email: andrew.ellis1@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Unapproved employee share schemes: Office of Tax Simplification recommendations

Who is likely to be affected?

Businesses that award employment-related securities (ERS) (such as shares) or ERS options to employees, and the employees who receive these awards.

Payroll and share plan administrators.

General description of the measure

The measure will give effect to a number of changes to the tax rules for ERS and ERS options recommended by the Office of Tax Simplification (OTS). These include:

- new taxation and National Insurance contributions (NICs) arrangements for ERS and ERS options awarded to internationally mobile employees (IMEs);
- removal of tax and NICs charges that currently apply on certain share for share exchanges; and
- an extension to circumstances in which corporation tax relief can be claimed when an employee acquires shares following takeover of a company.

In addition, as recommended by the OTS, the measure will change the circumstances in which taxable earnings can arise where an employer meets an employee's tax liability on certain payments of employment income, and will simplify the tax rules in relation to nil-paid and partly-paid ERS and the valuation of listed company shares.

Policy objective

This measure supports the Government's objective to simplify the tax system.

Background to the measure

In July 2011, the Government asked the OTS to identify potential simplifications of the tax rules for employee share schemes. The OTS published its recommendations on 'unapproved' employee share schemes on 16 January 2013.

On 24 May 2013, the Government launched a consultation on five of the recommendations made by the OTS.

A summary of responses to this consultation was published on 10 December 2013.

Detailed proposal

Operative date

Changes to section 222 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) will have effect from 6 April 2014.

The income tax, corporation tax and NICs changes in relation to ERS and ERS options awarded to IMEs will apply to grants and awards made on or after 1 September 2014.

Other changes will have effect from the date that Finance Bill 2014 receives Royal Assent.

Current law

Part 7 of ITEPA provides rules for the taxation of employment income relating to ERS and ERS options. Sections 421E and 474 include provisions relating to residence.

The acquisition of ERS is a payment of earnings liable for Class 1 NICs (section 3 of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992)). Section 4(4)(a) of the SSCBA 1992 treats gains from the exercise, assignment or release of an ERS option as earnings. Regulation 22(7) of the Social Security (Contributions) Regulations 2001 (SSCR 2001) ensures that the NICs treatment of ERS is generally aligned with their income treatment under Chapters 2 to 4A of Part 7 ITEPA. However, UK NICs liability can be affected by relevant EU legislation and bilateral Reciprocal Agreements/Double Contribution Conventions on social security.

Section 483 of ITEPA provides the rules that apply where ERS options are assigned or released by an employee in exchange for new ERS options. There are no similar provisions in place for restricted shares or other types of ERS.

Chapter 3C to Part 7 of ITEPA provides rules that apply where ERS are acquired for less than market value (including nil-paid and partly-paid ERS).

Part 12 of the Corporation Tax Act 2009 (CTA 2009) provides corporation tax (CT) relief for employee share acquisitions, subject to certain conditions. These include (at sections 1008 and 1016) conditions relating to the shares acquired. Sections 1007 and 1015 of CTA 2009 set out basic requirements for relief. These requirements include a link between the acquisition of shares and a person's employment, and conditions concerning the business undertaken by the employing company.

Section 222 of ITEPA deals with cases in which an employer is required to make a payment on account of PAYE tax in relation to a notional payment of taxable income to an employee from which a deduction was not possible. It provides that the payment on account by the employer will be treated as earnings from the employment, and therefore taxable income of the employee, if this is not made good to the employer within 90 days of the event that causes the notional payment. For NICs, an amount which is treated as earnings by virtue of section 222 of ITEPA is treated as earnings liable for Class 1 NICs in accordance with regulation 22(4) of the SSCR 2001.

Section 272(3) of the Taxation of Chargeable Gains Act 1992 (TCGA) sets out the usual methods to be applied when determining for tax purposes the market value of shares or securities listed in The Stock Exchange Daily Official List.

Proposed revisions

Legislation in Finance Bill 2014 will introduce a new Chapter 5B of Part 2 of ITEPA, to more broadly align the tax rules for ERS and ERS options awarded to IMEs with those already in place for other types of employment income. This will involve the establishment of rules around the 'relevant periods' for each category of ERS, and provisions for apportionment within these relevant periods between amounts chargeable to tax in the UK and other income. The NICs position will be aligned as far as possible with the new income tax rules through secondary legislation.

Legislation in Finance Bill 2014 will apply a new income tax rollover relief in Part 7 of ITEPA for cases where restricted, nil-paid or partly-paid ERS are exchanged for new securities of the same type. Chapter 3C of Part 7 (concerning securities acquired for less than market value) will also be simplified more generally in relation to nil-paid and partly-paid ERS and the discharge of notional loans.

The CT relief for employee share acquisitions at Part 12 CTA 2009 will be extended by Finance Bill 2014. Subject to certain conditions, this relief will be available in relation to shares acquired within a 90 day period following the takeover of a company by an unlisted company, and shares acquired by an overseas individual seconded to work for a UK company.

Legislation in Finance Bill 2014 will also change the deadline at section 222 of ITEPA. This deadline concerns the period within which an employee must make good a PAYE amount paid by their employer on account of tax due on a payment received by that employee, if a charge is not to apply. This deadline will be changed from 90 days from the date of the event that causes the notional payment to 90 days after the end of the tax year in which that event occurred.

Section 272 of TCGA will also be amended to replace the current methods for calculating market value of listed shares or securities specified at (a) and (b) of subsection (3) with a single method based on the closing price of the shares or securities on the relevant trading day.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	+5	+5	+5	+20	+20
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Changes to the rules on IMEs and valuation could increase or reduce the amount of tax chargeable on individuals, depending upon the circumstances. Changes to the tax treatment of ERS exchanges and nil-paid and partly-paid shares, and the change to the deadline at section 222 of ITEPA, will reduce tax costs in certain circumstances.					
Equalities impacts	Detailed information on the award of ERS or ERS options to or by individuals with protected characteristics is not available. However, it is not anticipated that any of the proposed changes will impact disproportionately on any individuals with protected characteristics.					
Impact on business including civil society organisations	The measure simplifies the rules for the taxation of ERS and ERS options, and will provide greater clarity for businesses. The impact upon each individual business will depend upon the extent to which they carry out ERS transactions covered by this measure. Overall however, the changes are expected to have a negligible impact on businesses. There will be some savings for individual businesses (depending upon their particular circumstances) but the changes could impose one-off familiarisation and/ or compliance costs in some cases. Changes to the rules on IMEs could increase business costs by requiring updates to payroll and other record keeping processes - and may require additional monitoring or tracking of ERS awards in some cases. These costs will depend upon the particular circumstances of the business and the relevant IMEs. However, it is also anticipated that long-term savings for businesses could arise from the increased consistency, clarity and simplicity these changes will provide.					

	Changes to the rules on ERS exchanges and corporation tax relief will reduce costs and complexity associated with businesses structuring arrangements around these rules.
Operational impact (£m) (HMRC or other)	The costs or savings for HM Revenue & Customs in implementing these changes are anticipated to be negligible.
Other impacts	Small and micro business assessment: no major issues specific to smaller businesses have been identified. 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 Colin Strudwick on 03000 585275 (email: colin.strudwick@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Tax incentives for employee ownership trusts

Who is likely to be affected?

Individuals, trustees, personal representatives and close companies which dispose of shares that give a controlling interest in a trading company (or in the parent company of a trading group) to a qualifying trust used as an indirect employee ownership structure.

Employees of a company controlled by a qualifying trust, or of a company in a group headed by such a company.

General description of the measure

A number of new reliefs will be introduced in connection with indirect employee ownership. These are:

- a relief from capital gains tax (CGT) on gains accruing on the disposal of shares in a trading company (or in a holding company of a trading group) to a special trust which operates for the benefit of all employees;
- an exemption from income tax of £3,600 for certain payments made to employees of qualifying employee-owned companies; and
- minor consequential amendments to ensure exemption from inheritance tax (IHT) on the transfer of shares and other assets into such a trust, and to ensure that employers can claim a corporation tax deduction for payment of a relevant bonus.

The reliefs and exemptions will apply providing certain conditions are met.

Policy objective

These measures will provide incentives for growth of the employee-ownership sector by promoting awareness of the sector and increasing the attractiveness of indirect employee ownership structures for businesses.

Background to the measure

At Budget 2013 the Government announced the introduction of a CGT relief on the sale of a controlling interest in a business into an employee ownership structure, and that it would look at further incentives in this area, including measures targeted at employees through indirect ownership models. A consultation document, *Supporting the employee ownership sector* was published on 4 July 2013 and sought views on the structure of the CGT relief and an income tax exemption. The consultation closed on 26 September 2013. The Government's response to this consultation, *Supporting the employee ownership sector: a summary of responses,* was published on the GOV.UK website on 10 December 2013.

Detailed proposal

Operative date

The measures in relation to CGT and IHT will have effect on and after 6 April 2014. The income tax measure will have effect on and after 1 October 2014.

Current law

Part 1 of the Taxation of Chargeable Gains Act 1992 charges CGT on a gift or sale of shares by an individual and some other legal persons. Tax is normally charged at either 18 per cent or 28 per cent but, where entrepreneurs' relief is due (under Part 5, Chapter 3), the rate is reduced to 10 per cent. Section 239 means that, subject to certain conditions being met, disposals to some types of trust which operate for the benefit of employees are not taxed.

Part 2 of the Income Tax (Earnings and Pensions) Act 2003 provides that income tax is chargeable on earnings and other employment income awarded to a person by reason of their employment. Section 62 of that Act sets out that an amount is earnings in relation to employment if it is salary, wages or a fee, a gratuity or other profit or incidental benefit of any kind obtained by an employee if it is money or money's worth, or anything that constitutes an emolument of the employment. In the absence of provisions to the contrary, any bonus payment made to an employee by an indirectly employee owned company would be subject to income tax as earnings from employment.

IHT is normally charged on transfers of property which reduce a person's estate either on death or during their lifetime, including transfers of property into a trust, unless that transfer is exempt. Sections 28 and 86 of the Inheritance Tax Act 1984 (IHTA) provide an exemption from such charges when shares are transferred by an individual to trusts which provide benefits to all or most employees of a company, their spouses, civil partners and dependants (employee benefit trusts) and which meet the conditions of section 86 IHTA. Section 13 provides a similar exemption when shares or other assets are transferred by a close company to such trusts.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend the Taxation of Chargeable Gains Act 1992 so that disposals of shares to a new kind of trust which benefits all employees of a company (or a group) may be wholly relieved from CGT if certain criteria are met. These are that:

- the company whose shares are disposed of must be a trading company, or the parent company of a trading group;
- the trust which acquires the shares must operate for the benefit all employees;
- the trust must have a controlling interest in the company at the end of the tax year, which it did not have at the start of that year;
- certain participators must be excluded from being beneficiaries of the trust; and
- the claimant must not previously have qualified for relief on the same company's shares.

The new relief will be available on disposals which take place in a single tax year. The disposals may be made by more than one person, and can be of any number of shares. There will be provisions to prevent claimants of the new relief receiving disproportionate share-related benefits from the trust.

Finance Bill 2014 will also include provisions that amend the Income Tax (Earnings and Pensions) Act 2003 to exempt from income tax any relevant bonus payment made in a tax year to an employee by a qualifying indirectly employee-owned company that meets the relevant conditions. A relevant bonus will be a cash award other than regular salary or wages that is paid to all employees on equal terms, although bonuses can be set by an employer by reference to a percentage of salary or length of service or hours worked. The exemption will be subject to an annual cap of £3,600 per employee for each qualifying company.

To ensure that employers are not prevented from claiming a corporation tax deduction to which they would otherwise be entitled because a bonus is paid to their employees is

exempt from income tax under these new provisions, a consequential amendment will be made to section 1292 of the Corporation Tax Act 2009 to ensure such payments are treated as qualifying benefits.

An amendment will also be made to section 86 IHTA to ensure that a trust which meets the qualifying conditions for employee ownership purposes will be exempt from IHT even though it may otherwise not meet the criteria in section 86 for the existing IHT exemption.

The Government is considering how best to ensure that existing employee benefit trusts (EBTs) set up for the purpose of employee ownership are not compelled to amend their deeds or resettle their assets into a new trust in order for the tax exemptions and relief to be available.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-10	-20	-20	-20	-25
	These figures are set out in Table 2.1 of the Autumn Statement, as part of *Employee ownership: further support* 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.					
Economic impact	These measures are not expected to have any significant economic impacts.					
Impact on individuals and households	These proposals will decrease the tax paid by employees of qualifying indirectly employee owned companies who receive a bonus payment and business owners who dispose of a qualifying interest into a qualifying structure. Around 67,000 employees are expected to benefit from the income tax exemption in 2014-15, with a maximum annual saving of £720 for a basic rate taxpayer.					
Equalities impacts	The Government has no evidence to suggest that these measures will have any adverse impacts on people with protected characteristics.					
Impact on business including civil society organisations	These measures are expected to have a negligible impact on businesses and civil society organisations in terms of administrative and one-off costs. The exemptions are not compulsory, so there is no need for any single employer to take any actions unless they want to do so.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing these measures will incur any additional significant costs nor reap any significant savings for HM Revenue & Customs.					
Other impacts	Small and micro business assessment: the impact of these measures on small and micro businesses is not anticipated to differ from that on large businesses and is expected to be negligible. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measures will be kept under review through communication with the relevant business sector.

Further advice

If you have any questions about these changes, please contact:

Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk) regarding the capital gains tax relief;

email: employmentincome.policy@hmrc.gsi.gov.uk regarding the income tax exemption; or

Danka Wigley on 03000 585277 (email: danka.wigley@hmrc.gsi.gov.uk) regarding the inheritance tax exemption.

HM Revenue
& Customs

Social investment tax relief

Who is likely to be affected?

Social enterprises and individuals who invest in such organisations.

General description of the measure

This measure will make available a range of tax reliefs for qualifying individuals who make qualifying investments in qualifying social enterprises.

Income tax relief will be available as a percentage of the amount invested, to be deducted from the individual's income tax liability for the year of investment. The measure will also allow capital gains tax on chargeable gains to be deferred in certain circumstances where the person liable to tax invests money in a social enterprise. Capital gains on these social enterprise investments will be free from capital gains tax subject to conditions being met.

Policy objective

This measure will support social enterprises seeking external finance by providing incentives to private individuals who invest in them. Many social enterprises currently have difficulty raising capital from investors and commercial lenders; this measure aims to address this issue and thus increase investment into social enterprises in the UK.

Background to the measure

The Government announced at Budget 2013 that it would consult on the introduction of a new tax relief to encourage investment into social enterprises.

A consultation document, *Consultation on Social Investment Tax Relief,* was published on the Treasury website on 6 June 2013 setting out in detail a number of design issues concerning the new scheme. The Government's consultation response document was published on 10 December 2013.

Detailed proposal

Operative date

The income tax relief will apply to qualifying investments made on or after 6 April 2014.
The capital gains tax reliefs will apply to gains which accrue on or after 6 April 2014.

Current law

Part 1 of the Taxation of Chargeable Gains Act 1992 (TCGA) charges capital gains tax on gains which accrue on disposals of assets by individuals. Tax is normally charged for the tax year in which a disposal is made.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to insert a new Part in the Income and Corporation Tax Act 2007. This will:

- provide for an income tax relief to be available to qualifying individuals making qualifying investments in qualifying social enterprises, with details of the eligibility conditions;
- apply in respect of subscriptions for shares in the enterprises or certain types of loans to the enterprises;
- apply to a limited annual amount of investment per investor, but with investment able to be carried back to the previous year; and
- allow enterprises to raise a maximum amount of investment over a period of three years.

The rate of income tax relief will be announced at Budget 2014.

Legislation will also be introduced in Finance Bill 2014 to amend the TCGA so that:

- if a sum equal to the amount of a chargeable gain is invested in a social enterprise within a specified time then the individual making the gain and the investment may claim for the gain be treated as accruing (and taxed) when the investment is disposed of and not at an earlier time. This will be subject to conditions concerning *inter alia* the nature of the investment and the activity of the enterprise.
- TCGA will also be amended so that capital gains which are attributable to an increase in value of the social investment itself will not be taxed, providing the investment is held for a minimum period.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2014.					
Economic impact	This measure increases the incentive to invest in social enterprise which should bring increased capital to the sector. This measure is not expected to have a significant broader economic impact.					
Impact on individuals and households	Individual investors will benefit from a range of tax reliefs when investing in qualifying social enterprises.					
Equalities impacts	Investors are expected to be similar to those investing in the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). Compared to the self-assessment population, those investors tend to be male, located in the south of England and have higher overall income levels. 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. Eligible social enterprises may face some one-off and ongoing administrative costs in order to qualify for this relief and to familiarise themselves with the new legislation, processes and requirements.					

Operational impact (£m) (HMRC or other)	It is estimated that the cost to HM Revenue and Customs of implementing these changes will be in the region of £500,000 - £1 million for system changes. There will also be operational costs in administering the relief but this impact will be dependent on the number of social enterprises who qualify for investment.
Other impacts	Other impacts have been considered and none have been identified.

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 Kathryn Robertson on 03000 585729 (email: kathryn.robertson@hmrc.gsi.gov.uk) for general enquiries; or Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk) for enquiries relating specifically to the capital gains tax aspects.

HM Revenue
& Customs

Tax exemption for employer expenditure on recommended medical treatment

Who is likely to be affected?

Employers and employees where the employer pays for recommended medical treatment.

General description of the measure

The measure will exempt from a charge to income tax any benefit in kind or payment of earnings, up to an annual cap of £500 per employee, when an employer meets the cost of recommended medical treatment. Medical treatment will be 'recommended' where it is provided in accordance with a recommendation from an occupational health service in order to help an employee return to work after a period of absence due to ill-health or injury.

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

Policy objective

The Government believes that more can be done to support employees to return to work. Together with the introduction of the Government's new service, to be known as the Health and Work Service, this measure will support the Government's aims to widen access to occupational health treatment and to encourage employers to engage with the well-being of their employees.

Background to the measure

This measure was announced at Budget 2013. An informal consultation entitled *Implementation of a tax exemption for employer expenditure on health-related interventions recommended by the new health and work assessment and advisory service* was published on 21 June 2013 and the consultation closed on 16 August 2013.

The Government's response *Consultation on a tax exemption for employer expenditure on health-related interventions: Summary of Responses* was published on GOV.UK on 10 December 2013.

Detailed proposal

Operative date

This measure is expected to have effect in autumn 2014 on a date set out in a Treasury Order.

Current law

Expenditure by employers on medical treatment for employees is generally chargeable to income tax either as a payment of earnings under section 62 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) or as a taxable benefit under Chapter 10 of Part 3 of that Act.

The Social Security Contributions and Benefits Act 1992 imposes a Class 1 NICs liability on employees and employers in respect of payments of earnings and a Class 1A NICs liability on employers for benefits in kind.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Part 4 of ITEPA to exempt from a charge to income tax the provision of recommended medical treatment to an employee or the payment or reimbursement of the costs of such treatment. The exemption will be subject to an annual cap of £500 per employee. The medical treatment must be recommended by either the new Health and Work Service or, alternatively, an occupational health service provided or arranged by an employer, for the purposes of helping an employee return to work after a period of absence due to injury or ill-health. Further requirements will be set out in Treasury Regulations and these are likely to include a minimum number of consecutive days that the employee must have been certified as unfit for work, the manner of the certification and who can provide it.

Finance Bill 2014 will also amend section 266 ITEPA to exempt the use of non-cash vouchers for the provision of recommended medical treatment from any charge to income tax.

Following Royal Assent to Finance Bill 2014, amendment will be made to the Social Security (Contributions) Regulations 2001 to ensure that any payment of earnings exempted from a charge to income tax under these new provisions will also be disregarded for NICs purposes.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-	+10	+10	+10	+15
	These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013. The tax exemption has since been extended.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The tax exemption will benefit employees who receive employer funded medical treatment that has been recommended by either the new Health and Work Service or a private occupational health service. On treatment valued at £200 a basic rate taxpayer would save £40, a higher rate taxpayer £80 and an additional rate taxpayer £90. It will not increase or affect their administration burden.				
Equalities impacts	This measure is not expected to have any impacts on people with protected characteristics.				
Impact on business including civil society organisations	This measure will reduce the administrative burden for businesses and civil society organisations that pay for recommended medical treatment for their employees. Approximately 10,000 businesses each year are expected to benefit from these changes. Ongoing savings for employers will arise as they will not need to report the relevant benefits as taxable benefits on P11D forms. There will be negligible one-off costs associated with familiarisation with new legislation				

		Cost	Time Period (yrs)
	Compliance Costs		
	One-off Costs	Negligible	N/A
	Average Annual Costs	N/A	N/A
	Total Costs (PV)	N/A	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£1.3m	5
	Total Benefit (PV)	£6.2m	N/A
	Net Benefit (NPV)	£6.2m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	**Decrease**	**Net Impact**
	£0m	£1.3m	-£1.3m
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 HM Revenue & Customs.		
Other impacts	Small and micro business assessment: the impact of this measure on small and micro businesses is expected to be negligible. 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 the Employment Income Policy Team at: employmentincome.policy @hmrc.gsi.gov.uk.

HM Revenue
& Customs

Pensions lifetime allowance: individual protection 2014

Who is likely to be affected?

Individuals who expect to have UK tax relieved pension savings of more than £1.25 million by April 2014, as well as pension scheme administrators and employers who have scheme members or employees in this position.

General description of the measure

The measure will protect pension savers who think they may be affected by the reduction in the lifetime allowance (LTA) from April 2014. A transitional protection regime, individual protection 2014 (IP14), is being introduced. IP14 will protect any UK tax relieved pension savings that an individual has built up at 5 April 2014 up to an overall limit of £1.5 million.

Policy objective

The Government's objective is a system of pensions tax relief that is fair, affordable and sustainable.

The introduction of IP14 alongside fixed protection 2014 (FP14) is intended to give individuals greater flexibility in how they protect pension savings that they have built up before 6 April 2014 from the lifetime allowance charge.

Background to the measure

At the Autumn Statement 2012, the Government announced that it will reduce the lifetime allowance from £1.5 million to £1.25 million for the 2014-15 tax year onwards. The Government also announced that FP14 will be offered to individuals to prevent retrospective tax charges arising as a result of the reduction in the lifetime allowance and that they would discuss with stakeholders whether to also offer an individual protection regime in addition to this.

Following informal discussions with interested parties, at Budget 2013, the Government announced that an individual protection regime would be offered in addition to FP14.

A consultation document including draft legislation and the Tax Information and Impact Note (TIIN) was published on 10 June 2013, with responses required by 2 September 2013.

This TIIN updates and replaces the TIIN published on 10 June 2013.

A summary of responses and updated draft legislation was published on 10 December 2013.

Detailed proposal

Operative date

IP14 will have effect from tax year 2014-15 onwards.

Current law

The current pensions tax rules for registered pension schemes came into force on 6 April 2006 (A-day) and are set out in Part 4 of the Finance Act (FA) 2004.

Although there are no limits to how much can be saved in registered pension schemes, there is an overall limit known as the lifetime allowance (section 218 of FA 2004), on the total amount of tax relieved pension savings that an individual can have over their lifetime. The standard lifetime allowance will be reduced from £1.5 million to £1.25 million for tax year 2014-15 onwards (section 48 of Finance Act 2013).

Tax relief on any pension benefits taken over the lifetime allowance is recovered by the application of the lifetime allowance tax charge to the excess. The rate of the lifetime allowance charge is 25 per cent if the excess is taken as a pension or 55 per cent if it is taken as a lump sum (sections 214 and 215 of FA 2004).

The lifetime allowance also applies to any savings individuals have built up with UK tax relief where they are a relieved member of a relieved non-UK pension scheme (paragraphs 13 to 19 of Schedule 34 to FA 2004).

To protect individuals with UK tax relieved pension savings of more than £1.25 million or who think they may have savings in excess of £1.25 million by the time they take their pension benefits, a transitional protection regime, FP14, is being introduced (Schedule 22 to Finance Act 2013) . Individuals will need to notify HM Revenue & Customs (HMRC) by 5 April 2014 if they want to rely on fixed protection 2014. Individuals with FP14 will be entitled to a personal lifetime allowance of the greater of £1.5 million and the standard lifetime allowance. To maintain FP14 individuals will need to stop saving into money purchase schemes and savings in defined benefit schemes cannot increase above a specified rate. In effect this requires most individuals with FP14 to become a deferred member of their pension scheme(s).

Proposed revisions

IP14 will be introduced in addition to FP14.

IP14 will be available to any individual with total UK tax relieved pension savings of greater than £1.25 million on 5 April 2014 providing that they don't have primary protection.

Individuals with IP14 will have a personalised LTA of the value of their pension savings on 5 April 2014 subject to an overall limit of £1.5 million. Individuals with IP14 will be able to carry on actively saving in a registered pension scheme, should they so wish, but would be subject to the LTA charge on any excess savings over their personalised LTA when they take their benefits.

Individuals will be able to apply for both FP14 and IP14. Where an individual holds both FP14 and IP14, FP14 will take precedence, but should this be lost the individual will revert to IP14.

Individuals will be able to apply for IP14 from 6 April 2014 and applications must be received by HMRC by 5 April 2017.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>-</td><td>+ 100</td><td>+ 80</td><td>+ 50</td><td>nil</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">IP14 provides individuals, who have pension savings above £1.25 million, with a more flexible method of protecting pension savings already accrued from any retrospective tax charges.

It is estimated that about 120,000 individuals will have pension savings above £1.25 million in April 2014. Of these, those who don't have primary protection will be eligible to apply for IP14.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">HMRC data does not allow identification of groups sharing protected characteristics within the affected population. However the nature of the change means that those affected are likely to be in higher income groups so are less likely to be from ethnic minority groups, female or disabled. The change will have a greater effect on those nearing retirement than those in other age groups. No other impacts are anticipated in respect of groups sharing other protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is likely to impose some additional burdens on the pensions industry. These will come from having to check and provide valuations to individuals who want to apply for IP14 and checking certificates and providing information to HMRC where an individual relies on IP14. HMRC anticipates one-off costs across pension schemes of around £4 million.
<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£4m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£4m</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</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 (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>-£4m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0m</td><td>£0m</td><td>£0m</td></tr>
</table>
</td></tr>
</table>

Operational impact (£m) (HMRC or other)	There will be additional costs for HMRC of £1 million to administer and monitor the new protection regimes and deal with enquiries from customers.
Other impacts	Small and micro business assessment: the impact on small and micro-sized businesses has been considered. This measure introduces a transitional protection regime to protect any UK tax relieved pension savings that an individual has built up at 5 April 2014. It would not be appropriate for the measure to apply differently according to the size of the firm within which the affected workers operate. 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. HMRC will also monitor the volume of applications for IP14.

Further advice

If you have any questions about the policy for this change, please contact Paul Cottis on 03000 564209 or email: pensions.policy@hmrc.gsi.gov.uk.

Capital gains tax private residence relief final period exemption

Who is likely to be affected?

Individuals who own one or more properties that they have lived in as their main residence at any time.

General description of the measure

Where a person owns one or more properties that have been their main residence they are entitled to relief on the final period if they dispose of a property they are not currently living in. The measure will reduce the period of ownership for which this relief is available from 36 months to 18 months.

Policy objective

This measure makes the tax system fairer by reducing the incentive for those with more than one property to exploit the rules while still providing people with sufficient time to sell a previous residence after moving to a new one.

Background to the measure

This measure was announced on 5 December 2013.

Detailed proposal

Operative date

This measure will have effect where contracts for the sale of the property are exchanged on or after 6 April 2014.

This measure will not have effect where contracts for the sale of the property are exchanged on or before 5 April 2014 and completed on or before 5 April 2015.

Current law

Section 223 of the Taxation of Chargeable Gains Act 1992 (TCGA) says that no part of a gain on a private residence as defined in section 222 of TCGA is a chargeable gain if the property has been the person's only or main residence throughout the period of ownership. There is an exception for the last 36 months of ownership.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend section 223 to reduce the final period for which relief can be given where the property is not the person's only or main residence from 36 months to 18 months in most cases.

In recognition that a person moving into care may take longer to decide to dispose of their former home, the period will remain a 36 month final period for this group of people.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>nil</td><td>+65</td><td>+90</td><td>+100</td><td>+105</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of the Autumn Statement 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.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">This measure would increase the capital gains tax (CGT) liability for an individual who has two or more private residences at the same time for a period of more than 18 months.
Those affected by this change are likely to be wealthy individuals with more than one property.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">This measure is not expected to have a disproportionate impact on any protected group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure is expected to have no impact on businesses or civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be a negligible operational impact on HM Revenue & Customs.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Tracy Gribble on 03000 585169 (email: tracy.gribble@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Inheritance tax: simplifying charges on 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 align the filing and payments dates for inheritance tax (IHT) relevant property trust charges and treat the income arising in such trusts which remains undistributed for more than five years as part of the trust capital when calculating the ten year anniversary charge.

Policy objective

The measure will simplify the IHT regime for relevant property trusts and reduce compliance costs for trustees and practitioners.

Background to the measure

The measure was announced at Budget 2012. An initial high level consultation document was published in July 2012 and a further more detailed consultation setting out options for simplification followed in May 2013. A response document was published on 10 December 2013.

Detailed proposal

Operative date

The measure will be effective in relation to tax charges arising on or after 6 April 2014.

Current law

Filing and payment dates

IHT payment and filing dates can appear confusing and anomalous. The time limits for reporting IHT periodic and exit charges that trustees are accountable for differ from the time limits for paying any IHT due.

The time limit for delivering an account is currently 12 months from the end of the month in which the transfer is made or if later, three months from the date when the trustee first becomes liable for the tax.

The time limits for paying IHT charges are:

- for chargeable events after 5 April and before 1 October, on 30 April in the following year; and
- for chargeable events after 30 September and before 6 April, six months after the end of the month in which the chargeable event took place.

Trust income

Many trustees have the ability to 'accumulate' or add undistributed trust income to the trust capital. Once such income is accumulated it is treated as an addition to the trust's capital and must be taken into account when calculating the ten year or exit charges.

Where there are discretionary trusts and the trustees have a duty to accumulate income without any power to distribute, income will be treated as accumulated as it arises. However it is more usual for discretionary trustees to have a power to accumulate income as well as a power to distribute it and in such cases the trust deed rarely stipulates a particular point at which accumulation must take place. Neither is there a statutory rule.

Where income is regularly or formally accumulated there is little doubt about the correct treatment of the accumulations within the calculation of relevant property charges. But it can be different where income remains undistributed for long periods and the trustees have not made any formal accumulation. In such cases there can be uncertainty about how the calculations should be undertaken, resulting in questions to, or correspondence with, HM Revenue & Customs (HMRC) to establish an acceptable treatment.

Proposed revisions

Filing and payment dates

Legislation will be introduced in Finance Bill 2014 to align the filing and payment dates for IHT trust charges. Amendments to section 216(6) IHTA1984 (time for delivery of accounts) and section 226 IHTA 1984 (payment of tax) will mean that trustees of relevant property settlements must deliver the IHT account six months after the end of the month in which the chargeable event occurs and pay the tax by the end of the same period. This will ensure that returns and payments continue to be submitted evenly throughout the year.

Trust income

New section 64(1A) IHTA 1984 will treat income that has remained undistributed for more than five years at the date of the ten year anniversary as if it was part of the trust capital for the purposes of the ten year anniversary charge. To avoid the need for trustees to keep very detailed records, tax would be charged on the ten year anniversary at the full rate on any such undistributed income without any proportionate reduction to reflect the period during which the income has been retained.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	This measure is expected to have a negligible impact on the Exchequer. The final costing will be subject to scrutiny by the Office for Budget Responsibility and will be set out at Budget 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Alignment of filing and payment dates: the measure will not impact on individuals or households. Its affect will be on trustees and their advisers. Accumulation of income: the deeming rule would provide a standard approach, for the purposes of IHT only, to the treatment of unaccumulated income, bringing certainty and consistency to trustees and practitioners.					
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	Businesses may see a reduction in administration burdens as a result of filing returns and making payments at the same time and having a clearer understanding of when HMRC considers retained income as capital for IHT purposes. The Government estimates that the impacts of these changes on businesses' administrative burdens will be negligible. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be some implementation costs for HMRC but these are expected to be negligible.					
Other impacts	Small and micro business assessment: the measure will benefit small businesses (firms with fewer than 20 employees) as a result of the reduction in complexity and administrative 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 the relevant business sector.

Further advice

If you have any questions about this change, please contact Tony Zagara on 03000 585265 (email: antonio.zagara@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Trusts with vulnerable beneficiary

Who is likely to be affected?

Trusts where the beneficiary has a severe physical or mental disability or is a bereaved minor.

General description of the measure

The measure will extend the capital gains tax (CGT) 'uplift' provisions that apply on the death of a vulnerable beneficiary and extend the range of vulnerable beneficiary trusts that qualify for special income tax, CGT and inheritance tax (IHT) treatment.

Policy objective

This measure makes the tax system fairer by enabling more vulnerable people to have property safeguarded for their benefit within a trust whilst ensuring that it is not taxed any more adversely than if it were owned the individuals themselves.

Background to the measure

Special tax treatment applies to trusts established for the benefit of a person who lacks mental capacity, is in receipt of a qualifying welfare benefit or is a bereaved minor. Prior to 2013 this included a person in receipt of the highest or middle rate care component of disability living allowance (DLA). However, this allowance is being phased out for those of working age and replaced by personal independence payment (PIP).

In 2012, HM Revenue & Customs (HMRC) consulted on how best to continue the special tax treatment in light of the welfare reform changes, which led, in Finance Act 2013, to the inclusion of those in receipt of the daily living component of PIP.

Respondents to the consultation argued for a wider scope and a simplification of the tax rules more generally along with removal of anomalies that may distort decisions on the most appropriate trust structure to use. This measure responds to the issues raised by the consultation.

Detailed proposal

Operative date

The CGT 'uplift' provisions will be extended with effect from 5 December 2013 and the range of qualifying vulnerable beneficiary trusts will be extended from 6 April 2014.

Current law

Section 62(1) of the Taxation of Chargeable Gains Act 1992 (TCGA) provides that when someone dies there is no deemed disposal on death and, therefore, death is not an occasion of charge to CGT. The assets in a person's estate are treated as being acquired by personal representatives at their market value at the date of death. In this way, gains accrued up to the date of death are not subject to double taxation under IHT and CGT.

Sections 72 and 73 contain similar rules for property held in a qualifying vulnerable beneficiary trust but require, broadly, that the beneficiary had an entitlement to the income of the trust.

Schedule 1A to the Finance Act (FA) 2005, inserted by FA 2013, defines a 'disabled person'.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to:

- extend sections 72 and 73 of the TCGA to include qualifying trusts for disabled beneficiaries where the beneficiary has no entitlement to the income of the trust; and
- extend Schedule 1A to FA 2005 to include a person in receipt of the mobility component of DLA at the higher rate or the mobility component of PIP at either the standard or enhanced rate.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	negligible	negligible	negligible	negligible	negligible
	The 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 and households	The measure is intended to make the tax regimes for trusts established for the benefit of a vulnerable person more tax neutral; that is that tax neither penalises nor encourages their use over the same property being held by the person outright. The changes will have direct impacts on settlors and trustees and indirect impacts on the beneficiaries.					
Equalities impacts	The measure will impact most where the beneficiary is unable to manage their affairs by reason of a mental disability, or is in receipt of a welfare benefit.					
Impact on business including civil society organisations	The measure is expected to have no impact on businesses and civil society organisations.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing these changes will incur any significant additional costs for HM Revenue & Customs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored after implementation through information collected on tax returns and through communication with groups representing those affected.

Further advice

If you have any questions about this change, please contact Alan McGuinness on 03000 585256 (email: alan.mcguinness@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Cultural Gift Scheme: amendments to Estate Duty legislation

Who is likely to be affected?

Individuals and corporate owners of pre-eminent objects on which there is potentially a charge to Estate Duty, and who want to donate the object to the nation under the Cultural Gift Scheme (CGS).

General description of the measure

The measure will amend a technical flaw in the CGS legislation relating to Estate Duty.

Policy objective

This measure will correct a technical flaw to ensure that the CGS works in line with the publicly stated policy. If the legislation as it is currently drafted was left in place, donors of objects on which there is a charge to Estate Duty could receive a financial benefit from their donation greater than they would if they sold these items on the open market. This runs counter to the policy objective of the scheme.

Background to the measure

The CGS was introduced by Finance Act 2012 and started in April 2013.

There has been no previous announcement or consultation on this amendment as it merely corrects a technical flaw and does not alter the original policy intention of the scheme.

This Tax Information and Impact Note (TIIN) is an update to the TIIN published on 6 December 2011.

Detailed proposal

Operative date

This measure will have effect on and after the date that Finance Bill 2014 receives Royal Assent.

Current law

The CGS was introduced by Schedule 14 to Finance Act (FA) 2012 and commenced on 1 April 2013 by virtue of the FA 2012, Schedule 14 (Appointed Day) Order 2013.

Paragraph 33 of Schedule 14 provides a partial exemption from Estate Duty on exempt objects which would otherwise have become chargeable under Schedule 5 of the Inheritance Tax Act 1984 on a gift of property under the scheme.

Proposed revisions

The exemption from Estate Duty on donations of exempt objects is intended to be limited to the amount that would be chargeable if the rate of tax were the same as the rate of Inheritance Tax, currently 40 per cent. Estate Duty rates can be significantly more than 40 per cent - up to 80 per cent. Where the rate of Estate Duty attached to the exempt object is more than the rate of inheritance tax, the policy intention is that the excess amount should become chargeable.

Legislation will be introduced in Finance Bill 2014 to specify that, for the purposes of Estate Duty, any qualifying gift to the nation under the CGS would be deemed a sale at market value. This will allow the intended amount of Estate Duty to come into charge.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	The measure will affect only a handful of people who may have a pre-eminent object that became exempt before 13 March 1975 and that they wish to give away under the CGS. Enabling donors to give such objects widens the pool of objects that can be accepted under the CGS.					
Equalities impacts	No impact identified on people with protected characteristics.					
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)	It is not expected that implementing these changes will incur any significant additional costs for HM Revenue & Customs. The Department for Culture, Media & Sport will be able to accept exempt objects based on their intrinsic merits (and subject to funding).					
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 Jo Shelling on 03000 585216 (email: joanne.shelling@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Qualifying loan interest relief: changes

Who is likely to be affected?

This measure makes two changes. The first change will affect individual taxpayers paying interest on loans to invest in companies in the European Economic Area (EEA), apart from companies resident in the UK. The second change is consequential and will have no effect on the availability of qualifying loan interest relief.

General description of the measure

The measure will extend the income tax relief for interest paid on loans to invest in certain UK companies to interest on loans to invest in such companies in the wider EEA.

Policy objective

The material change ensures that the rules for this relief comply with EU law.

Background to the measure

This measure has not been previously announced and has not been the subject of consultation.

Detailed proposal

Operative date

This measure will have effect for interest paid on or after 6 April 2014.

Current law

Chapter 1 of Part 8 of the Income Tax Act 2007 (ITA) provides for income tax relief for payments of interest on loans for particular purposes. These include loans to buy an interest in a 'close company'. The definition of a 'close company' is in Chapter 2 of Part 10 of the Corporation Tax Act 2010 (CTA 2010) and section 442(a) CTA 2010 excludes non-UK resident companies from being 'close'. The relief is not available for interest on a loan to buy an interest in a 'close investment-holding company' as defined at section 34 CTA 2010.

Relief is also available for interest paid on a loan to buy an interest in an employee-controlled company. One of the conditions for this relief is that the company is UK resident.

Proposed revisions

Legislation will be introduced in Finance Bill 2014. The relief for investment in close companies is extended to include companies resident in an EEA state other than the UK which would be close if they were UK resident. The relief for investment in employee-controlled companies is also extended to include companies resident in an EEA state other than the UK.

At the same time a new section, section 393A, is being added. This includes the definition of 'close investment-holding company' which is currently at section 34 CTA 2010, but is shortly to be repealed as a result of the adoption of a single rate of corporation tax for companies (other than those with oil and gas ring fence profits) from financial year 2015. It makes no change to the application of the rules for qualifying loan interest relief.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	nil	-15	-10	-10	-10
	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 and households	The first change affects UK taxpayers borrowing money to invest in close companies and employee-controlled companies in the EEA, apart from the UK. This is only thought to impact on a small number of individuals (fewer than 10,000) who will be eligible to claim relief on these investments. The second change will have no effect on individuals and households.					
Equalities impacts	No impacts based on race, gender, disability or other equality groups are anticipated.					
Impact on business including civil society organisations	The first change only affects individual taxpayers and the second change will have no material effect. This measure is expected to have no impact on businesses and civil society organisations.					
Operational impact (£m) (HMRC or other)	The first change proposed will result in some extra handling costs for HM Revenue & Customs, but these are expected to be negligible. The second change will have no 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 from tax returns and through communication with affected taxpayer groups

Further advice

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

HM Revenue
& Customs

Income tax: company car tax rates 2016-17

Who is likely to be affected?

Businesses and employers where company cars are made available for private use.

General description of the measure

For 2016-17, the measure increases the appropriate percentages to be used when calculating the company car benefit charge by two percentage points but does not change the maximum appropriate percentage. The rates start at 7 per cent for cars emitting 0-50 grams of CO_2 per kilometre to a maximum of 37 per cent for cars emitting 200 grams of CO_2 per kilometre or more. This measure also repeals the diesel supplement; and increases the appropriate percentages for cars registered before 1 January 1998 and for cars without a CO_2 emissions figure.

Policy objective

The measure ensures that tax on the benefit of a company car made available for private use continues to incentivise the purchase and manufacture of ultra low emission vehicles (ULEVs) and supports the sustainability of the public finances. In addition, new European standards which come into force in September 2015 require diesel cars to have the same air quality emissions as petrol cars. This measure therefore also repeals the diesel supplement.

Background to the measure

The Government announced at Budget 2012 and 2013 provisional company car tax rates and bands for 2016-17. Changes to the taxation of company cars were announced three years in advance, to give certainty to industry including car manufacturers. Finance Bill 2014 introduces the appropriate percentage rates for 2016-17.

This Tax Information and Impact Note (TIIN) is an update to the TIINs published on 21 March 2012 and 20 March 2013.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2016 for the tax year 2016-17 and subsequent tax years.

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 multiplied by the appropriate percentage which is determined by the level of CO_2 emissions the car produces.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to make the following changes:

- Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO_2 emissions. From 6 April 2016, the graduated table of bands for taxing the benefit of a company car will provide for a two percentage point increase for each band, but with no change to the maximum appropriate percentage. The rates start at 7 per cent for cars emitting 0-50 grams of CO_2 per kilometre to a maximum of 37 per cent for cars emitting 200 grams of CO_2 per kilometre or more.
- Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without CO_2 emissions. From 6 April 2016, the appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of 1,400 or less will be 16 per cent and 27 per cent for a cylinder capacity of 1,401 to 2,000;
- The 3 percentage point diesel supplement set out in section 141 ITEPA will be repealed, so that diesel cars will be subject to the same level of tax as petrol cars; and
- Section 142 ITEPA 2003 sets out the basis for calculating the appropriate percentage for cars registered before 1 January 1998. From 6 April 2016, the appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of 1,400 or less will be 16 per cent; 27 per cent for a cylinder capacity of 1,401 to 2,000 and 37 per cent for a cylinder capacity of 2,001 or more.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-	negligible	negligible	negligible
	The changes to section 140 and section 142 ITEPA 2003 are expected to have a negligible impact on the Exchequer. The costings for the changes to section 139 and section 141 ITEPA 2003 were part of the company car tax costings set out in Table 2.1 of Budget 2012 and Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside Budget 2012 and Budget 2013.					
Economic impact	This measure incentivises businesses to purchase ULEVs, by setting lower tax rates for ULEVs than conventionally fuelled company cars. This supports ULEV manufacturers and the wider market in the UK which is at an early stage of development. The tax changes will continue to provide stability and certainty in the company car market.					
Impact on individuals and households	The changes apply equally to all company car drivers. They are not expected to have any adverse impact on the equality of groups with protected characteristics. The measure results in a basic rate taxpayer driving a zero emission car with a list price of approximately £27,500 paying £375 less on their car benefit charge in 2016-17, than a basic rate taxpayer with a conventionally fuelled car that emits between 115-119 CO_2g/km with a list price of approximately £19,000. A higher rate taxpayer would pay £750 less in 2016-17.					

Equalities impacts	Over 90 per cent of individuals receiving company cars have incomes above the UK median income for taxpayers, and around 60 per cent are higher or additional rate taxpayers.
Impact on business including civil society organisations	The measure is expected to have a negligible impact on businesses and civil society organisations as the level of employer National Insurance contributions (NICs) on the benefit will increase slightly. However, businesses that offer ULEV company cars will benefit from lower NICs liabilities compared to conventionally fuelled cars. In addition, employer reporting and administration requirements will not change as a result of this measure.
Operational impact (£m) (HMRC)	It is not anticipated that implementing this measure will incur any significant costs for HM Revenue & Customs.
Other impacts	Carbon emissions and wider environmental impact: This measure supports the Government's objectives to reduce greenhouse gas emissions from road transport by setting lower car benefit rates for ULEVs than conventionally fuelled vehicles. This measure therefore encourages businesses to purchase ULEVs. However, given that the market is at an early stage of development it is not possible to precisely estimate the impact on ULEV sales. 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 the Employment Income Policy team at employmentincome.policy@hmrc.gsi.gov.uk.

HM Revenue
& Customs

Income tax: company cars and vans: repeal of section 114(3) Income Tax (Earnings and Pensions) Act 2003

Who is likely to be affected?

Employers and individuals where a company car is made available for private use or a van is made available for more than insignificant private use.

General description of the measure

This measure will repeal section 114(3) Income Tax (Earnings and Pensions) Act (ITEPA) 2003, to ensure that the benefit of company cars or vans is taxed in full.

Policy objective

This measure protects Exchequer revenue by ensuring that the benefit rules are applied in full.

Background to the measure

Section 114(3) ITEPA 2003 provides protection from double taxation, but in certain circumstances (i.e. where the benefit can be converted into money's worth) disapplies the benefit from being taxed under the appropriate rules for company cars and vans. This was not the policy intention, and as there are other sections within the legislation that prevent double taxation, this section is being repealed.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2014.

Current law

Section 114(3) ITEPA 2003 states that Chapter 6 of Part 3 of ITEPA 2003 (Taxable Benefits: Cars, Vans and related benefits) does not apply if the provision of a company car or van constitutes earnings from employment under any other provision. Therefore, in broad terms, section 114(3) ITEPA 2003 gives priority to the earnings provision at section 62 ITEPA 2003 and prevents a double tax charge if a monetary value is established for the car or van benefit under section 62 ITEPA 2003.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to repeal section 114(3) ITEPA 2003. This will allow HM Revenue & Customs to rely on the provision at section 64 ITEPA 2003 which ensures that the full amount of car or van benefit is subject to tax if an amount could be both earnings under section 62 ITEPA 2003 and treated as earnings under the benefits code. Section 64 ITEPA 2003 also removes any consequential issues with the double taxation of a car or van benefit.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="6">This measure is expected to have a negligible impact on the Exchequer.
The measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The measure is expected to have negligible impact on individuals and households on the basis that most employers are currently reporting the full value of the benefit. Existing reporting requirements will not change.</td></tr>
<tr><td>Equalities impact</td><td colspan="6">This measure is not expected to have any adverse impacts on the equality of groups with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure is expected to have negligible impact on businesses or civil society organisations on the basis that most employers are currently reporting the full value of the benefit. Employer reporting and administration requirements would not change.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">This measure will have no changes to existing operational reporting requirements.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Other impacts have been considered and none have been identified.</td></tr>
</table>

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 the Employment Income Policy Team at employmentincome.policy@hmrc.gsi.gov.uk.

HM Revenue
& Customs

Income tax: company cars and vans: payments for private use of a company car or van

Who is likely to be affected?

Employers and individuals where a company car is made available for private use or a van has more than insignificant private use.

General description of the measure

The measure will amend sections 144(1) and 158(1) of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 to ensure that any payments required by the employer as a contribution for private use of a car or van need to be made before the end of the tax year in which the private use was undertaken. Such private use payments can reduce the cash equivalent of the benefit.

Policy objective

This measure protects Exchequer revenue by ensuring that a car or van benefit is chargeable in full if contributions required for private use are not made before the end of the tax year in which private use was undertaken.

Background to the measure

Finance Act 1976 introduced legislation on company cars being made available for private use and included a provision for reducing the tax liability on a car benefit if an individual made payments as a condition of the car being made available for private use. This provision was consolidated in the Income and Corporation Taxes Act (ICTA) 1988 and in ITEPA 2003.

Finance Act 1993 introduced legislation concerning company vans made available for private use, which also included a provision for reducing the tax liability on a benefit if an individual made payments as a condition of the van being made available for private use. These provisions were included in ICTA 1988 and then consolidated in ITEPA 2003.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2014.

Current law

Under section 144(1) ITEPA 2003, an employee can reduce their tax liability on a car benefit if they make payments for private use of the car as a condition of that car being available for private use.

Section 158(1) ITEPA 2003 provides for a similar tax liability reduction if payments for private use of a company van are made by the employee.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend sections 144(1) and 158(1) ITEPA 2003 putting beyond doubt that payments for private use of a company car or van need to be made in the tax year in which private use was undertaken. The current wording of the legislation does not achieve the policy intention.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. The 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 and households	The measure is expected to have no impact on most individuals and households. Where an employer has been reporting the value of the benefit incorrectly, some individuals will no longer have the benefit charge deferred to a later year. Existing reporting requirements will be clarified as a result of the change.					
Equalities impact	This measure is not expected to have any adverse impacts on the equality of groups with protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have no impact on most businesses or civil society organisations. Where an employer has been reporting the value of the benefit incorrectly, they will no longer have employer National Insurance contributions deferred to a later year. Employer reporting and administration requirements will be clarified as a result of the change.					
Operational impact (£m) (HMRC or other)	The measure is not expected to have any operational impact.					
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.

Further advice

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

HM Revenue
& Customs

Unification of corporation tax rates: consequential changes

Who is likely to be affected?

Companies with small profits that are associated with other companies.

General description of the measure

This measure deals with the consequential changes to tax legislation which arise from the adoption of a single rate of corporation tax for companies (other than those with oil and gas ring fence profits) from financial year 2015.

Policy objective

This measure simplifies rules which ensure that tax is calculated appropriately where a company is associated with other companies. Those rules, which have applied for companies with small profits and which will continue to apply in limited circumstances, prevent a tax advantage from arising where a single business is operated through a number of associated companies.

Background to the measure

The Government announced at Budget 2013 that a single unified rate of corporation tax of 20 per cent will apply on and after 1 April 2015.

On 10 December 2013 the Government published draft legislation proposing the repeal of the 'associated companies' provisions, which treat companies in common ownership and control as a single entity for the purposes of corporation tax rates. These changes are possible because the vast majority of companies will be subject to a single rate of corporation tax. These rules also prevent a tax advantage arising where companies divide. The Government proposes replacing the associated companies rules with simpler provisions in the areas where they are still needed.

Detailed proposal

Operative date

Changes relating to Patent Box, capital allowances and Quarterly Instalment Payments will have effect for accounting periods beginning on or after 1 April 2015.

All other changes are effective from 1 April 2015.

Current law

Sections 25 to 30 Corporation Tax Act 2010 (CTA) include the associated companies rules which help ensure corporation tax is imposed at the correct rate. These provisions also apply to other situations, including whether a company needs to make instalment payments.

Proposed revisions

Corporation tax rates

Legislation will be introduced in Finance Bill 2014 to:

- impose a corporation tax charge for the Financial Year 2015;
- set the main rate of corporation tax on ring fence profits of companies for Financial Year 2015;
- set the small profits rates and marginal relief fractions for Financial Year 2014 and repeal the small profits rate provisions for non ring fence profits from 2015 onwards; and,
- amend the mechanism for fixing the ring fence rates and fraction, which will in future be in Part 8 CTA 2010 that contains the oil activities legislation.

This Tax Information and Impact Note (TIIN) does not cover the impacts of these rate changes. These were covered in a TIIN published on 20 March 2013.

Simplifying the associated companies rules

Associated companies rules will still be necessary in some circumstances. The risk of companies gaining an unfair advantage with a loss of tax will, however, be significantly reduced.

The Government therefore proposes that the rules will be simplified in Finance Bill 2014 by replacing them with a 51 per cent group test. This will provide sufficient protection for the Exchequer while being simpler for the affected businesses to apply.

The areas where the new rules based on a 51 per cent group will be needed are:

- ring fence profits of oil and gas companies where there will continue to be more than one rate of corporation tax;
- Patent Box where companies with profits below limits of £1 million or £3 million can elect to use a simplified method in calculating the profits subject to tax at the 10 per cent rate;
- capital allowances which are restricted for assets with a useful life of 25 years or more (long life assets) where the expenditure exceeds a limit of £100,000; and,
- Quarterly Instalment Payments where regulations set an upper limit for profits above which a company must pay tax by instalments.

The table of impacts below relates to the changes relating to the associated companies rules.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-10	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 impacts.					
Impact on individuals and households	There is no impact on individuals because the changes affect companies only.					

Equalities impacts	The changes will have no impact on protected groups.
Impact on business including civil society organisations	The benefits for business of the unification and reduction of corporation tax rates were included in the TIIN: *Corporation tax: main rate and small profits rate* issued at Budget 2013. Any additional impact on business from the changes reflected in this measure is expected to be negligible. This measure is expected to have no impact on civil society organisations.
Operational impact (£m) (HMRC or other)	It is expected that there will be negligible operational impact as a result of these changes.
Other impacts	Small and micro business assessment: small businesses are unlikely to be affected, and any impact minimal as the changes simplify the legislation. 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 John Connor on 03000 585702 (email: john.connor@hmrc.gsi.gov.uk) or contact Clare Dunne on 03000 585961 (email: clare.e.dunne@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Code of Practice on Taxation for Banks

Who is likely to be affected?

Banks, building societies and investment firms.

General description of the measure

This measure ensures that HM Revenue & Customs (HMRC) will publish an annual report on the voluntary operation of the Code of Practice on Taxation for Banks (the Code).

Policy objective

This measure makes the tax system fairer by ensuring that there is greater transparency around the operation of the Code.

Background to the measure

The Code, first introduced in 2009, requires banks to abide by both the letter and the spirit of tax law. This measure was announced in Budget 2013. The draft legislation was consulted on between 31 May 2013 and 16 August 2013.

Detailed proposal

Operative date

The first annual report on the operation of the Code will be for the period 5 December 2013 to 31 March 2015.

Current law

This is a new piece of legislation.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to ensure that HMRC publishes an annual report on the operation of the Code. The report will list groups or entities which have unconditionally adopted the Code at the date of the report as well as those groups or entities which have not adopted the Code. In addition the report will name any groups or entities that HMRC considers has not complied with Code.

The legislation provides that where HMRC considers a group or entity has not complied with the Code before naming a group or entity in an annual report HMRC must first commission a report from an independent reviewer on whether the Code has been breached and whether the group or entity should be named in an annual report.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	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 and households	This measure applies to banks, building societies and investments firms. It will have no impact on individuals and households.					
Equalities impacts	There are no impacts on any group which shares a protected characteristic.					
Impact on business including civil society organisations	This measure will have a negligible impact on business including civil society organisations: the measure only impacts on banks, building societies and investment firms.					
Operational impact (£m) (HMRC or other)	The costs to HMRC will be negligible.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through communication with affected taxpayer groups to ensure that the Code is operating as intended.

Further advice

If you have any questions about this change, please contact Fiona Hay on 03000 585882 (email: fiona.hay@ hmrc.gsi.gov.uk).

HM Revenue
& Customs

Bank levy 2014 rate change

Who is likely to be affected?

UK banks, banking groups and building societies, foreign banking groups operating in the UK through permanent establishments or subsidiaries, and UK banks and banking sub-groups in non-banking groups.

General description of the measure

The Government has consistently set out its intention that the bank levy should raise at least £2½ billion each year. To ensure this and to take account of the benefit to the banking sector from the additional reductions in corporation tax announced since the levy was introduced, the rate of the bank levy will increase to 0.156 per cent from 1 January 2014. A proportionate increase to 0.078 per cent will be made to the half rate, also with effect from 1 January 2014.

Policy objective

These changes will help to ensure that the banking sector makes a fair contribution through the bank levy, reflecting the risks it poses to the financial system and the wider economy. These changes also take account of the impact of other measures on the sector.

Background to the measure

The Government announced the introduction of the bank levy at Budget 2010 to commence for chargeable periods ending on or after 1 January 2011.

At Budget 2013, the Government announced an increase in the rate of the bank levy to 0.142 per cent from 1 January 2014.

The Government announced further bank levy increases at Autumn Statement 2013.

Detailed proposal

Operative date

The measure increases the rates of the bank levy from 1 January 2014 to 0.156 per cent for the full rate and 0.078 per cent for the half rate.

Current law

The bank levy rates are set out in paragraphs 6 and 7 of Schedule 19 Finance Act 2011 as amended by section 211 Finance Act 2011 and paragraphs 1 to 7 of Schedule 34 Finance Act 2012.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend the rates of bank levy. For periods falling wholly or partly after 1 January 2014 the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.071 per cent to 0.078 per cent and the rate for short term chargeable liabilities will be increased from 0.142 per cent to 0.156 per cent.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>+230</td><td>+260</td><td>+260</td><td>+260</td><td>+260</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of the Autumn Statement 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.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The bank levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The measure will encourage banks to adjust their activities in favour of less risky funding models.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">There is no direct impact on individuals and households. The bank levy is a tax on the balance sheets of banks, banking groups, and building societies.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The measure is not expected to have a direct or disproportionate impact on any of the protected equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The bank levy currently affects in the region of 30 banking groups and building societies. The impact on these businesses as a result of this change is expected to be negligible in terms of additional administrative and compliance costs. The bank levy has no direct impact on businesses and organisations beyond those taxpayers.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The changes proposed here add no additional costs.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Competition assessment</u>: the scope of the bank levy has been specifically designed to ensure a level playing field for all those affected by it in the UK.

<u>Small firms impact test:</u> the banks, building societies and banking groups affected by the bank levy are not considered to be small firms, as only institutions with over £20 billion of chargeable liabilities are liable to pay the bank levy.

Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

Receipts from the bank levy are being monitored on an ongoing basis.

Further advice

If you have any questions about this change, please contact Anthony Fawcett on 03000 585911 (email: anthony.c.fawcett@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Bank levy review

Who is likely to be affected?

UK banks, banking groups and building societies; foreign banking groups operating in the UK through permanent establishments or subsidiaries, and UK banks and banking sub-groups in non-banking groups.

General description of the measure

As part of its approach to improving the tax policy making process, the Government announced when it introduced the levy, that it would review its design in 2013 to ensure it is operating efficiently.

Policy objective

The purpose of the bank levy is to ensure that the banking sector makes a fair contribution, reflecting the risks the banks pose to the financial system and the wider economy. It is also designed to encourage banks to move away from risky funding models that may threaten the stability of the financial sector. From the outset the Government has stated that it expects the levy to raise at least £2½ billion each year.

The Government believes that the levy's objectives remain appropriate. The underlying policy objectives were therefore outside the scope of the review. Instead the review tested the design of the levy to ensure it is working efficiently. Broadly the review looked at the following areas:

- simplification and reduction of compliance costs;
- fair application of the legislation to the bank levy population, which contains banks that have numerous differences in activities, location, structure and systems;
- better alignment of the levy with its policy objectives;
- ensuring alignment with the current and future regulatory regimes; and
- improving understanding of revenues, reflecting factors that drive balance sheets.

Background to the measure

The Government announced when it introduced the bank levy that it would review the design of the levy in 2013.

A consultation document was published on 4 July 2013 setting out various areas where the Government sought views. A wide range of stakeholders responded, including banks, industry bodies and advisers. The consultation included two open days, three working groups and bilateral meetings; 17 formal written responses were received.

A consultation response document and initial draft legislation was published on 10 December 2013 on the GOV.UK website.

Detailed proposal

Operative date

In the main, the changes will have effect in relation to periods of account ending on or after 1 January 2015.

However, changes to the definition of Tier 1 capital and the exclusion of liabilities relating to client clearing will have effect in relation to periods of account ending on or after 1 January 2014 in order align the bank levy with regulatory developments.

Current law

The bank levy is contained within Schedule 19 Finance Act 2011.

The bank levy applies to the global consolidated balance sheet of UK banking groups and building societies (paragraph 15); the aggregated UK balance sheets of members of foreign banking groups (paragraph 17); the balance sheets of UK banks and banking sub-groups in non-banking groups (paragraph 19) and the balance sheets of UK banks that are not members of groups (paragraph 21).

The levy is based upon the total chargeable equity and liabilities as reported in the relevant balance sheets at the end of a chargeable period.

Certain equity and liabilities are excluded from charge to the levy on the basis that they represent stable funding or that they do not relate to funding at all. Excluded equity and liabilities are listed in paragraphs 29 to 39 and they include: deposits covered by depositor protection schemes (paragraph 29) and Tier 1 capital (paragraph 30).

It is also permitted in specified circumstances to reduce certain liabilities by netting off certain assets (see paragraphs 16, 18, 20, 22 and 25).

Remaining liabilities may then be reduced by offsetting assets on the relevant balance sheets that would qualify for the Prudential Regulation Authority's (PRA) liquid assets buffer (see paragraphs 15, 17, 19, 21 and 27). This reduction applies first to long term liabilities with any balance applying to short-term liabilities.

Remaining short term liabilities and long term equity and liabilities are charged to the full and half levy rates respectively, subject to a £20 billion allowance.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Schedule 19 Finance Act 2011 to give effect to the following changes that arise from the bank levy review.

i) *Protected deposits (paragraph 29)*
   Paragraph 29 contains provisions that allow certain deposits that are covered by deposit protection schemes or explicit Government guarantees to be excluded from the bank levy charge. This amendment will remove the existing provisions that allow, in the case of deposit protection schemes, the amount of protected deposits to be calculated by reference to the amount of the deposit, or other amount, on which the scheme premium or fee is charged.

   Following the change, for deposit protection schemes, the amount of protected deposits that may be excluded will be limited to the amount of deposits that are covered by the deposit protection scheme.

   The rules concerning explicit Government guarantees remain unchanged.

ii) *High Quality Liquid Assets (HQLA)*

HQLA will no longer be deducted from long term liabilities first with any balance applying to short-term liabilities. Instead a rule will be introduced to effectively restrict the benefit of the entire HQLA deduction to the half rate only. This will be achieved by allowing any HQLA set against long term liabilities to be deducted in full, however where HQLA are set against short term liabilities the amount of HQLA that can be deducted is to be restricted by half, so that the relief given is broadly equivalent to that which would be received on these HQLA at the long term rate.

iii) Netting

Currently, any un-netted derivatives are taxed at either the short or long term rate, depending on their contractual maturity. The legislation will be amended so that all derivative contract liabilities are treated as short-term for the purposes of the bank levy.

iv) Tier 1 capital

The levy currently excludes Tier 1 capital from charge in order not to discourage capital accumulation. Whilst our policy remains unchanged in this area legislative changes are required to reflect the new regulatory definition of Tier 1 capital under CRD IV. This change will have effect in relation to periods of account ending on or after 1 January 2014.

v) Power to make consequential amendments (paragraph 81)

The power at paragraph 81 permits HM Treasury to make amendments, which may have retrospective effect, as a consequence of changes to FSMA 2000, the PRA Handbook, IAS, UK GAAP or US GAAP. Legislation will be introduced to widen the scope of the power so that it can be used to make secondary regulations where new regulatory requirements are introduced by any EU or other legislation.

vi) Client clearing liabilities

As part of the regulatory reform agenda, there is a drive to introduce central clearing of derivatives via regulated central counterparties (CCPs) as central clearing enhances asset protection, mitigates counterparty risk and improves market transparency.

The Government wants to ensure that there is no disincentive for banks to facilitate their clients' clearing transactions and so a new rule will be introduced excluding liabilities that arise on banks' balance sheets in respect of collateral that banks have passed on to a central counterparty, authorised or recognised under European Markets Infrastructure Regulations.

This change will have effect in relation to periods of account ending on or after 1 January 2014.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	+35	+260	+275	+275	+275
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	The bank levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The measure will encourage banks to adjust their activities in favour of less risky funding models.					

Impact on individuals and households	There is no direct impact on individuals and households. The bank levy is a tax on the balance sheets of banks, banking groups, and building societies.
Equalities impacts	The measure is not expected to have a direct or disproportionate impact on any of the protected equality groups.
Impact on business including civil society organisations	The bank levy currently affects in the region of 30 banking groups and building societies. The impact on these businesses as a result of this change is expected to be negligible in terms of additional administrative and compliance costs. The bank levy has no direct impact on businesses and organisations beyond those taxpayers.
Operational impact (£m) (HMRC or other)	The operational costs to HM Revenue & Customs of implementing these changes are expected to be negligible.
Other impacts	Competition assessment: the scope of the bank levy has been specifically designed to ensure a level playing field for all those affected by it in the UK. Small and micro business assessment: the banks, building societies and banking groups affected by the bank levy are not considered to be small firms, as only institutions with over £20 billion of chargeable liabilities are liable to pay the bank levy. Other impacts have been considered and none have been identified.

Monitoring and evaluation

Receipts from the bank levy are being monitored on an ongoing basis.

Further advice

If you have any questions about this change, please contact Anthony Fawcett on 03000 585911 (email anthony.c.fawcett@hmrc.gsi.gov.uk).

HM Revenue
& Customs

UK oil and gas fiscal regime: new onshore allowance

Who is likely to be affected?

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

General description of the measure

The measure will introduce a new onshore 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 onshore oil and gas projects.

Policy objective

This measure is designed to support the early development of onshore oil and gas projects which are economic but not commercially viable at the 62 per cent tax rate. Shale gas and other onshore hydrocarbons could help increase our energy security as resources in the North Sea basin decline. They also have the potential to support thousands of jobs, generate substantial business investment and could lower energy bills for households and businesses.

The tax regime will be simpler as the new onshore allowance will cover both conventional and unconventional hydrocarbons and will replace all existing field allowances for onshore projects.

Background to the measure

This measure was announced at Budget 2013.

A consultation *Harnessing the potential of the UK's natural resources – a fiscal regime for shale gas* was launched on 19 July 2013 and closed on 13 September 2013.

The Government's response to this consultation will be published on 10 December 2013.

Detailed proposal

Operative date

The measure will have effect in respect of capital expenditure incurred on and after 5 December 2013 in relation to an onshore oil and gas related activity.

Current law

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

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend CTA 2010 to introduce a new onshore allowance. The allowance will remove an amount equal to 75 per cent of capital expenditure incurred by a company in relation to an onshore site from its adjusted ring fence profits which are subject to the supplementary charge, subject to certain capacity limits (for production yield). Onshore oil and gas projects will also be removed from the scope of existing field allowances.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>nil</td><td>nil</td><td>negligible</td><td>-5</td><td>-20</td><td>-20</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of the Autumn Statement 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.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The onshore allowance is expected to increase investment in unconventional hydrocarbon exploration. If exploration establishes the commercial viability of these resources, then in the longer term there could be a significant increase in the domestic production of hydrocarbons, increased energy security, the creation of jobs and benefits to the UK supply chain.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Any resulting increase in production would contribute to the security of the UK’s energy supply and has the potential to lower energy bills for households and businesses.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The allowance is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The proposal is designed to support the onshore oil and gas industry through the exploration phase and into development. This measure is expected to have a negligible administrative impact on these businesses.

This measure will have no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The additional costs for HM Revenue & Customs in implementing this change are expected to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><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.

<u>Small firms impact test</u>: it is not anticipated that any small or micro businesses will be affected by this measure. This change applies only to oil and gas companies operating in the UK.

Other impacts have been considered and none have been identified.</td></tr>
</table>

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).

HM Revenue
& Customs

UK oil and gas fiscal regime: extension of the ring fence expenditure supplement for onshore activities

Who is likely to be affected?

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

General description of the measure

The measure will extend the number of accounting periods a company can claim ring fence expenditure supplement (RFES) in relation to qualifying expenditure or losses from onshore oil and gas activity.

Policy objective

This measure supports the early development of onshore oil and gas projects which are economic but not commercially viable at the 62 per cent tax rate. Shale gas and other onshore hydrocarbons could help increase our energy security as resources in the North Sea basin decline. It does so by recognising the longer payback period for these projects and the fact that, at least in its early stages, the industry will be dominated by companies without other ring fence profits. The measure will allow companies without existing ring fence profits to maintain the time value of their losses and pre-trading expenditure over this longer payback period.

Background to the measure

This measure was announced at Budget 2013. A consultation, *Harnessing the potential of the UK's natural resources – a fiscal regime for shale gas* was launched on 19 July 2013 and closed on 13 September 2013.

The Government's response to this consultation was published on 10 December 2013.

Detailed proposal

Operative date

This measure will have effect for pre-trading expenditure incurred on and after 5 December 2013. For losses arising in an accounting period straddling commencement date, the measure apportions the losses before and after the commencement date.

Current law

Under sections 307 to 329 Corporation Tax Act (CTA) 2010 a company can make up to six claims for RFES on qualifying expenditure or losses to maintain their time value until they can be offset against future profits. RFES adds a supplement of 10 per cent to the value of unused expenditure carried forward from one time period to another. This applies to both offshore and onshore companies operating inside the ring fence.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend CTA 2010 to extend the number of claims available to companies involved in oil and gas related activities in relation to onshore hydrocarbons from six to ten accounting periods.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>nil</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="6">This measure is not expected to have an Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="6">Together with the onshore allowance, this measure is expected to support companies involved in the exploration and appraisal of onshore oil and gas projects. If exploration establishes the commercial viability of the UK's onshore oil and gas resources then in the longer term it could result in a significant increase in domestic production, increased energy security, business investment and jobs.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Any resulting increase in production would contribute to the security of the UK's energy supply and has the potential to lower energy bills for households and businesses.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">This measure is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">Only a small number of UK businesses will be affected by the measure. This measure is expected to have a negligible impact on these businesses.

There will be no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The additional costs for HM Revenue & Customs in implementing this change are expected to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><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.

<u>Small firms impact test</u>: the administrative impact on small companies is expected to be negligible. The extension of RFES will allow smaller firms with no existing ring fence profits to uplift their losses and pre-trading expenditure by a further four accounting periods.

Other impacts have been considered and none have been identified.</td></tr>
</table>

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).

HM Revenue
& Customs

Oil and gas fiscal regime: substantial shareholding exemption

Who is likely to be affected?

Companies involved in oil and gas exploration and appraisal (E&A) activity in the UK or UK Continental Shelf (UKCS) which have not commenced a ring fence trade.

General description of the measure

The measure will extend the scope of the Substantial Shareholding Exemption to treat a company as having held a substantial shareholding in a subsidiary being disposed of for the 12 month period before the disposal. To qualify, the subsidiary has to be using assets for oil and gas E&A activity that have been transferred from other group companies and meet the other conditions for the exemption.

Policy objective

This measure is intended to support investment in E&A activity in the UK and UKCS by ensuring that the structure of the oil and gas fiscal regime does not prevent amendments made to SSE in Finance Act 2011 from operating in the way they were intended to. It will remove a barrier to the transfer of assets from a group undertaking E&A activity in the oil and gas sector to another group in that sector that will use the licence in the trade of extracting oil or gas.

Background to the measure

The Government announced this measure in Autumn Statement 2013.

Detailed proposal

Operative date

This measure will have effect on and after the date that Finance Bill 2014 receives Royal Assent.

Current law

Under Schedule 7AC Taxation of Chargeable Gains Act 1992 (TCGA 1992), a company disposing of shares in another company does not incur a chargeable gain if it holds a substantial shareholding in that company and both the investing company and the company invested in meet certain requirements.

Finance Act 2011 inserted paragraph 15A, which allows a company to be treated as if it has met the time requirement where it meets certain conditions.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend the definition of trade at paragraph 15A(2)(b) and 15A(2)(d) Schedule 7AC TCGA 1992 to ensure that it also refers to an asset which, at the time of disposal, is being used for the purposes of E&A activity and which was previously used for those purposes by a company in the same group.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="6">This measure is not expected to have an Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="6">This measure is not expected to have any significant economic impacts, but forms part of a package to encourage exploration activity.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Any resulting increase in production would contribute to the security of the UK's energy supply.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">This measure is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">Only a small number of UK businesses will be affected by the measure. The proposals are designed to support exploration companies. This measure is expected to have a negligible impact on these businesses.

There will be no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The additional costs for HM Revenue & Customs in implementing this change are expected to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><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.

<u>Small and micro business assessment:</u> it is not anticipated that many small or micro businesses will be affected by this measure. This change applies only to oil and gas companies operating in the UK or UKCS. The administrative impact on small companies is expected to be negligible.

Other impacts have been considered and none have been identified.</td></tr>
</table>

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 Natalie Reeder on 03000 586574 (email: natalie.reeder@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Oil and gas fiscal regime: reinvestment relief for pre-trading companies

Who is likely to be affected?

Companies involved in oil and gas exploration and appraisal (E&A) activity in the UK or UK Continental Shelf (UKCS) which have not commenced a ring fence trade.

General description of the measure

The measure will introduce an exemption to prevent a chargeable gain being subject to a corporation tax (CT) charge where an asset is disposed of in the course of oil and gas E&A activities and the proceeds are then used for the same purposes. To be eligible for the exemption the company must operate such activities wholly outside the ring fence.

Policy objective

This measure encourages investment in the UK and UKCS by allowing companies undertaking E&A activity, who have not started trading within the ring fence, to reinvest their profits back into the industry without a CT charge arising.

The measure will improve the alignment of CT treatment for companies undertaking E&A activity which have not started trading within the ring fence with those who have started trading within the ring fence, as those trading inside the ring fence already have an exemption from CT when they dispose of assets in the course of E&A activity and then reinvest the proceeds into new assets.

Background to the measure

The Government announced this measure in Autumn Statement 2013.

Detailed proposal

Operative date

This measure will have effect on and after the date that Finance Bill 2014 receives Royal Assent.

Current law

Under sections 198A to 198I Taxation of Chargeable Gains Act 1992 (TCGA 1992), a person who is carrying on a ring fence trade, and who makes a disposal and acquisition which is a ring fence reinvestment, can claim reinvestment relief, with the effect that any gain arising from the disposal is not a chargeable gain.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend TCGA 1992 to create an equivalent relief so that a person who makes a disposal and acquisition in the course of oil and gas E&A activities, and is operating wholly outside the ring fence trade, can claim reinvestment relief, with the effect that any gain arising from the disposal is not a chargeable gain.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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, but forms part of a wider package to encourage exploration.					
Impact on individuals and households	Any resulting increase in production would contribute to the security of the UK's energy supply.					
Equalities impacts	This measure is considered to have no differential impact on any equality groups.					
Impact on business including civil society organisations	Only a small number of UK businesses will be affected by the measure. The proposals are designed to support exploration companies. This measure is expected to have a negligible impact on these businesses. This measure will have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue & Customs in implementing this change are expected to be negligible.					
Other impacts	Sustainable development, wider environment and health: 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. Small and micro business assessment: it is not anticipated that many small or micro businesses will be affected by this measure. This change applies only to oil and gas companies operating in the UK or UKCS. The administrative impact on small companies is expected to be negligible.					

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 Natalie Reeder on 03000 586574 (email: natalie.reeder@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Modernising film tax relief

Who is likely to be affected?

Companies within the charge to corporation tax that are directly involved in the production of films.

General description of the measure

The measure will apply at a rate of 25 per cent for the first £20 million of qualifying core expenditure, and 20 per cent to amounts thereafter, for all eligible film productions. The distinction between limited budget films and other films, for the purposes of calculating the amount of tax credit on the surrenderable loss, has been removed.

The minimum UK spending requirement will also change from 25 per cent to 10 per cent.

Policy objective

The measure is part of a package to encourage the production of culturally British films in the UK, by introducing changes to modernise the existing film tax relief (FTR). The changes remove the 'cliff edge' between the two rates for FTR and lower the UK spending requirement. Changes will also be introduced to modernise the cultural test.

Background to the measure

This measure was announced at Autumn Statement 2013.

Detailed proposal

Operative date

Subject to State aid approval by the European Commission the changes will have effect on or after 1 April 2014.

Current law

The FTR has two tax credit rates set out at section 1202 Corporation Tax Act 2009 (CTA); 25 per cent for 'limited budget films' and 20 per cent for others. Limited budget films are those with qualifying core expenditure of £20 million or less.

Section 1198(1) CTA sets out that one of the qualifications for FTR is that at least 25 per cent of the qualifying core expenditure must be UK expenditure. UK qualifying production expenditure is defined as expenditure incurred on film activities (pre-production, principal photography and post production) which take place within the UK, irrespective of the nationality of the persons carrying out the activity.

Proposed revisions

Subject to State aid approval, section 1202 CTA will be amended so that FTR will be available for surrenderable losses at a rate of 25 per cent up to the first £20 million of each production's qualifying core expenditure (to a maximum of 80 per cent of the qualifying production core expenditure) and 20 per cent thereafter (to a maximum of 80 per cent of the qualifying production core expenditure), for all productions.

Section 1198(1) will be amended so that the minimum UK spending requirement reduces from 25 per cent to 10 per cent.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-10	-20	-	-	-
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	This measure is expected to have a positive impact on the film industry, but is not expected to have significant wider macroeconomic impacts.					
Impact on individuals and households	The relief would be available to companies producing films and so is unlikely to impact on individuals and households.					
Equalities impacts	The Government has carefully considered whether this measure impacts on people with protected characteristics and has not identified any equalities impacts.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. FTR allows qualifying companies to claim a payable tax credit and support the production of culturally British films. There are around 150-200 films a year benefiting from the film tax relief. The measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	The additional costs/savings for HM Revenue & Customs and other government departments (Department for Culture, Media & Sport) in implementing this change are anticipated to be negligible.					
Other impacts	Small and micro business assessment: this measure is not expected to have a significant impact on small firms. Competition assessment: introducing changes to this sector specific tax relief is likely to benefit films at the threshold of the £20 million rate and some larger film productions. The overall effect on competition is not expected to be significant, given the overall size of the UK film industry. There should not be any significant impact on competition with other business sectors. 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 corporate tax reforms.

Further advice

If you have any questions about this change, please contact Kerry Pope on 03000 585740 (email:kerry.pope@hmrc.gsi.gov.uk) or contact Des Ryan on 03000 585895 (email: des.ryan@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Changes to the debt cap provisions

Who is likely to be affected?

Certain companies which are members of large groups.

General description of the measure

The measure comprises two changes to improve the effectiveness of the world wide debt cap (WWDC). The first change is to the grouping rules and the second change is to the regulation-making powers.

Policy objective

The WWDC broadly limits the corporation tax deduction for interest and other finance expenses of the UK members of large groups of companies to the amount of the finance expenses of the world wide group.

The first change made by this measure protects revenue and puts beyond doubt the way in which the grouping rules apply. The change to the regulation-making powers enables changes to be made to reduce the possible impact of the WWDC on whole business securitisations.

Background to the measure

The debt cap rules were introduced in Finance Act 2009. The change to the grouping rules and the change to the regulation-making powers were announced on 5 December 2013. Draft regulations under the existing power were published for comment in November 2012, but not taken forward as they were considered to be burdensome and unnecessary at that time. The change to the regulation-making powers will enable future regulations (if required) to be more efficient and simpler for both business and HM Revenue & Customs (HMRC) to operate.

Detailed proposal

Operative date

This measure will have effect in respect of the change to the grouping rules for accounting periods starting on or after 5 December 2013. The change to the regulation-making powers will have effect on or after the date that Finance Bill 2014 receives Royal Assent.

Current law

Part 7 of The Taxation (International and other Provisions) Act 2010 (TIOPA) contains the WWDC rules. These rules apply to large groups of companies. Section 345 TIOPA provides the meanings of the terms ‘UK group company’, ‘relevant group company’ and ‘relevant subsidiary’ for the purposes of applying the WWDC rules. These, in turn, refer to certain definitions in Part 5 of the Corporation Act 2010, which provides the Group Relief rules for companies.

Section 353A of TIOPA contains the regulation-making power for regulations enabling elections to transfer WWDC liabilities within a group with a securitisation structure.

Proposed revisions

Legislation will be introduced in Finance Bill 2014. This changes the grouping rules to ensure that a UK tax-resident company that does not have ordinary share capital such as a company limited by guarantee, can be a relevant group company subject to the WWDC. It also modifies the definition of a 75 per cent subsidiary for the WWDC rules to ensure that indirect ownership of a company can be traced through intermediate entities without ordinary share capital. Furthermore, it puts it beyond doubt that the ultimate parent of a worldwide group may be regarded as beneficially entitled to 75 per cent of the profits or assets of a UK group company for the purposes of the WWDC grouping rules, notwithstanding any intermediate entities in the ownership chain that do not have ordinary share capital.

The amendment to the regulation-making powers enables regulations to include conditions to be met by companies making an election to transfer WWDC liabilities to another group company.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. 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 and households	The measure will not have any impact on individuals and households as it relates to groups of companies that are subject to the debt cap.					
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 a negligible impact on businesses and civil society organisations. The debt cap rules only apply to around 1,800 corporate groups which include large companies, and small and medium enterprises and civil society organisations are not expected to be affected by this change. The change to the grouping rules clarifies the current law and is therefore not expected to have any impact on administration burdens. The change to the regulation-making powers will affect a small number of groups with a negligible impact.					
Operational impact (£m) (HMRC or other)	It is not expected that implementing these changes will incur any significant additional costs for HMRC.					
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 through communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Judith Diamond on 03000 585712 (email: judith.diamond@hmrc.gsi.gov.uk) or Roger Muray on 03000 585376 (email: roger.muray@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Corporation tax: amending loss relief provisions

Who is likely to be affected?

Companies with brought forward corporation tax trading losses that change ownership.

General description of the measure

This measure amends and supplements existing corporation tax provisions to ease the rules restricting the availability of relief for corporation tax trading losses when companies change ownership.

Policy objective

This measure will bring the UK loss relief rules more up to date with modern commercial practice.

Background to the measure

This measure was announced in Autumn Statement 2013.

Detailed proposal

Operative date

This measure will have effect for any qualifying change of ownership on or after 1 April 2014.

Current law

Part 14 of Corporation Tax Act 2010 (CTA 2010) applies if a company carrying on a trade, investment business or property business is sold to another company not within the same '50 per cent plus' ownership. Relief for losses is restricted in any accounting period ending on or after a change in ownership if there is:

- a major change in the nature or conduct of the trade or business within three years of a change in ownership;
- after a change in ownership, a significant revival of a trade or business that has become small or negligible; or
- after a change in ownership, a significant increase in the capital of an investment business.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Part 14 Corporation Tax Act 2010 to allow a holding company to be inserted at the top of a group of companies.

Under current legislation, such a transaction would be a change of ownership in respect of Part 14 loss restriction rules. The legislation will be amended to the effect that the change of ownership rules will not apply to the new holding company's purchase of the previous top holding company. However, to prevent abuse of this easement, the rules will continue to apply to the holding company shareholders throughout the transaction.

Legislation will also be introduced in Finance Bill 2014 to amend Part 14 Corporation Tax Act 2010 to amend section 688.

If a change of ownership occurs in tandem with a company with investment business significantly increasing its capital, the Part 14 loss restriction rules may apply. The definition of 'significant increase in capital' in this section will be amended to increase the threshold.

For there to be a significant increase, the capital in the company after the ownership change will now need to exceed the capital in the company before the change by £1 million and at least 25 per cent.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-14	2015-16	2016-17	2017-18	2018-19
	-	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 and households	There will be no impact on individuals and households because this measure only affects companies.					
Equalities impacts	There will be no impact on equalities because this measure only affects companies.					
Impact on business including civil society organisations	Although there will be a negligible one-off cost of familiarisation, the measure will provide greater flexibility to make company ownership changes so will be welcomed. Overall, the impact of the measure on businesses and civil society organisations will be negligible.					
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue & Customs in implementing this measure are anticipated 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 affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Julian Ainley on 07833 480776 (email: julian.ainley@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Controlled foreign companies: profit shifting

Who is likely to be affected?

Companies that are intending to transfer to controlled foreign companies (CFCs) profits from UK intra-group loans may be affected by this measure.

General description of the measure

The measure switches off the partial exemption rules for loan relationship credits of a CFC that arise from an arrangement with a main purpose of transferring profits from existing intra-group lending out of the UK.

The measure also amends the anti-avoidance rule relating to the transfer of external debt to the UK to ensure that the rule works as intended.

Policy objective

The measure reinforces the policy aim of the CFC rules which is to protect the UK from artificial diversion of profits whilst contributing to a more competitive CT regime.

Background to the measure

This measure was announced on 5 December 2013.

Detailed proposal

Operative date

The first part of the measure will apply to arrangements entered into on or after 5 December 2013.

The second part will have effect for accounting periods beginning on or after 5 December 2013.

Current law

Part 9A of Taxation (International and Other Provisions Act) 2010 (TIOPA 2010) provides the CFC rules in respect of accounting periods of the CFC beginning on or after 1 January 2013 (subject to certain transitional provisions). Chapter 2 sets out the overall framework for charging tax on certain profits of CFCs. Chapters 3-8, referred to as ‘the CFC charge gateway’, define which profits of a CFC are chargeable, subject to exemptions in Chapters 9-14.

Chapter 5 is the CFC charge gateway for non-trading finance profits (NTFPs), which include interest and interest-like receipts from intra-group financing arrangements. It is subject, on making a claim, to Chapter 9, which provides for a full or 75 per cent exemption for qualifying loan relationships (QLRs). Profits from other loan relationships continue to be dealt with under Chapter 5.

Section 371IG defines QLRs as, broadly speaking, loans to fund other group companies that do not fall within any of the exclusions in section 371IH.

Sub-section 371IH(10) is an anti-avoidance provision that prevents certain loans from being QLRs where UK connected parties have borrowed funds from third parties or non-UK residents and used those funds to finance a CFC to make a loan which itself is used to repay third party debt of the ultimate debtor of the loan.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to establish a new rule into Chapter 9 which prevents a creditor relationship of a CFC from being a QLR if it arises as a result of any arrangement which has a main purpose of transferring out of the UK profits from a loan made by a UK company connected with the CFC..

The effect of this rule will be to stop the full or partial exemption provisions at section 371IB or section 371ID applying to the creditor relationship of the CFC in question.

The rule will apply on a loan by loan basis.

The rule will ensure that further arrangements cannot be entered into to circumvent its effect.

In addition the legislation in Chapter 9 sub-section 371IH (10) will be amended to ensure the rules on the definition of QLRs work as intended.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	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 and households	The measure has no impact upon individuals and households as it is a corporate measure					
Equalities impacts	The measure only affects corporate entities, not individuals, and no impacts have been identified.					
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)	Extra operational costs incurred as a result of this measure are likely to be negligible.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be monitored through collecting information from tax returns and monitoring clearances.

Further advice

If you have any questions about this change, please contact Paula Jarnecki on 03000 585583 (email: paula.jarnecki@hmrc.gsi.gov.uk) or contact Paul Croasdale on 03000 585572 (email: paul.croasdale@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Business Premises Renovation Allowances

Who is likely to be affected?

Businesses that incur capital expenditure on bringing back into business use qualifying business premises in disadvantaged areas which have been unused for over a year.

General description of the measure

This measure will clarify the type of expenditure that qualifies for relief under Business Premises Renovation Allowance (BPRA).

Policy objective

This measure ensures that only the actual direct costs of converting or renovating an unused business premises to bring it back into business use (i.e. the cost of construction and related professional services) are relieved under BPRA.

Background to the measure

On 18 July 2013, the Government invited comments on the Technical Note, *Business Premises Renovation Allowances (BPRA)*.

Detailed proposal

Operative date

The changes will have effect for qualifying expenditure incurred on and after 1 April 2014 for businesses within the charge to corporation tax and 6 April 2014 for businesses within the charge to income tax.

Current law

Capital allowances enable the costs of capital assets to be written off against taxable profits. Different classes of assets qualify for allowances at different rates. Under part 3A of the Capital Allowances Act 2001 (CAA 2001), the BPRA legislation provides a 100 per cent initial allowance for capital expenditure incurred on the renovation or conversion of business properties that have been unused for at least a year in disadvantaged areas of the UK.

Section 360B and 360C CAA 2001 defines the meaning of qualifying expenditure and requires that a building must have been unused for a year before expenditure qualifies for relief.

Section 360M prevents a balancing adjustment being made if certain balancing events take place more than seven years after the time when the qualifying building was first used or suitable for letting.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Part 3A of CAA 2001 to clarify the scope of the expenditure that qualifies for BPRA. That legislation will provide that only the actual costs of construction and building work, certain specified activities (e.g. architectural and surveying services) and additional associated but unspecified activities (such as project management services) qualify for relief, up to a limit of 5 per cent of the actual costs.

In addition:

- the rule preventing expenditure incurred on buildings qualifying for relief before they have been unused for a year will be clarified;
- where expenditure is paid in advance and tax relief immediately claimed, the works to which that expenditure relates must be completed within 24 months to prevent some, or all, of that relief being withdrawn; and
- the period in which balancing adjustments must be made if certain events occur will be reduced from seven to five years.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	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 and households	This measure will not have a significant impact on individuals and households as the changes relate only to persons seeking to exploit BPRA.					
Equalities impacts	This measure only applies to those persons seeking to exploit BPRA and is not therefore expected to have an impact on any equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses or civil society organisations where claims are legitimate, as this measure confirms that only the actual direct costs of converting or renovating an unused business premises to bring it back into business use, i.e. the cost of construction and related professional services, should be relieved under BPRA. The impact will be on those businesses or civil society organisations who make BPRA claims which include elements of non-qualifying indirect expenditure such as the costs of raising finance or attracting tenants. It is possible that some BPRA schemes may no longer be considered viable as a result of this clarification.					
Operational impact (£m) (HMRC or other)	It is expected that the compliance burden on HM Revenue & Customs (HMRC) is likely to be reduced by any new legislation that is introduced as a result of this measure. In this event, it is anticipated that HMRC's operational costs will be correspondingly reduced.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The take-up and annual cost of BPRA is regularly monitored through boxes on tax returns and annual State aid reports to the European Commission.

Further advice

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

HM Revenue
& Customs

Capital allowances: mineral extraction allowances

Who is likely to be affected?

Businesses with a mineral extraction trade (MET) that may enter or leave the scope of UK tax.

General description of the measure

This measure introduces legislation relating to the treatment of mineral extraction allowances (MEAs) where the mineral extraction activity enters or ceases to be within the charge to UK tax.

Policy objective

This measure ensures that the treatment of MEAs is certain and consistent between businesses and aligns with the existing principles for plant and machinery allowances (PMAs). It will confirm that for the purposes of MEAs, a mineral extraction trade consists of activity within the charge to UK tax. This will prevent UK taxable profits being reduced by MEAs that are given in respect of activities where the profits are not subject to UK tax.

Background to the measure

The Government announced at Budget 2013 that, following the introduction of the Foreign Branch Exemption rules, it would consult informally on its proposals to align the treatment of assets for MEAs with that for assets eligible for PMAs where profits are not taxed in the UK.

Detailed proposal

Operative date

Under the Foreign Branch Exemption rules an election for exemption applies from the day on which, when the election is made, the next accounting period is expected to begin. The changes introduced by this measure will have effect on and after 1 April 2014 for businesses within the charge to corporation tax and 6 April 2014 for businesses within the charge to income tax.

Current law

Section 18A of Corporate Tax Act 2009 (CTA) allows a company to elect for the profits and losses of its foreign permanent establishment(s) (FPE) to be excluded from the calculation of profits chargeable to UK tax (FPE exemption).

Capital allowances are made available in respect of capital expenditure on the provision of plant and machinery for the purposes of qualifying activities. Activities of a company are only qualifying activities for capital allowances purposes to the extent that profits or gains from the activity are chargeable to UK tax.

Where a company carries on a business through an FPE and an election for exemption is made under section 18A CTA, the business carried on in the FPE is treated as a separate activity whose profits and gains are not chargeable to tax. No actual capital allowances can be claimed by the company in respect of any past or current capital expenditure on assets being used for the purposes of FPE activity.

There are however no specific rules for MEAs that deal with FPEs, UK Permanent Establishments, branches, or agencies of non-resident businesses.

Proposed revisions

Sections 160, 161, 394(2) and, 399 Capital Allowances Act 2001 (CAA) will be amended to confirm that, for the purposes of MEAs, a MET consists of activity that is within the charge to UK tax.

Section 431A CAA will be introduced to provide for activity of an exempt FPE to be treated as a separate MET for the purposes of MEA.

Section 431B CAA will introduce transitional rules for MEAs, similar to those for PMAs, so that where a disposal value is required to be brought into account, this would not, in most cases, give rise to a balancing allowance or balancing charge when a company elects into FPE exemption. However exceptionally, for some assets, the normal disposal value (typically market value) will be brought into account for capital allowance purposes.

Section 431C will stipulate that notional allowances are given automatically in calculating the profits or losses attributable to the exempt FPE, as if the exempt FPE were within the charge to UK tax.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	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 and households	This measure affects companies and does not impact on individuals and households.					
Equalities impacts	This measure is not expected to have any adverse impacts on the equality of groups with protected characteristics.					
Impact on business including civil society organisations	When the FPE exemption regime was introduced in 2011, it had impacts on around 150 companies owned by large UK multinational groups, plus a small number of companies owned by non-UK multinational groups that have established foreign branches from the UK. This measure will affect only a small subset of this group carrying on a MET, mainly those in the oil and gas sector. The administrative and compliance costs of introducing this change will be negligible. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be no material impact on HMRC running costs. This measure will be incorporated within routine IT and guidance changes.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be kept under review through existing arrangements for regular contact and communication with industry stakeholders.

Further advice

If you have any questions about this change, please contact Paul Philip on 03000 589279 (email: paul.philip@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Asset management: offshore non-UCITS funds

Who is likely to be affected?

Alternative investment funds (AIFs), as defined in regulation 3 of the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773) which transposes the Alternative Investment Fund Managers Directive (AIFMD)[1] into UK law.

General description of the measure

The measure will extend the scope of section 363A Taxation (International and Other Provisions) Act 2010 (TIOPA) so that it also applies to AIFs.

Policy objective

This measure will provide greater certainty on the tax residence of AIFs. In particular, this will provide comfort to managers who wish to operate AIFs under the AIFMD.

Background to the measure

This measure was announced as part of the UK's Investment Management Strategy (IMS) at Budget 2013. The IMS included a range of measures to improve the competitive position of the UK investment management industry.

A consultation document entitled *Residence of Offshore Funds - extending the scope of Section 363A Taxation (International and Other Provisions) Act 2010* was published on 22 July 2013 setting out the Government's prosposals. The consultation closed on 14 October 2013.

Detailed proposal

Operative date

This measure will be included in Finance Bill 2014. It is wholly relieving and will have effect on and after 5 December 2013.

Current law

Section 363A TIOPA treats offshore funds (as defined at section 355 TIOPA) that are undertakings for collective investment in transferable securities (UCITS) for the purposes of the UCITS Directive[2], as not being resident in the United Kingdom if they are resident in another Member State for the purposes of any tax imposed under the law of that State on income.

Proposed revisions

The scope of section 363A will be extended to include entities within the definition of an AIF, where they are established in a State other than the United Kingdom and treated as resident in that state for the purposes of any tax imposed on income.

This will address the two main concerns expressed in the responses to the consultation document, which were that the original proposal to extend the scope only to entities within

1 Article 4 of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers, OJ L 174/16, 1.7.2011, p.16.
2 Directive 2009/65/EC of the European Parliament and of the Council

the tax definition of an offshore fund was unnecessarily limiting, as was the reference to a requirement for the funds in scope to be managed by a UK AIF manager (AIFM).

Extending the scope to AIFs will encompass closed–ended entities (such as offshore investment trusts), funds that are carved out from the definition of an offshore fund, and umbrella funds with multiple subfunds or share classes.

Removing the requirement for a UK AIFM is consistent with the approach taken in the existing provisions for UCITS funds, and will provide certainty where entities undertaking management functions are branches of non-EU AIFMs or not within the definition of an AIFM at all, and for self-managed funds.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	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 and households	It is not expected that there will be any significant direct impact on individuals and households generally, as relatively few individuals invest in the sorts of funds that are within the scope of this measure.					
Equalities impacts	There is no evidence to suggest that the measure will have any adverse equalities impacts for any particular groups.					
Impact on business including civil society organisations	This measure is expected to have some positive negligible impact in reducing burdens for those fund managers affected by the proposals. There will be a negligible one off cost associated with familiarisation with the legislation change, but the businesses affected are relatively few in number and increasing the certainty on the tax residency of AIFs will reduce associated costs of compliance. This measure is not expected to have any impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this measure will incur any significant costs for HM Revenue & Customs (HMRC).					
Other impacts	Small and micro business assessment: there will be negligible costs and savings for small businesses as they form part of the population of affected fund managers. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC and HM Treasury will keep the measure under review and continue to liaise with industry from time to time to discuss the implementation of the proposed amendments, as part of ongoing engagement.

Further advice

If you have any questions about this change, please contact Wayne Strangwood on 03000 585493 (email: wayne.a.strangwood@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Loan relationships: release of debts: financial institutions in resolution

Who is likely to be affected?

A bank or other financial institution subject to the application of any of the stabilisation powers under Part 1 of the Banking Act 2009.

General description of the measure

This measure will amend the corporation tax rules on loan relationships that apply to cases where credits are not required to be brought into account on the release of debts. It will include the case where a debt is released as a result of the application of any of the stabilisation powers under Part 1 of the Banking Act 2009.

Policy objective

The existing rules ensure that a debtor company that is released from a debt as part of an insolvency arrangement is not taxed on the profit arising from the release. This change will support fairness in the tax system by ensuring that resolution by the Bank of England, which is a form of such arrangements, is treated in the same way.

Background to the measure

This measure was announced by the Commercial Secretary to the Treasury on 26 November 2013.

Detailed proposal

Operative date

The amended legislation applies with effect from the 26 November 2013.

Current law

Section 322 of the Corporation Tax Act 2009 (CTA) exempts a company that is party as debtor to a loan relationship from a credit on the profit arising on the release of that debt in certain circumstances where one of three conditions is met. The conditions are that the release is part of a statutory insolvency arrangement, in consideration of shares (or any entitlement to such shares) or the debtor meets one of the insolvency conditions. These currently include insolvent liquidation, administration and administrative receivership, the appointment of a provisional liquidator, and equivalent procedures outside the UK.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend section 322 CTA and to insert a new condition that the release takes place in consequence of the exercise of a stabilisation power under Part 1 of the Banking Act 2009.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	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 and households	This measure only applies to companies and will not have any impact on individuals and households.					
Equalities impacts	This measure only applies to companies and is not expected to impact on any equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses or civil society organisations. There will be no extra reporting requirements as a result of the legislation.					
Operational impact (£m) (HMRC or other)	HM Revenue & Customs will not incur any additional operational costs implementing this measure.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through information collected from corporate tax returns to ensure the legislation operates as intended.

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Further advice

If you have any questions about this change, please contact Fiona Hay on 03000 585882 (email: fiona.hay@hmrc.gsi.gov.uk) or contact Mark Lafone on 03000 585613 (email: mark.lafone@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Abolition of stamp duty reserve tax applied to collective investment schemes

Who is likely to be affected?

Managers of and investors in UK unit trusts and open ended investment companies (OEICs).

General description of the measure

The measure will abolish the stamp duty reserve tax (SDRT) charge for which fund managers are liable when investors surrender their units in UK unit trust schemes or shares in UK OEICs.

Policy objective

This measure supports the Government's objective of making the tax system more competitive by making the UK more attractive as a domicile for certain collective investment schemes.

Background to the measure

The measure was announced at Budget 2013.

Detailed proposal

Operative date

The change will have effect on and after 30 March 2014.

Current law

The Schedule 19 SDRT is levied on the managers of UK-domiciled unit trusts and OEICs.

A fund manager will pay 0.5 per cent SDRT on the market value of units they buy back from one investor and sell on to another. The amount of duty is then reduced by the proportion of the fund not invested in UK equities.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to abolish Part 2 of Schedule 19 to Finance Act (FA) 1999. Consequential amendments will be made to primary legislation in Finance Bill 2014. Consequential amendments to secondary legislation will be made by statutory instrument.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>-</td><td>-145</td><td>-145</td><td>-150</td><td>-160</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is likely to have a positive effect on investments and employment. In addition this measure is likely to increase the attractiveness of the UK Asset Management industry.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure directly affects managers of collective investment schemes. There will be an indirect effect on individuals who invest in such schemes. This measure could improve returns on investments (including pensions) but would otherwise have no impacts on individuals or households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure removes a charge and simplifies rules for managers of collective investment schemes rather than particular types of individuals. As such the proposed change is not expected to have a disproportionate impact on any protected equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is expected to have a negligible impact on businesses. There are around 100 fund managers in the UK. Fund managers control around 2,500 schemes liable to SDRT under Schedule 19.

Schemes that are affected will pay less tax. The change removes a charge that the industry regards as complex and burdensome. All schemes that hold investments in other schemes may be affected by this change.

The abolition of Schedule 19 is likely to attract more UK and non-UK asset managers to launch UK based fund products leading to an increase in the number of jobs in support services around the UK.

Compliance costs are expected to be negligible.

This measure has no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">This measure will have a negligible cost to HM Revenue & Customs.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: the impact on small businesses will be a positive one as the legislation applies to all sizes of businesses.

Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

The impact of this measure will be monitored through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Jeremy Schryber on 03000 585762 (email: jeremy.schryber@hmrc.gsi.gov.uk).

Abolition of stamp duty and stamp duty reserve tax on growth market shares

Who is likely to be affected?

Persons purchasing UK securities traded on a ‘recognised growth market’ will be affected by the measure.

General description of the measure

The measure will relieve from stamp duty and stamp duty reserve tax (SDRT) – collectively, stamp tax on shares (STS) – trades made on a ‘recognised growth market’, including the Alternative Investment Market (AIM) and the ICAP Securities & Derivatives Exchange (ISDX) Growth Market.

Policy objective

The measure will help boost investor participation in equity growth markets and improve the conditions for growing companies raising equity financing.

Background to the measure

The measure was announced at Budget 2013.

Detailed proposal

Operative date

The measure will have effect on and after 28 April 2014.

Current law

Schedule 13 Finance Act 1999 imposes stamp duty on instruments (formal written documents) that transfer on sale, stock or marketable securities for consideration of more than £1,000.

Section 87 Finance Act 1986 introduced SDRT on agreements to transfer chargeable securities for consideration in money or money’s worth. It applies when a transfer is undertaken without an instrument being executed. ‘Chargeable securities’ are defined in section 99 Finance Act 1986.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to abolish stamp duty and SDRT on transfers of unlisted securities traded on a ‘recognised growth market’.

A market will qualify as a 'recognised growth market' if it meets at least one of two main conditions:

- the majority of the companies on the market have market capitalisations of less than £170 million; or
- the market's rules of admission require companies to demonstrate at least 20 per cent compounded annual growth in revenue or employment over the previous three financial years preceding admission.

Summary of impacts

<table>
<tr><td rowspan="4">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>+5</td><td>-170</td><td>-170</td><td>-170</td><td>-175</td><td>-175</td></tr>
<tr><td>nil</td><td>+15</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="6">The first row shows the previously published costing of the abolition of STS on AIM and other junior markets. These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2013.

The second row reflects the confirmation of a 28 April 2014 start date (initially costed as 1 April 2014). The Office for Budget Responsibility has included these numbers in its forecast.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure will help boost investor participation in equity growth markets and improve the conditions for growing companies raising equity financing.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">It is not expected that this measure will have any significant impact on individuals or households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">It is not expected that this measure will have any impact on groups sharing protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">Share trading in eligible companies quoted on a 'recognised growth market' will be relieved from STS. The administrative burden on business will fall primarily on share brokers and is expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The additional costs for HM Revenue & Customs (HMRC) in implementing this change are anticipated to be negligible.

There will be some systems changes required in CREST, the settlement service which collects STS on behalf of the Exchequer under agreement.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

The measure will be monitored as part of HMRC's normal assurance process.

Further advice

If you have any questions about this change, please contact Anne Berriman on 03000 585901 (email: anne.berriman@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Stamp duty land tax: charities relief

Who is likely to be affected?

Charities which purchase interests in UK land jointly, as tenants in common, with persons who do not have charitable status (non-charity purchasers).

General description of the measure

The measure will make it clear that partial relief from stamp duty land tax (SDLT) is available where a charity purchases land jointly, as tenants in common, with a non-charity purchaser. Broadly, relief from SDLT will be available on the charity's share of the purchase, provided that the other conditions for the relief are met.

Policy objective

This measure provides for partial charities relief to be available in line with the judgment of the Court of Appeal in the cases of The Pollen Estate Trustee Company Limited and Kings College London v HM Revenue & Customs (HMRC), whilst also ensuring that the availability of partial relief cannot be exploited for avoidance purposes.

Background to the measure

The changes are being made in response to the Court of Appeal judgment. The Court ruled that, where a charity purchases an interest in land jointly with a non-charity purchaser, the charity can claim relief on its share of the land.

Detailed proposal

Operative date

These changes will have effect for transactions with an effective date on or after the date that Finance Bill 2014 receives Royal Assent.

Current law

Schedule 8 to the Finance Act 2003 provides for relief from SDLT for purchases by charities provided that:

- the purchaser (the charity) intends to hold the interest in land for qualifying charitable purposes; and
- the transaction has not been entered into for the purpose of avoiding SDLT.

Qualifying charitable purposes are defined as:

- for use in the furtherance of the charitable purposes of the charity or another charity, or
- as an investment from which the profits are applied to the charitable purposes of the purchaser.

Schedule 8 also provides for:

- relief where the first condition above is not met but the purchaser intends to hold the greater part of the property for qualifying charitable purposes; and
- withdrawal of the relief if, within three years of purchase, the purchaser ceases to be a charity or the property is used or held by the purchaser for non-qualifying purposes.

Proposed revision

These changes are being made in response to the Court of Appeal judgement which ruled that, where a charity purchases an interest in land jointly with a non-charity purchaser, the charity can claim relief on its share of the land.

Legislation will be introduced in Finance Bill 2014 to amend Schedule 8 to clarify how partial relief will apply. The changes will provide that:

- where a charity purchases an interest in land jointly, as tenants in common (or, in Scotland, as owners in common), with a non-charity purchaser, relief will be available to the extent that the purchaser is a charity, provided that the charity intends to holds its share of the land for qualifying charitable purposes;
- the amount of relief available will be based on the lower of the proportion of the total chargeable consideration paid by the charity, or any person connected with them, or the proportion of the chargeable interest held by the charity; and
- SDLT, in respect of the non-charity purchasers share in the land, will be chargeable at the rate applicable to the total consideration paid for the property, by both the charity and non-charity purchaser or any persons connected with them.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	There is no impact on individuals because the measure will only affect charities.					
Equalities impacts	No different impacts on any protected groups have been identified.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. This change will benefit charities that purchase interests in land jointly, as tenants in common, with non-charity purchasers. The charity will be able to claim relief on its share of the land. It is estimated that fewer than 100 charities per year will be affected by this change. The cost to charities of complying with this change is expected to be negligible.					
Operational impact (£m) (HMRC or other)	The additional costs for HMRC in implementing this change are expected to be negligible.					
Other impacts	Other impacts have been considered and none have been identified.					

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 Jane Ewart on 03000 585790 (email: jane.ewart1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp duty: House of Commons resolution provisions

Who is likely to be affected?

No customers will be affected as the measure purely concerns the parliamentary machinery for introducing new legislation.

General description of the measure

The measure will amend the provisions relating to House of Commons resolutions for stamp duty contained in Finance Act 1973. These resolutions, which can be used to vary or abolish stamp duty, have temporary statutory effect until replaced by an Act of Parliament.

Policy objective

The measure ensures that, following the change to spring to spring parliamentary sessions, any resolution for stamp duty would retain its practical effect and allow sufficient time for parliamentary scrutiny.

Background to the measure

In 2010, the Government announced a change to spring to spring parliamentary sessions as part of a wider reform to establish fixed-term five year Parliaments. The new timetable was implemented in 2012.

The change to spring to spring sessions means that Parliament may be prorogued each year between the Budget, when a resolution might be passed, and the enactment of the Finance Bill. Section 50 Finance Act 1973, which contains the provisions relating to resolutions for stamp duty, is now being amended to ensure that such a resolution would remain effective until replaced by an equivalent provision in the Finance Act.

Similar issues in relation to resolutions for other taxes and duties covered by the Provisional Collection of Taxes Act 1968 (PCTA) were resolved by legislation introduced by Finance Act 2011.

Detailed proposal

Operative date

The measure will have effect on the date that Finance Bill 2014 receives Royal Assent.

Current law

Section 50 Finance Act 1973 gives temporary statutory effect to House of Commons resolutions which vary or abolish stamp duty. A resolution commences on an agreed date and ceases to have effect on:

- the 30th sitting day of the House of Commons, after the resolution is passed, if a Bill containing the provisions of the resolution has not been read a second time, or if a Bill has not been amended so as to include the provisions;
- the rejection of the provisions in a Bill, which contain the substance of the resolution;
- the expiration of six months from commencement; or
- the dissolution or prorogation of Parliament.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend the statutory effect of resolutions for stamp duty; and is in line with the changes made to the PCTA by Finance Act 2011 as regards resolutions for other taxes and duties:

- a resolution will continue to have statutory effect for a maximum of seven months from commencement, providing more time for parliamentary scrutiny – this takes account of the small possibility that Royal Assent may not always be achievable by the summer recess; and
- a resolution will continue to have statutory effect following the end of a session, if a Bill containing the provisions of the resolution is read a second time, or if a Bill is amended to include such provisions, and the Bill is carried cover into the next session and re-introduced in the first 30 sitting days.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 impacts.					
Impact on individuals and households	There will be no impact on individuals or households.					
Equalities impacts	It is not expected that this measure has any impacts on groups sharing protected characteristics					
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)	This measure will not have any operational impacts.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

As this measure simply ensures that any resolution for stamp duty would retain its practical effect, there is no need for monitoring or evaluation.

Further advice

If you have any questions about this change, please contact Anne Berriman on 03000 585901 (email: anne.berriman@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Community Amateur Sports Clubs: changes to rules

Who is likely to be affected?

Sports Clubs that are registered, or are considering registering, with HM Revenue & Customs (HMRC) as Community Amateur Sports Clubs (CASCs); CASC members; companies that make donations to, or sponsor, CASCs.

General description of the measure

The measure introduces an updated set of the eligibility conditions that apply to all sports clubs which are registered, or wish to register, as CASCs. The exemptions for trading and property income will be increased. Corporate Gift Aid on gifts of money will be extended to include gifts to CASCs.

Policy objective

The original objectives of the CASC scheme were to increase and sustain sports participation, and address other priorities, in particular health, crime reduction, volunteering, community building and promoting social inclusion.

HMRC reviewed the original rules and guidance and concluded that some of the eligibility rules were difficult for both clubs and HMRC to apply correctly. As a result of HMRC's review, the Government decided to amend the rules. This measure makes the rules for CASCs simpler, by specifying more clearly the eligibility criteria for being registered as a CASC and encapsulates the original objectives.

Background to the measure

Schedule 21 to Finance Act 2013 amended the conditions which sports clubs must meet to be registered as CASCs. It introduced powers to bring in more detailed rules through regulations.

A public consultation on the new detailed rules, *Community Amateur Sports Clubs* was published on 3 June 2013 and closed on 12 August 2013.

A summary of responses to the consultation document, including the Government's response, was published on 25 November 2013 following a Written Ministerial Statement on the same day.

Detailed proposal

Operative date

The regulations making changes to the eligibility conditions and the order increasing the exemptions for trading and property income will be published in draft in early 2014.

The proposed extension of corporate Gift Aid to gifts to CASCs will have effect for gifts made on or after 1 April 2014.

Where there are abusive arrangements between a company controlled by a CASC and a member of the CASC, the amount of a qualifying donation will be restricted. Abusive arrangements occurring before 1 April 2014 will be taken into account in calculating the value of a qualifying donation that relates to the same accounting period.

Current law

The current legislation governing CASCs is contained in Chapter 9 of Part 13 of the Corporation Tax Act (CTA) 2010, as amended by Schedule 21 to Finance Act (FA) 2013.

Schedule 21 to FA 2013 allows the Treasury to change the eligibility conditions by regulations and to change the tax exemptions for CASCs by Order.

The legislation on corporate Gift Aid is contained in Chapter 2 of Part 6 of the CTA 2010.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to extend corporate Gift Aid on qualifying gifts of money to charities to gifts of money to CASCs.

The proposed regulations will amend the current eligibility conditions which apply to all CASCs to provide greater clarity and certainty. The proposed regulations will specify a maximum amount for costs associated with membership of a club, use of its facilities and full participation in its activities. They will also set a maximum upper limit that a club can charge in membership fees. CASCs will be allowed to pay players so long as the total payments made to all players in a year, including any benefits, are no more than £10,000.

Clubs will also be allowed to make travel and subsistence payments to players, subject to certain restrictions.

The regulations will also provide detailed rules on a new eligibility condition relating to the amount of social income a club can receive.

The maximum amount of receipts that a club can receive in order to qualify for the exemption from corporation tax on trading income will be increased from £30,000 to £50,000.

The maximum amount of receipts that a club can receive in order to qualify for the exemption from corporation tax on income from property will be increased from £20,000 to £30,000.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	Some individuals on lower incomes will find it is cheaper to participate in their chosen sport.					
Equalities impacts	No identified impacts on people with protected characteristics.					
Impact on business including civil society organisations	Clarification of the rules may mean that some new clubs find them easier to operate and therefore enter the regime. This measure is expected to have a negligible impact on businesses and civil society organisations. Some clubs may need to make changes to their structure or their operations in order to retain their CASC status. There are around 6,000 existing CASCs that may have limited one-off costs as a result of complying with the new rules.					

Operational impact (£m) (HMRC or other)	It is not expected that implementing these changes will incur any significant additional costs for HMRC.
Other impacts	Other impacts have been considered but none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with taxpayer groups affected by the measure. The Tax Information and Impact Note will be reviewed and updated, if necessary, when draft regulations are published in the new year.

Further advice

If you have any questions about this change, please contact Jo Shelling on 03000 585216 (email: joanne.shelling@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Remote gambling taxation reform

Who is likely to be affected?

This measure will affect all gambling operators who supply remote gambling to UK customers. Some terrestrial gambling operators will also be affected.

General description of the measure

The measure will change general betting duty (GBD), pool betting duty (PBD) and remote gaming duty (RGD) so that they are charged on a place of consumption basis. Some administrative changes will also be made to the three duties, and the double taxation relief for remote gambling introduced at Budget 2012 will be repealed.

Policy objective

This measure will ensure all UK facing remote gambling operators pay UK gambling tax on the gambling profits generated from UK customers, no matter where in the world the operator itself is located.

Background to the measure

This measure was announced at Budget 2012. A consultation ran between 5 April 2012 and 28 June 2012.

A summary of responses to the consultation and draft Finance Bill legislation were published on 16 August 2013 on the GOV.UK website.

Detailed proposal

Operative date

This measure will have effect on and after 1 December 2014.

Current law

GBD, PBD and RGD are set out in the Betting and Gaming Duties Act 1981 (BGDA), in sections 1-12, 26A-35 and Schedules A1, 1 and 4B respectively.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 that will replace the provisions in BGDA so that these three duties will be charged on a place of consumption basis. Secondary legislation will also be introduced as necessary and appropriate.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>-15</td><td>-20</td><td>+55</td><td>+240</td><td>+270</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have significant broader economic impacts.

This measure will impose a duty liability on all remote gambling operators, wherever they are based, who derive receipts from UK customers. Remote gambling operators based in the UK may benefit from improved competitiveness, as they will no longer be liable for UK gambling taxes on their gross gambling profits derived from foreign customers.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The impact on individuals and households in the UK is expected to be negligible as this measure is not expected to have a significant impact on the availability, price and payouts of remote gambling.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure is not expected to have different impacts on any protected equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">For both UK and non-UK based operators there are likely to be negligible one-off costs associated with familiarisation with the new tax system, license registrations and software costs. Ongoing negligible costs will arise from separating gambling activity into UK and non-UK customers for tax purposes.

The measure is expected to have no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HM Revenue & Customs (HMRC) is developing a new IT system to support these three duties, with associated costs of approximately £5 million. Excluding this cost, HMRC will manage the costs associated with this reform within existing resources.</td></tr>
<tr><td>Other impacts</td><td colspan="5">Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

Consideration will be given to evaluating any benefits, revenue effects and changes in administrative burdens arising from the remote gambling taxation reforms after five years of monitoring data have been collected and analysed. In the meantime the effects of the remote gambling taxation reforms will be kept under review.

Further advice

If you have any questions about this change, please contact Andy Grimsley on 03000 588028 (email: andy.grimsley@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Vehicle Excise Duty: heavy goods vehicles and reduced pollution certificates

Who is likely to be affected?

Owners and operators of heavy goods vehicles (HGVs) within the HGV Road User Levy and other vehicles with reduced pollution certificates (RPCs), including buses.

General description of the measure

Vehicle Excise Duty (VED) rates for HGVs within the HGV Road User Levy will be reduced and re-structured. RPC VED discounts will be withdrawn over time.

Policy objective

The measure will reduce VED to offset the cost of the HGV Road User Levy. RPC VED discounts are being withdrawn to support both these reforms and the environmental integrity of the VED system.

Background to the measure

The Department for Transport consulted on the introduction of the levy for HGVs of 12 tonnes and over, and the principle of an accompanying reduction in VED rates and cessation of RPC VED discounts in October 2012.

The measure was announced at Budget 2013.

The HGV Road User Levy Act 2013 implements the Levy from 1 April 2014, introducing a fairer arrangement for UK hauliers by ensuring that foreign hauliers pay to use roads in the UK.

Detailed proposal

Operative date

The reductions in HGV VED rates will apply to vehicle licences taken out on and after 1 April 2014.

RPC VED discounts conforming with the Euro I, II and III pollutant emissions standards will cease with effect from 1 April 2016, except for HGVs in the Levy whose discounts will cease with effect from 1 April 2014.

RPC VED discounts conforming with the Euro IV, V and VI standards will cease with effect from 1 January 2017, except for HGVs in the Levy whose discounts will cease with effect from 1 April 2014 – grants will apply to these vehicles until 31 December 2016.

Current law

Parts III, VI and VIII of Schedule 1 to the Vehicle Excise and Registration Act 1994 (VERA) set rates of VED for HGVs, and discounted rates of VED for reduced pollutant emissions buses and HGVs.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Schedule 1 to VERA to reduce VED rates for HGVs.

Schedule 1 to VERA will also be amended to set cessation dates for RPC VED discounts.

Secondary legislation will change the definition of HGVs' maximum permissible laden weight so that HGV VED bandings bring the maximum number of HGVs into the lowest possible mandatory rates of taxation under European law.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+25	+25	+25	+25
	These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for 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 and households	This measure does not affect private owners of HGVs over 12 tonnes who do not use their vehicles for commercial purposes.				
Equalities impacts	This measure is not expected to impact on the equality of groups with protected characteristics.				
Impact on business including civil society organisations	This measure is expected to result in negligible one-off costs as businesses and civil society organisations familiarise themselves with the rate change and update administrative systems.				
Operational impact (£m) (DVLA)	A cost of £2 million is expected for managing and implementing changes to Driver and Vehicle Licensing Agency operational systems.				
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 Andy West on 020 270 4697 (email: andy.west@hmtreasury.gov.uk).

HM Revenue
& Customs

Vehicle Excise Duty: abolishing the paper tax disc

Who is likely to be affected?

Individuals and organisations that own a motor vehicle (cars, vans, motorcycles, buses, heavy goods vehicle, etc)

General description of the measure

Motorists will no longer receive a paper tax disc to fix and exhibit to their vehicle as proof that Vehicle Excise Duty (VED) has been paid in respect of their vehicle.

Policy objective

The benefits of a paper tax disc have become redundant over time and abolition will provide administrative cost savings to the taxpayer and business, and removal of an administrative inconvenience to motorists.

Background to the measure

This measure was announced at Autumn Statement 2013.

Since 1 January 1921 a paper based VED licence (tax disc) has been issued for motorists to display on their vehicle windscreen as evidence that VED has been paid. The Driver and Vehicle Licensing Agency (DVLA) and the police now rely on DVLA's electronic vehicle register and tools like Automatic Number Plate Recognition (ANPR) cameras to support VED compliance.

Detailed proposal

Operative date

The measure will have effect from 1 October 2014 and will apply to all vehicles.

Current law

Section 1 of the Vehicle Excise and Registration Act 1994 (VERA) provides for the charging of VED on the taking out of a vehicle licence.

Under section 33(1) of VERA it is an offence for a person to use or keep on a public road a vehicle in respect of which VED is chargeable and there is not fixed to and exhibited on the vehicle a vehicle licence for that vehicle which is in force. Section 33(1A) of VERA contains a similar offence in relation to a nil licence.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend VERA to remove the legal requirement for motorists to fix and exhibit the VED licence to their vehicle in respect of which VED is chargeable including for motorists whose VED liability is nil.

Separately, secondary legislation will be introduced after Royal Assent is given to Finance Bill 2014 to make amendments to the Roads Vehicles (Registration and Licensing) Regulations 2002.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>negligible</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="6">This measure is not expected to have an Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The measure removes from motorists the administrative inconvenience of having to acquire a paper licence and display this on their vehicle windscreen.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The measure applies equally to all motorists and there are no particular impacts on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The abolition of the tax disc would benefit owners of vehicles used for business purposes around £7 million per year on aggregate. The benefit is informed by stakeholder engagement with the British Vehicle Rental and Leasing Association and is made up of no longer re-posting the tax disc to drivers, the reduced cost of returning the disc for a refund and reduced staff costs. The Post Office will benefit from savings to costs of storing, securing and transporting the paper based vehicle licence.
<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>£7m</td><td>5</td></tr>
<tr><td>Total Benefit (PV)</td><td>£33m</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£33m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0m</td><td>£3.5m</td><td>-£3.5m</td></tr>
<tr><td colspan="3">Note: The measure will take effect from 1 October 2014 so the administrative burden is half of the annual saving.</td></tr>
</table></td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The fixed cost of abolition for the DVLA ranges from between £3 million and £6 million for ceasing the issue of a tax disc and £10 million for amending the refund process. The ongoing savings to the DVLA will be around £7 million per annum from no longer producing, issuing and posting the tax disc.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Other impacts have been considered and none have been identified.</td></tr>
</table>

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 DVLA on 0300 790 6802 or visit the GOV.UK website.

Vehicle Excise Duty: introducing a direct debit payment scheme

Who is likely to be affected?

Individuals and organisations that own a motor vehicle (cars, vans, motorcycles, buses, heavy goods vehicle, etc).

General description of the measure

Motorists will be able to pay their Vehicle Excise Duty (VED) by direct debit should they wish to do so.

Policy objective

The direct debit scheme will allow motorists to spread their VED costs, and help families and businesses in managing their finances. The scheme will support the Government's core vision to maximise the digital delivery of vehicle licences and contribute to tax administrative efficiency savings.

Background to the measure

Budget 2012 announced the Government's aim to develop a direct debit scheme to allow motorists to spread their VED payments. The Government announced in Autumn Statement 2013 that from 1 October 2014 motorists will be able to pay their VED by direct debit should they wish to do so.

Currently, motorists can pay their VED either annually or in two equal six monthly payments. Payments can be made online, on the phone, at the Post Office, at localised Driver and Vehicle Licensing Agency (DVLA) offices or by post to the DVLA Head Office. The new direct debit scheme will allow motorists to pay their VED either monthly, bi-annually or annually and enjoy the administrative convenience of having their licence renewed automatically.

At present, paying VED bi-annually attracts a surcharge of 10 per cent. Biannual and monthly payments made by direct debit will attract a lower 5 per cent surcharge.

Detailed proposal

Operative date

The measure will have effect from 1 October 2014 and will apply to all vehicles except for brand new vehicles, vehicles exempted from paying VED altogether, vehicles registered under the DVLA's car fleet scheme, and vehicles paying the HGV Levy. The direct debit scheme will be extended to vehicles paying the HGV Levy at a future date.

Current law

The Vehicle Excise and Registration Act 1994 (VERA) provides for the charging of VED on the taking out of a vehicle licence.

Section 4(1) of VERA provides that VED is payable at the annual rate of duty where a vehicle licence is taken out for a period of twelve months. Under section 4(2) of VERA, the rate of VED for licences taken out for a six month period is slightly higher. The rate in respect of each of these licences is 55 per cent of the annual rate.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend VERA to provide for motorists to pay their VED by direct debit should they wish to do so, and to provide for motorists to pay a 5 per cent surcharge when making direct debit payments either monthly or bi-annually.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-5	-15	-15	-20	-20
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	It is envisaged that this measure will help motorists to spread their VED costs, and will support families and businesses in managing their finances. Motorists who currently buy a six month VED licence will pay a lower surcharge if in future they instead choose to pay by monthly or bi-annual direct debit payment. A typical Ford Focus driver who currently pays VED bi-annually and continues to do so would be £9 better off over the year in the direct debit scheme. All drivers that currently pay their VED annually can either choose to continue to remain outside the direct debit scheme or pay annually by direct debit, with no change in their VED payment levels.					
Equalities impacts	The measure applies equally to all motorists and there are no particular impacts on people with protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. There are expected to be negligible one off costs from businesses in familiarising themselves with the new policy and in setting up VED direct debit payments if they wish to, and no additional ongoing costs. The new direct debit scheme will however allow businesses and motorists to enjoy the administrative convenience of having their VED licence renewed each year automatically.					
Operational impact (£m) (DVLA or other)	DVLA estimate that the scheme will cost £8 million to set up and will deliver annual net efficiency savings of £2 million by year three.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through information collected from VED receipts.

Further advice

If you have any questions about this change, please contact DVLA on 0300 790 6802 or visit the GOV.UK website.

HM Revenue
& Customs

Climate change levy: exemption for energy used in metallurgical and mineralogical processes

Who is likely to be affected?

Businesses carrying out metallurgical and mineralogical processes. Suppliers of taxable commodities liable to account for the climate change levy (CCL) on the energy used in those processes.

General description of the measure

The measure will introduce a new exemption from the CCL for supplies of taxable commodities used in metallurgical and mineralogical processes. As a result, certain existing reliefs from CCL, including the current lower rate of 20 per cent that applies to supplies of taxable commodities used in metal recycling, will no longer be needed and will be repealed.

The Environment Agency will in due course be withdrawing Climate Change Agreements (CCAs) for those eligible processes that will be covered by the new exemption. In order to prevent the unintended consequence that some businesses may find themselves liable to enrol in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme when the CCAs are withdrawn, an exemption to the CRC scheme will be introduced with the same scope as the new CCL exemption. The Department of Energy & Climate Change (DECC) is consulting on proposed amendments to the CRC Scheme.

Policy objective

The measure will ensure the UK tax treatment of these highly energy intensive processes is in line with tax treatments elsewhere in the EU, thereby reducing any distortion of competition.

Background to the measure

The CCL was introduced on 1 April 2001. It taxes electricity, natural gas, solid fuels and liquid petroleum gas when used as fuels. Its purpose is to encourage energy efficiency.

The Government announced at Budget 2013 that it would introduce an exemption from the CCL for energy used in metallurgical processes (which include metal recycling) and mineralogical processes, from 1 April 2014. It also announced that it would seek views from industry.

The CCA scheme was introduced at the same time as the CCL. Under the scheme, in return for meeting energy efficiency or carbon reduction targets energy intensive industries conducting eligible processes could claim reduced rates of CCL. The reduced rates are currently 10 per cent of the full rate for electricity and 35 per cent of the full rates for other taxable commodities. Businesses participate in the scheme on the basis of an agreement with the Environment Agency.

Detailed proposal

Operative date

The new exemption will have effect for relevant supplies of taxable commodities made on or after 1 April 2014. The repeal of redundant CCL reliefs (excluding the changes to CCAs) will have effect from the same date, as will the exemption to the CRC scheme for metallurgical and mineralogical processes. Withdrawal of the CCAs covering these processes will take place after 1 April 2014 at a date or dates to be determined.

Current law

Schedule 6 to the Finance Act 2000 sets out the main primary legislation provisions for CCL. Paragraph 18 provides that the Treasury may make regulations providing for an exemption for non fuel and mixed uses of taxable commodities. Paragraphs 43A and 43B set out the conditions for a lower rate of CCL for supplies of taxable commodities used in metal recycling processes. Paragraph 51 sets out the participation criteria for the CCA scheme, and the Schedule to the Climate Change Agreements (Eligible Facilities) Regulations 2012 (SI 2012/2999) (the eligible facilities regulations) lists the relevant processes and activities.

The Climate Change Levy (Fuel Use and Recycling Processes) Regulations 2005 (SI 2005/1715) (the fuel use regulations) are the regulations made under paragraph 18 of Schedule 6. Schedule 1 Part A of these regulations specifies the non-fuel exemptions and Schedule 1 Part B specifies the mixed use exemptions.

Part 3 of, and Schedule 1 to the CCL (General) Regulations 2001 (SI 2001/838) ('the general regulations') provide for the supplier certification regime to apply to various reliefs from CCL (including the lower rate for metal recycling processes and the exemptions for non-fuel and mixed use). This is the means by which certain CCL reliefs are claimed by businesses and administered by energy suppliers.

The CRC Energy Efficiency Scheme Order 2013 (SI 2013/1119) (the CRC Order) sets out the conditions of operation for the current version of the CRC scheme.

Proposed revisions

Legislation in Finance Bill 2014 will introduce a new exemption for the energy used in metallurgical and mineralogical processes.

The exemption will be defined by reference to the NACE statistical classification of economic activities. For metallurgical processes the exemption will apply to energy used in processes falling within the explanatory notes to Division 24 of NACE revision 2 and includes manufacture from scrap and waste. It will also apply to energy used in certain processes falling within Group 25.5 and Group 25.6 of Division 25. As a result, metallurgical processes will include all basic metal forming processes from the smelting of ores or the melting of scrap metal through to the rolling and casting of hot metal to produce ingots, bars and similar products, as well as other energy intensive processes such as forging and galvanising.

For mineralogical processes, the exemption applies to energy used in processes falling within Group DI26 of NACE revision 1. Mineralogical processes will therefore include the manufacture of glass and ceramic products, as well as building materials such as cement and plaster.

Finance Bill 2014 will also make a number of amendments to remove provisions that will become redundant as a result of the new exemption. It will revoke paragraphs 43A and 43B of Schedule 6 to Finance Act 2000 and remove references to the lower rate for metal recycling elsewhere in the schedule.

Finance Bill 2014 will also amend secondary legislation. The fuel use regulations will be amended to remove the references to certain metals. References to the revoked exemptions will be removed from the general regulations. Part 3 of, and paragraph 2 of Schedule 1 to these regulations will also be amended to enable energy suppliers to apply the exemption to supplies of taxable commodities made to those involved in undertaking metallurgical and mineralogical processes.

After 1 April 2014, at a date to be determined, Treasury regulations will be laid to amend Paragraph 51 of Schedule 6 to Finance Act 2000 and a subsequent amendment will be made to the eligible facilities regulations, to enable the Environment Agency to withdraw CCAs from eligible processes that will become covered by the new exemption.

The CRC Order will be amended during 2014 to exempt metallurgical and mineralogical processes on the same basis that they will be exempt from the CCL. DECC is consulting on this and other proposed changes to the operation of the scheme. They published a consultation document on 20 November 2013, *Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sectors*.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">This measure is expected to decrease receipts by approximately £20 million per annum from 2014-15. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2014.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is expected to improve the international competitiveness of firms in the metallurgical and mineralogical sectors. This measure is not expected to have wider significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">There is no impact on individuals and households because the beneficiaries of this measure are industrial concerns.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">It is not expected that this measure will have any impact on any of the protected groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure is expected to have a negligible impact on businesses and civil society organisations. It is expected that several hundred firms will be affected by the measure, many of which already hold a CCA. Firms not covered by a CCA will be required to report additional information to their energy suppliers once every 5 years to claim the new CCL exemptions. Costs to these firms are expected to be negligible. Moreover, offsetting these costs, firms that will become exempt from CCL and which already hold a CCA will be required to report less information once the measure is introduced.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The additional costs and savings for HMRC in implementing this measure are expected to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Small and micro business assessment: it is expected this measure will have a negligible impact on small and micro businesses.

Other impacts have been considered and none have been identified.</td></tr>
</table>

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 measure, please contact Andy Jameson on 03000 586082 (email: andy.jameson@hmrc.gsi.gov.uk).

HM Revenue
& Customs

VAT: place of supply and the introduction of the Mini-One Stop Shop

Who is likely to be affected?

Suppliers of broadcasting, telecommunications and e-services (BTE) to non-business customers.

UK consumers who receive BTE supplies.

Operators of e-service marketplaces that act as intermediaries in the supply of telecoms or e-services.

Non-taxable legal persons, which are currently regarded as belonging where they are legally constituted.

General description of the measure

This measure is the final part of the VAT package of changes agreed unanimously by member states in 2008.

Currently intra-EU supplies of BTE services to non-business customers are subject to VAT in the member state where the supplier belongs. From 1 January 2015 this measure changes the member state where the VAT is due to that where the customer belongs. This will ensure that UK consumers of these services will pay UK VAT no matter where the supplier of those services belongs.

The UK will amend its agency VAT legislation to implement the rules on taxable persons acting in their own name on behalf of another when supplying telecommunication or e-services.

The place of establishment for non-taxable legal persons will become where their central functions are carried out or where they have a relevant establishment, rather than where they are legally constituted.

As the place of supply rule change could increase the administration costs of BTE suppliers, because they are potentially liable to register and to account for VAT in each member state where they have customers, a business simplification IT scheme called the Mini-One Stop Shop (MOSS) will be implemented across the EU from 1 January 2015. The MOSS will give suppliers the option to register in just one member state and to account for the VAT due on supplies of BTE services in respect of all their EU customers in the other member states on a single MOSS VAT Return.

Policy objective

The measure will make business to consumer (B2C) supplies of BTE services taxable where they are consumed, thereby removing an incentive for businesses to locate offshore. This will level the playing field for UK BTE suppliers and is consistent with the Government's aim of fairness in the tax system. The MOSS business simplification scheme is intended to reduce the administrative burdens and costs associated with this rule change and multiple VAT registrations for BTE suppliers, particularly for small and medium enterprises (SMEs).

Background to the measure

The measure was announced at 2013 Budget. Business input has been provided through joint business/HM Revenue & Customs (HMRC) groups.

Detailed proposal

Operative date

The measure will have effect in relation to supplies made on or after 1 January 2015. EU and non-EU businesses will be able to register for the MOSS scheme from October 2014. The current VAT on e-Services (VoES) scheme for non-EU businesses will be replaced by the MOSS on 1 January 2015 and existing VoES users may transfer to the new scheme.

Current law

All references are within the VAT Act 1994 (VATA).

Section 7A(2)(b) details the current general rule for the place of supplies of services to anyone who is not a relevant business person, being the country where the supplier belongs. Section 7A(4) defines who is a relevant business person.

Section 9 details the rules for determining where a person belongs, whether they are the supplier or recipient of a supply of services.

Schedule 4A defines the special rules that apply to the determination of the place of supply of services. Paragraph 15 applies to e-services supplied from outside the EU to a non-business person in the EU.

Section 3A and Schedule 3B provide for the VoES that applies to suppliers belonging outside the EU but making supplies of e-services to a non-business person in the EU.

Section 47(3) relates to supplies of services through agents/intermediaries.

Proposed revisions

Secondary legislation will amend paragraph 15 of Schedule 4A to VATA 1994 which will change the place of supply of BTE services to a person who is not a relevant business person.

Legislation will be introduced in Finance Bill 2014 to amend VATA 1994 for the supplies of telecommunications and e-services through intermediaries; to introduce MOSS for supplies of BTE services; to extend the VoES registration scheme; and to change the place of belonging of a non-taxable legal person.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>negligible</td><td>+70</td><td>+300</td><td>+315</td><td>+330</td></tr>
<tr><td colspan="5">The Office for Budget Responsibility has included these numbers in its forecast. This measure supports the Exchequer in its commitment to protect revenue.

The MOSS element of the measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure should have positive economic impacts by minimising distortions to the location of the economic activity and increasing competition between large and smaller suppliers within the sectors affected.</td></tr>
</table>

Impact on individuals and households	This measure will impact on individuals who buy BTE services from businesses that are established in other member states. From 1 January 2015, UK VAT will be charged on these supplies rather than VAT at the rate for the country in which the business is established. There are no identified compliance costs for those individuals or households impacted.
Equalities impacts	The Government has no information about the protected equality groups of any individuals who may be affected but no specific impacts have been identified for any protected equalities group.
Impact on business including civil society organisations	The place of supply changes will impact on businesses that supply e-services direct to customers in member states other than the one in which they are established. It may also impact on larger e-service intermediaries. The introduction of MOSS will give affected businesses the opportunity to account for any VAT due in other member states on a single system and thereby mitigate some of the costs imposed by the place of supply rule changes which would otherwise require businesses to register in each member state in which they supply a customer BTE services. It is expected that the vast majority of business affected will choose this option. There will be a one-off cost relating to becoming familiar with and registering for MOSS. There will be an ongoing cost from completing a MOSS return each quarter which we estimate to be approximately £40 per business per year. UK businesses currently unregistered in the UK who choose to register for MOSS here will also have to register for VAT in the UK and so their UK supplies will also become liable to VAT, In addition changes to the way internet marketplaces account for VAT will mean that small businesses that provide e-services through intermediaries should not be significantly impacted, because the intermediary will become responsible for registering and accounting for VAT in other member states. The change to non-taxable legal persons' place of belonging is not expected to have a significant impact, but removes a potential avoidance opportunity. It is estimated that after taking account of mitigating factors (MOSS and the change to the rules governing intermediaries) the place of supply rule changes will affect up to 34,000 businesses, of which about 5,000 are not currently registered for VAT in the UK. For up to 29,000 businesses the ongoing costs are expected to be approximately £40 per business per year, and for 5,000 businesses the ongoing costs are expected to be £220 per business per year. The one-off costs to these businesses are likely to be negligible, but there are likely to be significant ongoing costs. The costs, after mitigation, are shown below.

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	Negligible	N/A
Average Annual Costs	£1.5m - 2.5m	5
Total Costs (PV)	£7.0m – 12.0m	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)	-£7.0m - 12.0m	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	**Decrease**	**Net Impact**
£1.5m - 2.5m	£0m	£1.5m - 2.5m

Operational impact (£m) (HMRC or other)	HMRC will incur one-off costs of developing the MOSS IT system and registering those businesses that choose to use MOSS. HMRC will also incur ongoing costs of administering the system and dealing with taxpayer queries, which will be met from existing resources.
Other impacts	Small and micro business assessment: small businesses that provide e-services direct to customers in other member states may incur additional costs, although these are expected to be partially mitigated by MOSS. Businesses currently unregistered in the UK who choose to register for MOSS in the UK will also have to obtain a UK VAT registration and their UK supplies will therefore also become liable to VAT. 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. HMRC will also monitor VAT receipts in the sectors affected and the take up of MOSS.

Further advice

If you have any questions about this change, please contact Andy Heywood on 03000 544534 (email:andrew.heywood@hmrc.gsi.gov.uk).

HM Revenue
& Customs

VAT: refunds to health service bodies

Who is likely to be affected?

Health Education England and the Health Research Authority.

General description of the measure

This measure will add these bodies to a scheme in the VAT Act 1994 (VATA) through which VAT may be recovered.

Policy objective

The scheme in the VAT Act ensures that what would otherwise be irrecoverable VAT does not dissuade government departments and NHS bodies from contracting out activities, if this would otherwise result in efficiencies of scale. The bodies that are the subject of this measure will replace two NHS bodies which are already entitled to recover VAT.

Background to the measure

Subject to the passing of the Care Bill, Health Education England and the Health Research Authority will be established as non-departmental public bodies. They will replace two special health authorities, of the same names. Special health authorities are entitled to recover VAT and this measure, announced in Budget 2013, will ensure the same levels of VAT recovery by the successor bodies.

Detailed proposal

Operative date

The measure will have effect on and after the date when the bodies are established by the Care Act 2014, if passed.

Current law

Special health authorities were established under section 28 of the NHS Act 2006 or section 22 of the NHS (Wales) Act 2006 and they are a ‘health service body’ under section 60(7)(aa) of the National Health Service and Community Care Act 1990. As such, they are bodies which are included in section 41(7) of VATA and can recover VAT under section 41(3).

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to add NHS England and the Health Research Authority to section 41(7).

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	The measure will continue refunding VAT to two successor NHS bodies, with no anticipated impact on individuals or households.					
Equalities impacts	It is not expected that this measure will have any impact on groups sharing protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. It simply preserves the status quo.					
Operational impact (£m) (HMRC or other)	This measure will have no operational impact.					
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 David Ogilvie on 03000 585990 (email: david.ogilvie@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Offshore employment intermediaries

Who is likely to be affected?

Offshore employers and agencies, whose workers are engaged in the UK or on the UK Continental Shelf (UKCS). UK and UKCS workers, who are engaged by or through an offshore agency or employed by an offshore company. UK agencies who place workers with end clients.

General description of the measure

The measure is aimed at ensuring the correct amount of tax and National Insurance contributions (NICs) is paid when UK and UKCS workers are employed by offshore companies or engaged by or through offshore employment intermediaries. The measure also introduces a record keeping and return requirement for intermediaries placing workers with end clients but not deducting income tax and NICs at source.

Employers of workers on the UKCS that are located outside the UK and where there is no presence, residence, or place of business in the UK may not to be liable for employers NICs. Some are also not making employee NICs and income tax deductions and returns to HM Revenue & Customs (HMRC) through Pay As You Earn (PAYE) in respect of those workers. This measure sets out who is the secondary contributor and responsible for operating PAYE for workers on the UKCS. It also introduces a certification system for employers when someone other than the deemed employer (for tax and NICs purposes) is administering and paying NICs, income tax and NICs through PAYE on the deemed employer's behalf.

Policy objective

This measure supports the Government's anti-avoidance strategy and its fairness agenda by helping to ensure that offshore employer pay their fair share of employment taxes.

Background to the measure

The Government announced at Budget 2013 that it intended to strengthen legislation to prevent offshore intermediaries being used to avoid employment taxes.

A consultation document *Offshore Employment Intermediaries* was published on 30 May 2013 on the GOV.UK website with a proposal to tackle the level of avoidance from offshore intermediaries. The Government's aims were supported by all the respondents to the consultation. However, a large majority thought the original proposals were overly complex. As a result, the Government has revised their proposals.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 14 October 2013.

Detailed proposal

Operative date

This measure will have effect from 6 April 2014.

Current law

Currently the legislation that deals with workers who are engaged in the UK but employed by companies based outside the UK requires the 'person to whom the labour has been made available' to be the secondary contributor for National Insurance and to deduct employees primary NICs, Paragraph 9 of Schedule 3 to the Social Security (Categorisation of Earners) Regulations.

Social Security Regulations 114 2001/1004 deals with National Insurance obligations for workers engaged on the UKCS.

Chapter 7 ITEPA 2003 is the legislation that deals with agency workers and how they should be taxed.

S689 ITEPA deals with situations where a worker is undertaking work for someone other than their employer and the PAYE regulations do not apply to the employer.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Chapter 7 ITEPA 2003 and introduce a new clause in regard to who has to operate PAYE at section 689A ITEPA 2003. It also introduces a power for regulations to be made in respect of record keeping, return requirements and penalties.

In addition it prescribes who is responsible for operating PAYE in regard to UKCS workers when their employer is outside the UK and introduces a power to introduce in regulations a certification scheme where the offshore employer is operating PAYE.

The proposed revision amends the power at section 120 Social Security Contributions and Benefits Act 1992 to make provision for regulations in respect of a certification scheme where someone other than the secondary contributor is paying and administering NICs as the agent of the secondary contributor. All other National Insurance legislation is being made through regulations using existing vires.

Summary of impacts

This table represents the Government's current understanding of the offshore intermediaries measure as a whole.

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-	+80	+85	+85	+90
	These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	No impact on individuals or households has been identified.				
Equalities impacts	No equalities impact has been identified.				

<table>
<tr><td rowspan="2">Impact on business including civil society organisations</td><td>This measure is expected to have an impact on approximately 10,000 businesses.

These businesses will now have to assure their supply chain and fulfil new record keeping requirements. These requirements include businesses submitting a quarterly return to HMRC which provides details of workers they place with end clients but for whom they do not deduct income tax and NICs at source.

The total cost of this increased administration requirement is expected to be approximately £800,000 per year (for all affected businesses). There will also be a negligible one-off total cost for these businesses becoming familiar with their new obligations.</td></tr>
<tr><td><table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>negligible</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£0.8m</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£5m</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</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 (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>-£5m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0.8m</td><td>£0M</td><td>£0.8m</td></tr>
</table></td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td>Implementing the system to allow HMRC to be able to collect and risk profile the records from employment intermediaries is estimated to cost HMRC in the region of £1 million. It is also anticipated that there will be a small increase in cost to administer the certification process.</td></tr>
<tr><td>Other impacts</td><td><u>Small and micro business assessment</u>: the majority of businesses impacted are not expected to be small or micro businesses.

Other impacts have been considered and none have been identified.</td></tr>
</table>

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 Sarah Radford on 03000 586474 (email: sarah.radford@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Onshore employment intermediaries: false self-employment

Who is likely to be affected?

Onshore employment intermediaries and the workers engaging with them.

General description of the measure

The measure is aimed at preventing employment intermediaries being used to avoid employment taxes and obligations by disguising employment as self-employment.

Policy objective

This measure supports the Government's anti-avoidance strategy and its fairness agenda by helping to ensure that employment intermediaries and workers pay their fair share of employment taxes.

Background to the measure

The Government announced at Autumn Statement 2013 that it intended to strengthen existing legislation to prevent false self-employment facilitated by employment intermediaries.

A consultation document, *Onshore Employment Intermediaries: False Self-Employment* was published on 10 December 2013 setting out the proposal to tackle the level of avoidance from false self-employment.

Detailed proposal

Operative date

This measure will have effect from 6 April 2014.

Current law

For Income Tax, the relevant legislation is known as the Agency Legislation and is found at Chapter 7 Part 2 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003. This legislation places the responsibility for deducting income tax and National Insurance contributions (NICs), and paying this to HM Revenue & Customs through RTI and paying employer NICs, on the agency that has a relationship with the worker. However, for this legislation to apply a number of criteria need to be met, including an obligation for the worker to be providing personal service.

For NICs, the relevant legislation is contained within The Social Security (Categorisation of Earners) Regulations 1978 and The Social Security (Categorisation of Earners) (Northern Ireland) Regulations 1978. These regulations dictate that a person, the worker, will be treated as being an employed earner for the purpose of NICs when all of the stipulated conditions are met, including, again, that the worker provides (or is under obligation to provide) their personal service.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Chapter 7, Part 2 ITEPA 2003 to remove the need for personal service and the obligation for personal service for recruitment businesses and other intermediaries based in the UK.

It also introduces a power for regulations to be made in respect of record keeping, return requirements and penalties.

The required NICs legislation will be made using existing vires.

Summary of impacts

This table represents the Government's current understanding of the impact of tackling false self-employment facilitated by onshore intermediaries.

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	+520	+425	+380	+415	+445
	These figures are set out in Table 2.1 of the Autumn Statement 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. This measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	The measure will increase NICs liabilities for employment intermediaries whose workers are registered as falsely self-employed by a small amount, with the impact expected to be focused on the construction sector.					
Impact on individuals and households	Around 200,000 workers in the construction sector, and 50,000 in other sectors, are reckoned to be engaged with and through onshore employment intermediaries. By virtue of being treated (correctly) as employees, all qualifying workers within this measure will gain Statutory Payments such as statutory sick pay and maternity pay and some will be eligible for National Minimum Wage (NMW). In the majority of cases the worker will also gain the benefits of being an employee for employment rights purposes, although this will depend on them being within the case law tests set out by the courts. These workers will face higher tax and NIC liabilities, but will no longer be paying service charges (which can be as high as £1,250 per year) to an intermediary company. Some workers will gain overall although for others there will be a net loss.					
Equalities impacts	No equality groups have been identified as being impacted differently from this change.					
Impact on business including civil society organisations	As the status of false self-employed workers will change to employees the onshore employment intermediaries will have to pay Class 1 employer NICs. The measure is not expected to have a significant impact on other businesses or civil society organisations. There are known to be approximately 10,000 Business Services companies and it is expected that most of these are likely to be affected in a small way by this measure. There are no expected impacts, either one-off or ongoing in terms of requiring new IT or training as these businesses are expected to already be employers and thus will be already operating PAYE.					

Operational impact (£m) (HMRC or other)	The operational impact of this measure is expected to be negligible.
Other impacts	Small and micro business assessment: the impact on small or micro businesses is expected to be negligible. 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 Robert Burton on 03000 526659 (email: robert.burton@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Venture capital trusts

Who is likely to be affected?

This measure will affect individuals who invest in venture capital trusts (VCTs) and the VCTs in which they invest.

General description of the measure

This measure prevents investors refreshing income tax relief on investments into VCTs by disposing of VCT shares and reinvesting the proceeds in new shares. The legislation will ensure that new investment into VCTs is still eligible for income tax relief. However, investments that are:

- conditional on a share-buy buy-back, or where a share buy-back is conditional upon the investment; or
- made within a six month period of a sale of shares in the same VCT, will not qualify for income tax relief.

The measure will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

The legislation will also be changed to allow individuals to subscribe for shares in a VCT via a nominee.

Policy objective

This measure is intended to ensure that the tax reliefs offered to investors making VCT investments are well-targeted, so that VCTs can continue to operate effectively and provide support to high-growth potential small and medium-sized companies. The change is intended to ensure that investments through the tax-advantaged venture capital schemes continue to support growth, but that the tax reliefs operate in a fair and sustainable way.

Background to the measure

The Government signalled in Budget 2013 that it was concerned that particular forms of share buy-back and reinvestment arrangements offered by VCTs were not in keeping with the intention of the legislation.

A technical consultation ran from July to September 2013. A summary of responses will be published on 12 December 2013.

Detailed proposal

Operative date

The restrictions relating to share sales and reinvestments will affect claims to relief for investment in VCT shares, by reference to shares issued on or after 6 April 2014.

The change relating to nominee investments will apply in respect of shares issued on or after the date that Finance Bill 2014 receives Royal Assent.

Current law

The current VCT legislation is at Part 6 of Income Tax Act 2007.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to ensure that income tax relief will not be available in respect of a subscription for shares in a VCT where the investor has sold shares in that VCT and the sale was conditional upon the subscription, or the subscription was conditional upon the sale, or the subscription was made within six months of the sale. This will also have effect in relation to a subscription for shares in a VCT which is deemed to be a successor or predecessor of the VCT because there has been a merger of VCTs, or a restructuring of a group of companies of which the VCT is a member.

The measure will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

The legislation will also be changed to allow individuals to subscribe for shares in a VCT via a nominee.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	+50	+35	+10	+20	+25
	These figures are set out in Table 2.1 of the Autumn Statement 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.					
Economic impact	The measure is not expected to have any significant economic impacts. However investments in VCT should support growth and development of SMEs.					
Impact on individuals and households	There may be some impact in terms of a reduction in available tax reliefs on any individual VCT investors who seek to participate in particular share buy-back and reinvestment arrangements, or where an investment in VCT shares is made within six months of the disposal of shares in that VCT.					
Equalities impacts	This measure is not expected to have a disproportionate impact on any protected group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. There will be a negligible impact on VCT fund managers, and some tax and wealth advisors may face some one-off administrative cost to update any guidance for use of VCTs. It is expected that this measure will have no ongoing administrative burden for VCT's as they are unlikely to operate 'enhanced' share buy-backs going forwards. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any significant additional costs for HM Revenue & Customs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The Government will monitor this measure through the amount of funds raised by VCT's and the amount claimed by VCT investors.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 03000 585729 (email: kathryn.robertson@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Partnerships review: limited liability partnerships: treatment of salaried members

Who is likely to be affected?

Individual members of a limited liability partnership (LLP) who work for the LLP on terms that are tantamount to employment ('salaried members') and LLPs that have salaried members.

General description of the measure

This change will ensure that a salaried member of an LLP is treated as an employee of the LLP for income and corporation tax purposes. Associated changes to the National Insurance contributions (NICs) legislation are included in the NICs Bill 2013 and in new regulations to be laid and made under that Bill.

Policy objective

This change makes the tax system fairer by ensuring that employment taxes are paid by LLP members who are essentially employees and the LLP as employer.

Background to the measure

This change is part of a wider review of certain parts of the partnership rules announced in Budget 2013. A consultation document, *Partnerships: A review of two aspects of the tax rules* was published on the GOV.UK website on 20 May 2013 and the consultation closed on 9 August 2013.

Detailed proposal

Operative date

The change will have effect from 6 April 2014.

Current law

Under section 863 of Income Tax (Trading and Other Income) Act 2005 and section 1273 of Corporation Tax Act 2009, if an LLP carries on a trade, profession or business with a view to profit its members are treated as partners.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to change the treatment of a salaried member of an LLP from that of a partner to that of an employee for both income and corporation tax purposes.

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

Condition A is that there are arrangements in place under which M is to perform services for the LLP, in M's capacity as a member, and it would be reasonable to expect that the amounts payable by the LLP in respect of M's performance of those services will be wholly, or substantially wholly, fixed, or if variable, variable without reference to, or in practice unaffected by, the overall profits or losses of the LLP ('disguised salary').

Condition B is that the mutual rights and duties of the members and the LLP and its members do not give M significant influence over the affairs of the LLP.

Condition C is that M's contribution to the LLP is less than 25 per cent of the disguised salary which it is reasonable to expect will be payable by the LLP in a relevant tax year in respect of M's performance of services for the LLP.

In determining whether the salaried member rules apply any arrangements with a main purpose of circumventing the rules will be disregarded.

The salaried member rules will apply to an individual who is not a member of an LLP if the individual performs services for the LLP under arrangements involving a non-individual member of the LLP and those arrangements have a main purpose of securing that the salaried member rules do not apply to the individual.

The salaried members rules will not, however, apply to an individual, where they would otherwise apply, as a consequence of arrangements with a main purpose of ensuring that the new profit allocation rules do not apply (see Tax Information and Impact Note *Partnerships review: partnerships with mixed membership* published on 5 December 2013).

The legislation will also provide for a deduction for certain expenditure in respect of a salaried member's employment that would not otherwise be deductible, subject to certain provisions that provide for disallowance on normal principles.

Summary of impacts for the review

The following table is a summary of impacts for the partnerships review announced in Budget 2013 of which the change described above is a part.

		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact (£m)	Budget	nil	+125	+365	+300	+285	+270
	Extra	nil	nil	+680	+430	+410	+400
	Total	nil	+125	+1045	+730	+695	+670
	The first row presents the figures published at Budget 2013 that were set out in Table 2.1 of the Budget Report and certified by the Office for Budget Responsibility (OBR) at that time. More details about the original figures can be found in the policy document published alongside the Budget. The second row presents the extra costing attributable to the alternative investment fund management (AIFM) sector and has been estimated using information gathered during the consultation carried out over the summer. These figures are set out in Table 2.1 of the Autumn Statement 2013 and have been certified by the OBR. The policy document published alongside the Autumn Statement provides further details.						
Economic impact	This measure will result in a more level playing field through reducing distortions to competition and to the allocation of resources among sectors driven by tax planning. It may also result in an increase in labour costs and a decrease in post-tax profits levied on selected partnerships in certain industries. Overall, the impact on the economy should be small.						
Impact on individuals and households	Those individuals who are affected members of partnerships will now be required to pay the correct amount of tax and NICs at broadly the right time. It is possible that there is a modest reduction in administrative burden for some individuals who will pay through Pay As You Earn rather than having to fill in a self assessment return. Overall the impact is expected on individuals and households to be negligible.						
Equalities impact	No impact is expected on any protected equality groups.						

Impact on businesses including civil society organisations	This measure will have a negligible impact on businesses and civil society organisations. The existing evidence suggests that the majority of partnerships will not be affected by the consultation proposals. Those partnerships affected are likely to be limited in number and they are primarily large professional or AIFM partnerships. There would be some one off costs as professions and taxpayers need to understand the new rules and communicate them to their partnership members. For those AIFM partnerships which choose to use a new paper-based process to account for tax and NICs, administrative costs are expected to be negligible as they are already required to record and process the information in order to comply with the regulatory and tax requirements.
Operational impact (£m) (HMRC or other)	The AIFM process requires changes to HM Revenue & Customs' (HMRC) systems and they are estimated to cost up to £1.6 million. There will also be some extra administrative costs to be borne by HMRC, currently estimated at £260,000 per annum. There would also be some additional operational costs associated with the monitoring and checking records of notional and actual partners of partnerships but these are expected to be minimal. For the relatively few public sector organisations using the partnership model, there would be administrative costs to understand the new rules.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The partnerships review measure will be monitored and assessed alongside other measures in the Government packages for fairer taxation and avoidance.

Further advice

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

HM Revenue
& Customs

Partnerships review: partnerships with mixed membership

Who is likely to be affected?

This change will affect partnerships, including limited liability partnerships, where the partners or members include both individuals and non-individuals (mixed membership partnerships). Most commonly the non-individuals will be company members of the partnership.

General description of the measure

The first element of this change will affect mixed membership partnerships where partnership profits are allocated to a non-individual partner in circumstances where an individual member may benefit from those profits. The second element will affect cases where partnership losses are allocated to an individual partner, instead of a non-individual partner, to enable the individual to access certain loss reliefs.

Policy objective

This change makes the tax system fairer by preventing tax-motivated allocations of business profits and losses in mixed membership partnerships, including limited liability partnerships.

Background to the measure

This change is part of a wider review of certain parts of the partnership rules announced in Budget 2013. A consultation document, *Partnerships: A review of two aspects of the tax rules* was published on the gov.uk website on 20 May 2013 and the consultation closed on 9 August 2013.

Detailed proposal

Operative date

The changes will take effect from 6 April 2014 with the exception of anti-avoidance rules concerning tax-motivated profit allocations. These rules come into force on 5 December 2013 in order to protect against risks to tax revenue.

Current law

The rules governing the allocation of a firm's profits and losses between partners for income tax and corporation tax purposes are in Part 9 of the Income Tax (Trading and Other income) Act 2005 (ITTOIA 2005) and Part 17 of the Corporation Tax Act 2009 (CTA 2009).

The general rule in section 849 of ITTOIA 2005 and section 1262 of CTA 2009 is that for any period of account a partner's share of a profit or loss of a firm is determined in accordance with the firm's profit-sharing arrangements during that period. This rule is subject to sections 850A and 850B of ITTOIA 2005, for income tax, and sections 1263 and 1264 of CTA 2009, for corporation tax, which revise the allocation where the firm is profit-making for the period but some partners have losses or the firm is loss-making but some of the partners have profits.

Proposed revisions

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

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

The legislation will include provision so that excess profits can be reallocated to an individual who is not a partner if it is reasonable to suppose that the individual would have been a partner but for the new rules and the whole or part of the non-individual's share is attributable to the individual's power to enjoy the non-individual's share or to deferred profit arrangements.

The legislation will also include consequential provisions to prevent double taxation.

Legislation will also be introduced in Finance Bill 2014 to deny certain income tax loss reliefs and capital gains relief for a loss allocated to an individual partner where the individual is party to arrangements, the main purpose of which, or one of the main purposes of which, is to secure that some or all of the loss is allocated, or otherwise arises, to the individual, instead of a non-individual, with a view to the individual obtaining relief.

Summary of impacts for the review

The following table is a summary of impacts for the partnerships review announced in Budget 2013 of which the change described above is a part.

<table>
<tr><td rowspan="5">Exchequer impact (£m)</td><td></td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>Budget</td><td>nil</td><td>+125</td><td>+365</td><td>+300</td><td>+285</td><td>+270</td></tr>
<tr><td>Extra</td><td>nil</td><td>nil</td><td>+680</td><td>+430</td><td>+410</td><td>+400</td></tr>
<tr><td>Total</td><td>nil</td><td>+125</td><td>+1045</td><td>+730</td><td>+695</td><td>+670</td></tr>
<tr><td colspan="7">The first row presents the figures published at Budget 2013 that were set out in Table 2.1 of the Budget Report and certified by the Office for Budget Responsibility (OBR) at that time. More details about the original figures can be found in the policy document published alongside the Budget.

The second row presents the extra costing attributable to the alternative investment fund management (AIFM) sector and has been estimated using information gathered during the consultation carried out over the summer. These figures are set out in Table 2.1 of the Autumn Statement 2013 and have been certified by the OBR. The policy document published alongside the Autumn Statement provides further details.</td></tr>
<tr><td>Economic impact</td><td colspan="7">This measure will result in a more level playing field through reducing distortions to competition and to the allocation of resources among sectors driven by tax planning. It may also result in an increase in labour costs and a decrease in post-tax profits levied on selected partnerships in certain industries. Overall, the impact on the economy should be small.</td></tr>
</table>

Impact on individuals and households	Those individuals who are affected members of partnerships will now be required to pay the correct amount of tax and National Insurance contributions (NICs) at broadly the right time. It is possible that there is a modest reduction in administrative burden for some individuals who will pay through PAYE rather than having to fill in a self assessment return. Overall the impact is expected on individuals and households to be negligible.
Equalities impact	No impact is expected on any protected equality groups.
Impact on businesses including civil society organisations	This measure will have a negligible impact on businesses and civil society organisations. The existing evidence suggests that the majority of partnerships will not be affected by the consultation proposals. Those partnerships affected are likely to be limited in number and they are primarily large professional or AIFM partnerships. There would be some one off costs as professions and taxpayers need to understand the new rules and communicate them to their partnership members. For those AIFM partnerships which choose to use a new paper-based process to account for tax and NICs, administrative costs are expected to be negligible as they are already required to record and process the information in order to comply with the regulatory and tax requirements.
Operational impact (£m) (HMRC or other)	The AIFM process requires changes to HM Revenue & Customs' (HMRC) systems and they are estimated to cost up to £1.6 million. There will also be some extra administrative costs to be borne by HMRC, currently estimated at £260,000 per annum. There would also be some additional operational costs associated with the monitoring and checking records of notional and actual partners of partnerships but these are expected to be minimal. For the relatively few public sector organisations using the partnership model, there would be administrative costs to understand the new rules.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The partnerships review measure will be monitored and assessed alongside other measures in the Government packages for fairer taxation and avoidance.

Further advice

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

HM Revenue
& Customs

Partnerships review: alternative investment fund managers: deferred remuneration etc.

Who is likely to be affected?

This change will affect the income tax treatment of members of partnerships and limited liability partnerships (LLPs) that manage alternative investment funds including where they are delegated to do so (AIFM partnerships).

General description of the measure

The legislation will introduce a mechanism for members of AIFM partnerships to allocate certain ‘restricted’ profits to the partnership. These are profits that those members cannot immediately access because of requirements under the Alternative Investment Fund Managers Directive (AIFMD) (2011/61/EU) to defer remuneration of ‘key staff’.

The legislation will impose a charge to tax on these businesses at the additional rate of tax (45 per cent) to be paid by the AIFM partnership.

Policy objective

The primary objective of this change is to address the tax issue arising from restricted access to profits. The new mechanism will provide affected members of AIFM partnerships with a fair solution without recourse to arrangements involving tax-motivated allocations of business profits, which will be prevented as part of the Government’s partnerships review (see details in the Tax Information and Impact Note on *Partnerships with mixed membership*).

Background to the measure

This measure is part of a wider review of certain parts of the partnership rules announced at Budget 2013. A consultation document *Partnerships: A review of two aspects of the tax rules* was published on the GOV.UK website on 20 May 2013 and the consultation closed on 9 August 2013.

This element of the partnerships review measure is flagged up in the consultation document under the heading: *Partnership with mixed memberships – profits: Profit deferral and working capital arrangements.* Further information was received during the consultation period on the AIFMD issue and the use of mixed membership structures by AIFM partnerships. This was fed into the design of the new mechanism and a recosting exercise.

Detailed proposal

Operative date

The legislation will have effect on and after 6 April 2014.

Current law

Individual members of partnerships (including LLPs) are charged to tax on their trading profits as they arise under Chapter 2 of Part 2 of Income Tax (Trading and Other Income) Act 2005. These profits are also subject to Class 4 National Insurance contributions (NICs) in accordance with section 15 of Social Security Contributions and Benefits Act 1992. This note only deals with the tax change while the NICs Bill 2013 deals with any associated NICs changes.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to provide as follows:

- it will allow any partner in an AIFM partnership to allocate all or part of their 'relevant restricted profit' to the firm. Relevant restricted profit is deferred remuneration (within the meaning of the AIFMD) together with any remuneration which is awarded in the form of instruments that must be retained for at a period of at least 6 months;
- it will charge tax at the additional rate of income tax (currently, 45 per cent) on that income, with no reliefs or allowances to be available to set against it;
- where the relevant restricted profit ultimately vests with the partner who initially allocated it to the partnership, this is treated as taxable income of the partner in the relevant tax year. Credit will be available for the tax initially paid by the partnership on the profit, and any overpayment of tax may be repaid; and
- for capital gains tax purposes, the partner is treated as receiving any securities at a base cost equivalent to the amount of remuneration they represent, net of tax. The same amount is treated as the disposal consideration.

If the deferred remuneration does not vest in the partner who originally allocated the amount to the firm, the payment will be treated like any other partnership distribution. There will be no further tax liability and no entitlement to recover the tax paid on that element of the deferred remuneration. A power is provided to make regulations if required.

Summary of impacts for the review

The following table is a summary of impacts for the partnership review announced in Budget 2013 of which the change described above is a part.

Exchequer impact (£m)		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Budget	nil	+125	+365	+300	+285	+270
	Extra	nil	nil	+680	+430	+410	+400
	Total	nil	+125	+1045	+730	+695	+670
	The first row presents the figures published at Budget 2013 that were set out in Table 2.1 of the Budget Report and certified by the Office of Budget Responsibility (OBR) at that time. More details about the original figures can be found in the policy document published alongside the Budget. The second row presents the extra costing attributable to the alternative investment fund management (AIFM) sector and has been estimated using information gathered during the consultation carried out over the summer. These figures are set out in Table 2.1 of the Autumn Statement 2013 and have been certified by the OBR. The policy document published alongside the Autumn Statement provides further details.						
Economic impact	This measure will result in a more level playing field through reducing distortions to competition and to the allocation of resources among sectors driven by tax planning. It may also result in an increase in labour costs and a decrease in post-tax profits levied on selected partnerships in certain industries. Overall, the impact on the economy should be small.						

Impact on individuals and households	Those individuals who are affected members of partnerships will now be required to pay the correct amount of tax and NICs at broadly the right time. It is possible that there is a modest reduction in administrative burden for some individuals who will pay through Pay As You Earn rather than having to fill in a self assessment return. Overall the impact is expected on individuals and households to be negligible.
Equalities impact	No impact is expected on any protected equality groups.
Impact on businesses including civil society organisations	This measure will have a negligible impact on businesses and civil society organisations. The existing evidence suggests that the majority of partnerships will not be affected by the consultation proposals. Those partnerships affected are likely to be limited in number and they are primarily large professional or AIFM partnerships. There would be some one off costs as professions and taxpayers need to understand the new rules and communicate them to their partnership members. For those AIFM partnerships which choose to use a new paper-based process to account for tax and NICs, administrative costs are expected to be negligible as they are already required to record and process the information in order to comply with the regulatory and tax requirements.
Operational impact (£m) (HMRC or other)	The AIFM process requires changes to HM Revenue & Customs' (HMRC) systems and they are estimated to cost up to £1.6 million. There will also be some extra administrative costs to be borne by HMRC, currently estimated at £260,000 per annum. There would also be some additional operational costs associated with the monitoring and checking records of notional and actual partners of partnerships but these are expected to be minimal. For the relatively few public sector organisations using the partnership model, there would be administrative costs to understand the new rules.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The partnerships review measure will be monitored and assessed alongside other measures in the Government packages for fairer taxation and avoidance.

Further advice

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

HM Revenue
& Customs

Partnerships review: disposals of assets through partnerships

Who is likely to be affected?

This change will affect those who use partnerships, including limited liability partnerships, to dispose of income streams or assets without triggering a charge to tax on income.

General description of the measure

The legislation will apply where a person disposes of all or part of an asset or income stream by or though a partnership if the main purpose, or one of the main purposes, of the disposal, or any of the steps by which the disposal is effected, is to secure a tax advantage in relation to the charge to income tax or the charge to corporation tax on income.

The legislation will impose a charge to tax on income on the person making the disposal.

Policy objective

This change makes the tax system fairer by preventing tax-motivated disposals of income streams or assets through partnerships giving rise to tax advantages.

Background to the measure

This change is part of a wider review of certain parts of the partnership rules announced in Budget 2013. A consultation document, *Partnerships: A review of two aspects of the tax rules*, was published on the GOV. UK website on 20 May 2013 and the consultation closed on 9 August 2013.

This element of the partnerships review measure is discussed in the consultation document under the heading: *Partnership members with differing tax attributes.*

Detailed proposal

Operative date

The legislation will have effect in relation to arrangements entered into on and after 6 April 2014 for income tax payers and 1 April 2014 for persons within the charge to corporation tax.

Current law

The arrangements covered by this change are similar to those dealt with by the legislation concerning transfers of income streams (Chapter 1 in Part 16 of Corporation Taxes Act 2010 and Chapter 5A of Part 13 Income Tax Act 2007). However, the transfer of income stream provisions currently apply to partnerships only in very limited circumstances.

Proposed revisions

Legislation will be introduced in Finance Bill 2014. The legislation will apply if directly or indirectly in consequence of or otherwise in connection with an arrangement:

- there is a disposal of an asset (in whole or part) or a right to income by or through a partnership from a member of the partnership or a connected person (the transferor) to another member; and
- the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage in relation to the charge to income tax or the charge to corporation tax on income.

'Disposal' takes the same meaning as in the Taxation of Chargeable Gains Act 1992 and includes both part disposal and in substance disposals such as may be effected by (for example) a change of partnership profit sharing ratios.

The legislation will not apply if the transferor and transferor are relatives.

Where the legislation applies the 'relevant amount' is to be charged to tax as if it were income of the transferor. The relevant amount is the consideration given for the asset or income stream, unless the consideration given is much less than the value of the asset in which case the charge to tax will be based on a deemed market value disposal.

Summary of impacts for the review

The following table is a summary of impacts for the partnership review announced in Budget 2013 of which the change described above is a part.

<table>
<tr><td rowspan="5">Exchequer impact (£m)</td><td></td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>Budget</td><td>nil</td><td>+125</td><td>+365</td><td>+300</td><td>+285</td><td>+270</td></tr>
<tr><td>Extra</td><td>nil</td><td>nil</td><td>+680</td><td>+430</td><td>+410</td><td>+400</td></tr>
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<tr><td colspan="7">The first row presents the figures published at Budget 2013 that were set out in Table 2.1 of the Budget Report and certified by the Office of Budget Responsibility (OBR) at that time. More details about the original figures can be found in the policy document published alongside the Budget.

The second row presents the extra costing attributable to the alternative investment fund management (AIFM) sector and has been estimated using information gathered during the consultation carried out over the summer. These figures are set out in Table 2.1 of the Autumn Statement 2013 and have been certified by the OBR. The policy document published alongside the Autumn Statement provides further details.</td></tr>
<tr><td>Economic impact</td><td colspan="7">This measure will result in a more level playing field through reducing distortions to competition and to the allocation of resources among sectors driven by tax planning. It may also result in an increase in labour costs and a decrease in post-tax profits levied on selected partnerships in certain industries. Overall, the impact on the economy should be small.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="7">Those individuals who are affected members of partnerships will now be required to pay the correct amount of tax and National Insurance contributions (NICs) at broadly the right time. It is possible that there is a modest reduction in administrative burden for some individuals who will pay through Pay As You Earn rather than having to fill in a self assessment return. Overall the impact is expected on individuals and households to be negligible.</td></tr>
</table>

Equalities impact	No impact is expected on any protected equality groups.
Impact on businesses including civil society organisations	This measure will have a negligible impact on businesses and civil society organisations. The existing evidence suggests that the majority of partnerships will not be affected by the consultation proposals. Those partnerships affected are likely to be limited in number and they are primarily large professional or AIFM partnerships. There would be some one off costs as professions and taxpayers need to understand the new rules and communicate them to their partnership members. For those AIFM partnerships which choose to use a new paper-based process to account for tax and NICs, administrative costs are expected to be negligible as they are already required to record and process the information in order to comply with the regulatory and tax requirements.
Operational impact (£m) (HMRC or other)	The AIFM process requires changes to HM Revenue & Customs' (HMRC) systems and these are estimated to cost up to £1.6 million. There will also be some extra administrative costs to be borne by HMRC, currently estimated at £260,000 per annum. There would also be some additional operational costs associated with the monitoring and checking records of notional and actual partners of partnerships but these are expected to be minimal. For the relatively few public sector organisations using the partnership model, there would be administrative costs to understand the new rules.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The partnership review measure will be monitored and assessed alongside other measures in the Government packages for fairer taxation and avoidance.

Further advice

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

HM Revenue
& Customs

Avoidance schemes using total return swaps

Who is likely to be affected?

Groups of companies using total return swaps or other financial derivatives for tax avoidance.

General description of the measure

The measure blocks avoidance schemes where deductions are claimed for payments between companies in the same group under derivative contracts which are linked to company profits.

Policy objective

This measure supports the Government's objectives of promoting fairness and tackling avoidance in the tax system. It ensures that deductions are not allowed for corporation tax purposes where a payment is made under a derivative contract which is, in substance, a payment of profits.

Background to the measure

This measure was announced on 5 December 2013. No formal consultation is planned.

Detailed proposal

Operative date

This measure will apply from 5 December 2013 to schemes entered into on any date.

Current law

The tax treatment of derivatives is set out in Part 7 of the Corporation Tax Act 2009. Chapter 11 contains rules connected with tax avoidance.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to introduce a new section 695A in Chapter 11 of the CTA 2009 which will provide that no deduction is allowable for corporation tax purposes when a payment is made from one group member to another using a derivative, and where that payment equates, in substance, to the profits of a group company.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	+40	+40	+20	+10	nil	nil
	These figures are set out in Table 2.1 of the Autumn Statement 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. 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 and households	This measure will have no impacts on individuals and households.					
Equalities impacts	There are no impacts on any group which shares a protected characteristic.					
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 small number of businesses that are using the avoidance schemes.					
Operational impact (£m) (HMRC or other)	The costs to HM Revenue & Customs will be negligible.					
Other impacts	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 affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Chris Murricane on 03000 585953 (email: chris.murricane@hmrc.gsi.gov.uk) or Tony Sadler on 03000 585479 (email: tony.sadler@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Double taxation relief: revenue protection

Who is likely to be affected?

Companies which make claims for double taxation relief (DTR) may be affected by this measure.

General description of the measure

The measure will make two changes to the DTR rules to prevent avoidance.

Policy objective

The measure reinforces the UK's DTR policy that relief for foreign tax should only be given where income has been doubly taxed, once in the UK and once in a foreign territory.

Background to the measure

This measure was announced at Autumn Statement 2013.

Detailed proposal

Operative date

Both changes in this measure will have effect from 5 December 2013.

This measure will have effect on non-trading credits for accounting periods beginning on or after 5 December 2013, with transitional provisions where accounting periods straddle this date.

The amendment to the rules on refunded tax credits will take account of payments made by the foreign tax authority on or after 5 December 2013.

Current law

Part 2 of Taxation (International and Other Provisions Act) 2010 (TIOPA 2010) sets out rules allowing foreign tax to be credited against UK tax in certain circumstances.

The overarching principle of the DTR rules is that relief is allowed against UK tax on the same income or gain on which foreign tax has been suffered.

Section 42 imposes a limit on the amount of credit for foreign tax against corporation tax to R x IG, where R is the corporation tax (CT) rate payable by the company and IG is the amount of income or gain on which foreign tax has been suffered.

Section 34 provides that if credit is claimed for foreign tax and a payment in respect of that tax has been made by a tax authority to a connected person, the amount of credit is reduced by the amount of the payment.

Section 112 provides that where foreign tax is paid but no credit is claimed and relief is given as a deduction from the foreign income assessable to UK tax, that deduction is reduced if the foreign tax is repaid.

Section 80 and Section 115 provide that where any adjustment is necessary because of a payment made by a non-UK tax authority, the taxpayer claiming relief by credit or deduction must notify HMRC within one year of the repayment.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to put beyond doubt that Section 42 is to be applied separately to each non-trading credit from a loan relationship or an intangible fixed asset, so that credit for foreign tax arising on such a non-trading credit is limited to the amount of CT on that non-trading credit.

Legislation will also be introduced in Finance Bill 2014 to amend Sections 34 and 112 TIOPA 2010 to reduce the credit allowed or deduction given where a repayment is made by a foreign tax authority and there are arrangements in place which enable another person to receive the repayment of foreign tax.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	+ 10	+ 20	+5	nil	nil	nil
	These figures are set out in Table 2.1 of the Autumn Statement 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. 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 and households	The measure has no impact upon individuals and households as it is a corporate measure.					
Equalities impacts	The measure only affects corporate entities, not individuals, and no impacts have been identified.					
Impact on business including civil society organisations	This measure is expected to have no impact on compliant businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	This measure is expected to have negligible operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through monitoring the number of DTR avoidance schemes and through regular communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this change, please contact Paula Jarnecki on 03000 585583 (email: paula.jarnecki@hmrc.gsi.gov.uk) or Daniel Berry on 03000 585972 (email: daniel.berry@hmrc.gsi.gov.uk).

HM Revenue
& Customs

National Audit Office reporting requirements to the Scottish Parliament

Who is likely to be affected?

The National Audit Office (NAO), the Scottish Parliament and HM Revenue & Customs (HMRC).

General description of the measure

The measure will require the NAO to make annual reports direct to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax.

Policy objective

The measure will provide annual assurance to the Scottish Parliament on HMRC's calculation and collection of the Scottish rate of income tax and that the Scottish Government are getting value for money for their payments to HMRC for its work in administering the Scottish rate.

Background to the measure

This measure was announced at Budget 2013.

Detailed proposal

Operative date

This measure will have effect in relation to the financial year ending on 31 March 2015 and subsequent financial years.

Current law

There are a number of separate pieces of legislation that govern the functions and work of the Comptroller and Auditor General (C&AG) and the NAO in reporting to the UK Parliament on Departments' performance.

The Exchequer and Audit Departments Act 1921 requires the C&AG to examine HMRC's trust accounts and make a report to the House of Commons, alongside a report on the Department's resource accounts.

The National Audit Act 1983 allows the C&AG to carry out an examination into the 'economy, efficiency and effectiveness' with which departments have used their resources in discharging their functions.

The Government Resources and Accounts Act 2000 requires the C&AG to examine the resource accounts of Government departments, and report to HM Treasury or UK Parliament, with a view to being satisfied that the accounts present a true and fair view; money provided by Parliament has been properly expended; resources have been used for the purposes authorised by Parliament and the department's financial transactions are in accordance with any relevant authority.

The Scotland Act 2012 legislated for the Scottish rate of income tax by introducing new sections 80C-80H of the Scotland Act 1998 and amending the Income Tax Act 2007.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to require the NAO to report direct to the Scottish Parliament on:

- the amounts identified by HMRC as expenditure on the Scottish rate reimbursed by the Scottish Government;
- the amounts identified as collected in respect of the Scottish rate; and,
- the adequacy of processes for operating the Scottish rate.

It also allows the NAO to undertake discretionary value for money audits on aspects of HMRC's expenditure on implementing or operating the Scottish rate.

The legislation will be inserted as a new section 80HA in the Scotland Act 1998.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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. This is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
Impact on individuals and households	This measure will have no impact on individuals and households. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
Equalities impacts	This measure will have no impact on people with protected characteristics. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
Impact on business including civil society organisations	This measure will have no impact on business. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
Operational impact (£m) (HMRC or other)	This measure will have no operational impact. It is an administrative measure to require the NAO to make reports on HMRC's role in administering the Scottish rate of income tax.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through engagement with the NAO, Scottish Government and Scottish Parliament.

Further advice

If you have any questions about this change, please contact Doug Stoneham on 03000 586858 (email: douglas.stoneham@hmrc.gsi.gov.uk) or contact Ian Sainsbury on 03000 586739 (email: ian.sainsbury@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Modernising customs civil penalties

Who is likely to be affected?

Individuals and businesses, travelling from non-EU countries, who have failed to declare goods, including excise goods, in excess of their allowance when stopped before clearing customs controls.

General description of the measure

HM Revenue & Customs (HMRC) will provide for the issue of a customs civil penalty to travellers entering the UK from outside the EU who have failed to declare goods in excess of their allowance when stopped before clearing customs controls. This penalty will be used in cases where we find there is no dishonest conduct, as an alternative to existing customs civil evasion penalties and existing criminal penalties, for use in the case of less serious contraventions, and to allow us more flexibility in our treatment of customers. As with all customs civil penalties there will be strict liability subject to reasonable excuse.

Policy objective

The measure will provide for a customs civil penalty, in cases where there is no allegation of dishonest conduct, when goods are wrongfully imported from a non-EU country.

Background to the measure

The Case of C-230/08 Dansk Transport og Logistik v Skatteministeriet has led to an inability to issue a civil penalty, in cases of non-deliberate behaviour, to a person who enters the United Kingdom from a non-EU country with goods in excess of the duty free allowance. This has resulted in inequity of treatment between EU and third country travellers. There is a criminal penalty, under section 78 of the Customs & Excise Management Act (CEMA) 1979, for a failure to declare such goods and there is also the Customs Civil Evasion Penalty in cases where we find dishonest behaviour. However this measure will provide a method for penalising non-compliance, where dishonest behaviour is not found, with customs law in regulatory matters where criminal prosecution would not be appropriate.

Detailed proposal

Operative date

It is intended that the measure will have effect on a date in late summer 2014.

Current law

The Customs (Contravention of Relevant Rule) Regulations 2003 are made under sections 26(1), (2), (3), (4) and 41 of the Finance Act 2003. They cover a range of contraventions relating to importations and their associated procedures and regimes.

The Schedule to the Regulations provides details of the relevant rules which, if breached, may make a person liable to a civil penalty. It sets the maximum penalty for the contravention of a customs provision at either £1,000 or £2,500. There are no fixed penalties. All penalties are subject to reasonable excuse and mitigation consideration. In the majority of cases a Penalty Notice will not be issued without the trader first having had a warning letter. This penalty will be set at a maximum of £1000, which is equivalent to level 3 criminal penalty in CEMA 1979. Current policy states that the minimum penalty is £250, which will be the first penalty in all but the most serious cases.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to apply provisions of Finance Act 2003 to include excise duty as a relevant tax in respect of a failure to declare goods in excess of the allowance under section 78(1) of CEMA. The new penalty will then be introduced by secondary legislation.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	There is no impact on compliant individuals and stakeholders. The new measure introduces a minor change to already existing legislation and requirements. Detailed information is available to all individuals to ensure that they are aware of their duty free allowances when entering the UK from a non-EU country.					
Equalities impacts	No equality impacts in relation to any protected characteristic have been identified in relation to these proposals.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. The new measure introduces a minor change to already existing legislation and requirements, which businesses, in general, are aware of and understand that the customs civil penalty regime will be updated to reflect these changes.					
Operational impact (£m) (HMRC or other)	As this is intended to only introduce one penalty in specific circumstances, it is envisaged that the additional costs will be minimal for HMRC and Border Force.					
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 Karen Rourke on 01702 361934 (email: karen.rourke@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Modernisation of ship and aircraft stores

Who is likely to be affected?

Airlines, the shipping industry, especially the cruise ship industry, and those businesses engaged in the supply of ship and aircraft stores.

General description of the measure

The measure will amend the law to clarify that surplus stores can remain on board a ship or aircraft without payment of duty and make provision for the introduction of procedures to account for duty retrospectively on stores consumed in port or on an intra-UK flight and impose penalties for failing to do so. It will also make provision to allow the Commissioners for Her Majesty's Revenue & Customs (HMRC) to make regulations for an authorisation procedure to control goods moving from warehouses to be shipped as stores, in order to address an area of revenue risk, and to specify the circumstances in which goods can be shipped or carried as stores without payment of duty. These circumstances will include the journeys on which stores can be shipped or carried without payment of duty. The measure also imposes a penalty for contravening any provision of the regulations.

Policy objective

The measure will update the legislation relating to ship and aircraft stores to provide flexibility to facilitate trade practices and increase controls on areas of revenue risk. This will enable HMRC and Border Force to work with the industry to improve compliance and is in line with our wider commitment to bring customs and excise law up to date to protect customs and excise revenues.

Background to the measure

In August 2011 HMRC issued a consultative document, *Modernising Customs and Excise Law.* This highlighted the need to bring customs and excise law up to date to protect revenues, reduce the tax gap and better reflect modern trade practices. HMRC announced that it was the intention to reassess requirements and legislation currently used to control ships' and aircraft duty free stores to improve compliance in this area.

The measure will simplify the processes and procedures relating to ships' stores, making it easier for our customers to fully understand their obligations, whilst tackling diversion and the illegal landing of stores.

This measure will put current practices relating to ship and aircraft stores on a firm legal base and enable HMRC and Border Force to work with the industry to improve compliance through the introduction of stronger control measures. It will also enable HMRC to introduce future changes to processes by secondary legislation enabling trade and HMRC to respond quickly and flexibly to changes in business requirements.

Detailed proposal

Operative date

The power to make Regulations will come into force on the date that Finance Bill 2014 receives Royal Assent. The other provisions will come into force by an appointed day order to coincide with the coming into force of the Regulations. This is expected to be a date in late summer 2014.

Current law

The Customs & Excise Management Act (CEMA) 1979 section 1(4) and section 1(4)(A) provide in what circumstances goods for sale on a ship or aircraft can be treated as stores.

CEMA section 39 provides that surplus stores may be entered for warehousing for future use as stores.

CEMA section 61(1) provides that HMRC may direct the quantity of goods that may be carried in a ship or aircraft as stores, the description of vessel on which goods carried as stores may be used in a port without payment of duty, and the quantity of such goods, and the authorisation to be obtained for the supply and carriage of, and the procedure to be followed, in supplying, any goods as stores.

CEMA section 61 (2) to (4) specify the descriptions of vessel on which goods can be shipped as stores without payment of duty.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend section 1(4) of CEMA to provide that goods for sale to persons carried on a ship or aircraft will be treated as stores if they are to be sold by retail in the course of a journey made by the ship or aircraft. The reference to 'relevant journey' is omitted and s 1(4A) repealed. The journeys on which stores can be shipped or carried without payment of duty will be specified in Regulations.

Section 39 of CEMA is amended to clarify that surplus stores can remain on board a ship or aircraft without payment of duty.

Section 61(1) to (4) of CEMA are replaced with regulation making powers to specify the circumstances when goods can be shipped or carried as stores without payment of duty and the authorisation to be obtained, to impose conditions or restrictions on the supply, shipping or carriage of such goods and the procedure to be followed in supplying such goods. The regulations may also make provision requiring duty to be paid on goods shipped or carried as stores without payment of duty where those goods are consumed in port or on an intra-UK journey and the way in which, and time at which, such duty has to be paid.

The measure will also impose a penalty if a person contravenes any provision of the regulations. It will also introduce a penalty for a failure to make a return required by the new regulations and pay the duty due.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	There is no impact on compliant individuals and stakeholders.					
Equalities impacts	No equality impacts in relation to any protected characteristic have been identified in relation to these proposals.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on most businesses. The cruise ship and airline industry will benefit from the introduction of procedures to account for duty retrospectively on stores consumed in port or on an intra-UK flight. New Regulations for an authorisation procedure to control goods moving from warehouses to be shipped as stores will impose some new requirements but will impact on a small number of specific businesses. The introduction of penalties will not affect compliant businesses.
Operational impact (£m) (HMRC or other)	The measure provides legal powers to underpin and support existing operational practice. There will only be a minimal cost to HMRC and Border Force.
Other impacts	Small and micro business assessment: the majority of businesses affected are likely to be medium to large businesses in the airline and shipping industry. The vast majority of small and micro businesses will not be affected by the measure as only a small number of businesses in general supply stores, most of whom are large or medium size. 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 Karen Rourke on 01702 361934 (email: karen.rourke@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Real Estate Investment Trusts: including REITs as institutional investors

Who is likely to be affected?

UK and foreign Real Estate Investment Trusts (REITs).

General description of the measure

Classes of institutional investor that are specifically listed within the REITs rules can invest in REITs without causing the REIT to violate the non-close company rule. The measure will include UK REITs and their foreign equivalents as ‘institutional investors’.

Policy objective

The measure is aimed at providing three benefits to the REIT sector: facilitating joint venture REITs; enabling specialism by REIT investors; and promoting transfer of international expertise. By attracting more international and institutional capital into the UK the measure is expected to result in a more competitive and efficient UK real estate and REIT sector.

Background to the measure

REITs are a tax advantaged vehicle introduced to encourage investment in the property sector.

The Government announced at Budget 2013 that it was to undertake an informal consultation on reforms to the REIT regime to assess the potential appetite for including REITs as ‘institutional investors’ and the potential tax risk of such a measure (*Including Real Estate Investment Trusts (REITs) as 'institutional investors'*). The consultation on the measure took place between 20 March 2013 and 14 June 2013.

Allowing REITs to be treated as ‘institutional investors’ will further facilitate joint ventures and other co-investment arrangements between REITs and other investors, and therefore give UK REITs access to more financing opportunities.

Detailed proposal

Operative date

This measure will have effect on and after 1 April 2014.

Current law

The legislation is within part 12 Corporation Tax Act 2010 (CTA 2010).

Section 528(4)(a) states that a UK REIT cannot be a close company.

However, under section 528(4A) CTA 2010 a close company that is only close because it has a participator which is an ‘institutional investor’ will not violate the non-close company rule.

REITs are not included in the list of institutional investors within section 528(4A) and thus their shareholding in a REIT can cause that REIT to violate the rule.

Proposed revisions

Secondary legislation will be introduced to make the following changes:

REITs will be included in the list of institutional investors within section 528(4A) CTA 2010.

Both UK and foreign equivalent REITs will be included in the list.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	The measure will have no impact on individuals and households.					
Equalities impacts	The measure does not have a direct equalities impact as it focuses on institutions rather than protected groups. It is not expected that the measure will have an indirect impact on any protected equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses or civil society organisations. The measure will allow REITs to hold majority shareholdings in other REITs without violating the non-close company rule. It will also attract further international and institutional capital into the UK real estate sector and give UK REITs access to more financing opportunities.					
Operational impact (£m) (HMRC or other)	This measure is expected to have a negligible operational impact.					
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 Allana Sheil on 03000 586059 (email: allana.sheil@hmrc.gsi.gov.uk).

HM Revenue
& Customs

Exemption from climate change levy for solid fuels used in certain gasification processes

Who is likely to be affected?

Businesses using solid fuels in certain gasification processes.

General description of the measure

The measure will extend the existing mixed use exemption from climate change levy (CCL) to solid fuels (in practice mainly coal and coke) used partly as fuel and partly for its structural properties when gas is extracted from waste.

Policy objective

The measure will support the development of energy from waste technology.

Background to the measure

The mixed use exemption was introduced alongside the CCL in April 2001. It exempts from the levy taxable commodities that are used for purposes other than fuel use and where any energy use is incidental to that process.

Utilising industrial and municipal waste to generate electricity is a developing area of technology, which makes use of waste material that would otherwise go to landfill or incineration. Where synthesis gas (syngas), which consists primarily of hydrogen, can be extracted from waste this can then be burned to generate electricity or put to industrial uses.

Some of this technology requires the use of solid fuels for their structural properties in supporting the weight of the waste material in the gasification chamber and enabling the residue (slag) to drain out from the bottom of the chamber.

This measure, extending the mixed use exemption, was announced on 5 December 2013.

Detailed proposal

Operative date

The new exemption will have effect on and after 1 April 2014.

Current law

Schedule 6 to the Finance Act 2000 sets out the main primary legislation provisions for CCL. Paragraph 18(1) provides for an exemption for taxable commodities not used as fuel. Paragraph 18(2) provides that the Treasury may by regulation specify what those non-fuel uses are. Paragraph 18(3) provides that the Treasury may specify by regulation that certain ‘mixed’ uses may also count as non-fuel uses under paragraph 18(2). In such mixed uses, the non-fuel use must not be merely incidental.

The Climate Change Levy (Fuel Use and Recycling Processes) Regulations 2005 (SI 2005/1715) are the regulations made under paragraph 18. Schedule 1 Part B to these regulations sets out the list of specified mixed uses.

Proposed revisions

Secondary legislation will be introduced to add a new mixed use process to the list of specified mixed uses listed in Schedule 1 Part B of SI 2005/1715.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	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 and households	It is not expected that this measure will have any direct impact on individuals and households as it applies only to business.					
Equalities impacts	It is not expected that this measure will have any impact on any of the protected groups.					
Impact on business including civil society organisations	There will be a very small number of businesses affected who will have a negligible increase in their administrative burdens as a result of the measure. Businesses will also incur a negligible one-off cost due to familiarising themselves with the legislation. This measure will affect businesses in the syngas sector. No businesses are currently active in the UK in this sector, and a very small number are expected to begin operating from 2014 onwards. These businesses will need to record fuel usage falling under this exemption separately.					
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	Wider environment impact: this measure supports extraction of energy from waste technology and will contribute to improved waste management by reducing waste sent to landfill. 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 measure, please contact Andy Jameson on 03000 586082 (email: andy.jameson@hmrc.gsi.gov.uk).

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website at: www.gov.uk