HM Revenue & Customs

HM TREASURY

Overview of Legislation in Draft

11 December 2012

ISBN: 978-1-84532-914-3

Contents

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

The majority of measures covered in Chapter 1 were announced in Budget 2012 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 2013.

What has been published?

The Government is publishing draft clauses for Finance Bill 2013 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 HM Treasury and HM Revenue & Customs (HMRC) websites.

Contacts and closing date

If you wish to comment on any of the draft clauses, please use the contact details provided at the end of the relevant Explanatory Note. The closing date for comments is **Wednesday 6 February 2013**.

1 Overview of measures

1.1 This chapter provides a brief description of the measures for which draft legislation was published on 11 December 2012 including measures announced since Budget 2012. Most of the measures are intended for inclusion in Finance Bill 2013, although a small number of policies to be given effect through secondary legislation have also been included.

Personal tax

1.2 Income tax basic rate limit and personal allowance 2013-14 – As announced in the Autumn Statement, legislation will be introduced to set the basic rate limit at £32,010 and the income tax personal allowance for those born after 5 April 1948 at £9,440 for 2013-14. These amounts supersede the corresponding amounts announced at Budget 2012.

1.3 Tax status of Universal Credit – Legislation will be introduced to make Universal Credit exempt from income tax. Awards of Universal Credit will start during the 2013-14 tax year.

1.4 Cap on unlimited tax reliefs – As announced in Budget 2012, and following consultation over the summer on its delivery, legislation will be introduced to cap unlimited income tax reliefs to the greater of £50,000 or 25 per cent of income. A response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.5 Statutory residence test – As announced in Budget 2011 and following further consultation in 2012, legislation will be introduced to provide a statutory residence test for individuals from 2013-14. The legislation will also provide for a tax year to be split into a UK part and an overseas part in certain circumstances, and contain new rules for the taxation of certain income and gains arising during a period of temporary non-residence. A response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.6 Ordinary residence – As announced in Budget 2011 and following consultation in 2012, legislation will be introduced to eliminate the concept of 'ordinary residence' for tax purposes as far as possible. In particular, overseas workday relief, which is accessed by remittance basis users who have been non-resident for three tax years and come into the UK whilst retaining some duties abroad, will in future apply for a fixed period, regardless of whether or not the individual intends to settle in the UK. A response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.7 Statement of practice 1/09 (SP1/09) – As proposed in the June 2011 document, *Reform of the taxation of non-domiciled individuals: a consultation*, legislation will be introduced to put SP1/09 on a statutory basis. The Government published an early draft of the legislation as part of a further consultation in October 2012 and intends to publish a summary of the responses to this consultation alongside a final draft of the legislation and TIIN in January 2013.

1.8 Capital gains tax: exemption for gains on disposals of 'employee shareholder' shares – As announced on 8 October 2012, the Government will create a new employment status, to be known as the 'employee shareholder' status. Individuals adopting this status will receive a minimum of £2,000 worth of shares. To support the policy aims of the 'employee shareholder' status, legislation will be introduced to exempt all gains made on disposals of up to £50,000 worth of 'employee shareholder' shares from capital gains tax. This exemption will commence on 6 April 2013.

1.9 Enterprise Management Incentives (EMI) – As announced at Budget 2012, the Government will extend capital gains tax entrepreneurs' relief to shares acquired through the exercise of EMI share options. Legislation will be introduced to extend the relief to EMI shares by removing the 5 per cent minimum shareholding requirement and allowing the 12 month minimum holding requirement to commence on the date the option is granted. This measure applies to shares acquired on or after 6 April 2012 that are disposed of on or after 6 April 2013. Following consultation over the summer, the Government has decided not to proceed with changes that had been proposed to extend access to EMI for academic employees. A response to the consultation, setting out the reasons for the Government's decision, was published on 11 December 2012 and is available on the HMRC website.

1.10 Review of tax advantaged employee share schemes – As announced in Budget 2012 and following consultation over the summer, legislation will be introduced to give effect to the Office of Tax Simplification's proposals to simplify aspects of the tax advantaged employee share schemes: Share Incentive Plans, Save As You Earn Option Schemes, Company Share Option Plans and Enterprise Management Incentives. A summary of the responses to the consultation was published on 11 December 2012 and is available on the HMRC website.

1.11 Personal services companies and IR35 – Following the consultation on the '*Taxation of Controlling Persons*', the Government has decided not to proceed with this proposal. Instead, legislation will be introduced to put beyond doubt that the intermediaries legislation (IR35) applies to office holders for tax purposes. The response to the consultation was published on 11 December 2012 and is available on the HMRC website.

1.12 Glasgow 2014 Commonwealth Games tax exemption – As announced on 26 January 2012, legislation will be introduced to exempt from UK taxation the income arising to non-resident competitors in relation to the Glasgow 2014 Commonwealth Games.

1.13 Expenses of members of devolved administrations – As announced in Budget 2012, legislation will be introduced to provide a statutory exemption from income tax for certain travel expenses paid to members of the three devolved administrations by the Assembly or Parliament. The legislation will bring the tax treatment of these expenses in line with that of similar expenses received by Westminster MPs.

1.14 Pensions tax relief – As announced in the Autumn Statement, legislation will be introduced to reduce the standard lifetime allowance to £1.25 million for the 2014-15 tax year onwards. Transitional protection (fixed protection 2014) will be introduced to provide individuals with a lifetime allowance of £1.5 million subject to certain conditions. The Government will also consult on whether a personalised protection regime should supplement 'fixed protection 2014' in order to offer a more flexible protection regime. The Autumn Statement also announced that legislation will be introduced to reduce the annual allowance to £40,000 for the 2014-15 tax year onwards. As announced in Budget 2012, a power will be introduced in Finance Bill 2013 allowing regulations to be made to help ensure the rules on fixed protection introduced in Finance Act 2011 work as intended. A TIIN for this aspect was published on 3 March 2011.

1.15 Pensions drawdown policy – Legislation will be introduced to increase the capped drawdown limit for pensioners of all ages from 100 per cent to 120 per cent of the value of an equivalent annuity. Draft legislation and a TIIN will be published in January 2013.

1.16 Pensions tax relief: family pension plans – As announced in Budget 2012, legislation will be introduced with effect from 6 April 2013 to remove unintended tax advantages from arrangements where an employer pays a pension contribution into a registered pension scheme for an employee's spouse or family member as part of the employee's flexible remuneration package.

1.17 Pensions tax: abolition of contracting out – Contracting out through a defined contribution pension scheme was abolished from 6 April 2012. As announced in Budget 2012, legislation will be introduced to bring the pensions tax primary legislation into line with the Pensions Acts 2007 and 2008 from April 2013 while allowing pipeline payments to still receive the appropriate tax treatment. Draft regulations to introduce related amendments to pensions tax secondary legislation will be published for consultation in January 2013.

1.18 Bridging pensions – As announced in Budget 2012, legislation will be introduced with effect from April 2013 to align the tax rules on the payment of bridging pensions with Department for Work and Pensions' changes to the state pension age.

1.19 Qualifying Recognised Overseas Pensions Schemes (QROPS) – As announced in Budget 2012, legislation will be introduced to make changes relating to the tax regime for overseas transfers of pension savings (QROPS and relevant non-UK schemes). The legislation will take effect from Royal Assent to Finance Bill 2013. Draft secondary legislation will be published in early 2013.

1.20 Transfer of assets abroad and gains on assets held by foreign companies – As announced on 6 December 2011 and following consultation, legislation will be introduced to update these anti-avoidance provisions and ensure their compliance with EU law. This legislation will apply with retrospective effect to April 2012.

1.21 Income tax rules on interest – Budget 2012 announced a consultation on changes to the income tax rules on interest. The response to this consultation was published on 2 October 2012, confirming that legislation will be introduced in Finance Bill 2013 on disguised interest and on deduction of income tax from interest on compensation payments, specialty debt, and interest in kind.

1.22 Life insurance: qualifying policies – As announced in Budget 2012, and following consultation, legislation will be introduced to implement the restriction on the tax relief available for investment gains on qualifying life insurance policies (QPs) by limiting the amount of premiums payable into QPs by an individual to no more than £3,600 in any 12 month period from 6 April 2013. A response to the consultation was published on 11 December and is available on the HMRC website.

1.23 Life insurance policies – As announced in Budget 2012, and following consultation, legislation will be introduced to make the calculation methodology for time apportioned reductions more representative of an individual's periods of non-residence and to extend time apportioned reductions to policies issued by UK insurers on or after 6 April 2013 and to existing policies issued by UK insurers which are modified on or after that date. A response to the consultation was published on 11 December and is available on the HMRC website.

1.24 Inheritance tax (IHT): spouses and civil partners domiciled outside the UK - As announced in Budget 2012, legislation will be introduced to increase the IHT-exempt amount that a UK-domiciled individual can transfer to their non-UK domiciled spouse or civil partner to an amount defined by reference to the prevailing IHT nil-rate band at the time of the transfer. These provisions will also allow individuals who are domiciled outside the UK and who have a UK-domiciled spouse or civil partner to elect to be treated as domiciled in the UK for the purposes of IHT.

1.25 Heritage maintenance funds (HMFs) – As announced in Budget 2012, the Government will legislate to preserve capital gains tax roll-over relief in certain circumstances for settlors of trusts which are HMFs. This will allow trustees to distribute funds for use on the repair and maintenance of historic properties without unintended tax charges arising. This measure will be effective from 6 April 2012.

1.26 Inheritance tax: periodic charges on trusts – HMRC consulted over the summer on possible ways of simplifying the calculation of the IHT periodic and exit charges on trusts that hold or dispose of relevant property. This was a high level discussion paper exploring ideas for change. A further consultation setting out more detailed proposals for reform will be published in spring 2013 together with a formal response to the July 2012 consultation. Any legislative changes will be made in Finance Bill 2014.

1.27 Inheritance tax: investments in open ended investment companies (OEICs) and authorised unit trusts (AUTs) – Legislation will be introduced to ensure that that the switching of UK assets in a trust settled by a non-UK domiciled individual, to investments in OEICs and AUTs, is exempt from IHT. This is not a new incentive, but instead ensures the changes introduced in Finance Act 2003 work as intended. Consequently, these changes have effect from 16 October 2002.

1.28 Community Investment Tax Relief (CITR) – Legislation will be introduced which will give investors scope to carry unused CITR forward to later tax years. Changes will be made to the amount of equity and loan investment which companies will be able to make in Community Investment Finance Institutions (CDFIs), and newly accredited CDFIs will be allowed more time to make onward investments.

1.29 Income tax and national insurance contributions (NICs) reform – As announced in the Autumn Statement, the Government will wait for further progress on planned operational changes to the tax system before formally consulting on the integration of the operation of income tax and NICs.

1.30 Non-domicile taxation – As announced in the Government's response to consultation on changes to the taxation of non-domiciled individuals on 6 December 2011, legislation will be introduced to make further changes to simplify the rules and remove minor anomalies. These changes will simplify the rules relating to exempt property, introduce new rules to deal with property which is lost, stolen or destroyed and extend the types of property which can be displayed in public. Draft legislation setting out the rules for inadvertent remittances will be published in January 2013.

Corporate tax

1.31 Corporation tax rates – As announced in the Autumn Statement 2012, for profits other than ring fence profits, legislation will be introduced to reduce the main rate of corporation tax to 21 per cent for the financial year commencing 1 April 2014. The small profits rate will be kept at 20 per cent for the financial year commencing 1 April 2013.

For ring-fence profits, the main rate will remain at 30 per cent for the financial year commencing 1 April 2014 and the small profits rate at 19 per cent for the financial year commencing 1 April 2013.

1.32 Bank levy – The Government has set out its intention that the Bank Levy should raise at least £2½ billion each year. As announced in the Autumn Statement, the full Bank Levy rate will increase from 0.105 per cent to 0.130 per cent from 1 January 2013 to restore expected yield for future years and to offset the benefit of corporation tax rate cuts to banks. The half rate for chargeable equity and long term chargeable liabilities will be increased from 0.0525 per cent to 0.065 per cent.

1.33 Research and development (R&D) credits – As announced in the Autumn Statement 2011, and following consultation, legislation will be introduced to provide a taxable 'above the line' (ATL) R&D credit of 9.1 per cent for large company R&D expenditure incurred on or after 1 April 2013. The credit will be:

- fully payable to companies with no corporation tax liability;
- introduced alongside the existing super-deduction from 1 April 2013 and legislated to fully replace the super-deduction from 1 April 2016; and,
- paid at a higher headline rate to companies in the oil and gas ring-fence.

The ATL credit will increase the attractiveness of the UK as a location for R&D investment by raising the visibility and certainty of relief, and providing greater support to companies with no corporation tax liability. A response to the consultation on the ATL credit was published on 11 December 2012 and is available on the HM Treasury website.

1.34 Corporation tax reliefs for the creative sector – As announced in Budget 2012, and following consultation on design over the summer, legislation will be introduced providing for new corporation tax reliefs to support investment in the production of animation, high-end television and video games. The response to the consultation was published on 11 December 2012 and is available on the HM Treasury website. This sets out the Government's decisions to offer a payable tax credit under all three reliefs worth up to 25 per cent of qualifying production expenditure, to extend the high-end television tax relief to include high-end documentaries, and to allow programmes where animation makes up 51 per cent or more of the total production costs to qualify as animated programmes under the animation tax relief.

1.35 Annual investment allowance (AIA) – As announced in the Autumn Statement, legislation will be introduced to increase the AIA to £250,000 for a period of two years from 1 January 2013. Provisions will be included to cover accounting periods that straddle the start and end dates.

1.36 First year capital allowances for gas refuelling equipment – As announced in Budget 2012, legislation will be introduced to extend the 100 per cent first year allowance for plant or machinery for gas refueling equipment, for 2 years to 31 March 2015.

1.37 Capital allowances: emissions threshold for a main rate car – As announced in Budget 2012, legislation will be introduced to extend the 100 per cent first year allowance (FYA) for expenditure incurred on cars with low carbon dioxide emissions and electrically propelled cars for an additional two years to 31 March 2015. In addition, legislation will be introduced to exclude from the FYA expenditure on cars that are to be leased, and to revalorise the emission thresholds that determine the rates of writing down allowances for business cars. These changes will have effect for expenditure incurred on or after 1 April 2013. For cars that are leased rather than purchased, the emission threshold at which the lease rental restriction applies will also be revalorised for leases commencing on or after 1 April 2013 (corporation tax) or 6 April 2013 (income tax).

1.38 Tax simplification for small businesses – As announced in Budget 2012, and following consultation in the spring, legislation will be introduced providing that eligible unincorporated small businesses will be able to choose to use the cash basis when calculating taxable income and all unincorporated businesses will have the option to use certain flat rate expenses when calculating taxable income. The measures will have effect from the tax year 2013-14. The legislation published on 11 December 2012 includes the cash basis and flat rate expenses provisions. Further legislation will be published shortly on the transition to and from the cash basis. A response to the consultation was published on 11 December 2012 and is available on the HMRC website. This is accompanied by a technical note explaining the simpler income tax for small businesses policy and how the legislation delivers the policy.

1.39 Disincorporation relief – Following consultation over the summer, legislation will be introduced to allow small companies to claim disincorporation relief. Disincorporation relief will allow a company to transfer goodwill and an interest in land to its shareholders so that no corporation tax charge on the company arises on the transfer. The relief will be available for a limited period of 5 years effective for disincorporations occurring on or after 1 April 2013 and to companies where the value of the qualifying assets transferred does not exceed £100,000. A response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.40 Foreign currency assets and corporate chargeable gains – As announced in Budget 2012 and following consultation over the summer, legislation will be introduced requiring companies to compute their chargeable gains and losses on share disposals in the currency which was their functional currency at the date of disposal. The response to the consultation was published on 11 December 2012 and is available on the HMRC website.

1.41 Corporation tax: NHS bodies – As announced in Budget 2012, legislation will be introduced to exempt new health service bodies, created by the Health and Social Care Act 2012, from corporation tax.

1.42 Oil and gas: decommissioning certainty – As announced at Budget 2012, and following consultation, the Government will introduce a new contractual approach, through Decommissioning Relief Deeds, to provide certainty over decommissioning tax relief for companies in the UK Continental Shelf. To support this, legislation will be introduced to:

- provide the ability to make payments to satisfy any liabilities arising under the deeds;
- provide a statutory exception to the general duty of confidentiality imposed on HMRC officials. This will allow the limited disclosure of certain confidential information regarding Petroleum Revenue Tax to enable companies to calculate the amount potentially payable under a Deed;
- restrict allowances for certain decommissioning expenditure, to counter any artificial inflation of claims for decommissioning tax relief;
- ensure relief is available for the costs of decommissioning onshore oil and gas assets which are used for the purposes of offshore production;
- remove inheritance tax (IHT) charges on property held in decommissioning security settlements; and,
- make various technical amendments.

The proposed changes to the IHT rules in relation to decommissioning security settlements will have retrospective effect from a date which will be 20 years before the date of Budget 2013. The remaining provisions will have effect from the date of Royal Assent to Finance Bill 2013.

The Government's response to the consultation was published on 11 December 2012 and is available on the HM Treasury website. The Government also announced a further stage of consultation which will run to 6 February 2013. A TIIN will be published alongside final legislation in spring 2013.

1.43 Corporation tax: deferring payment of exit charges – Legislation will be introduced to address the way in which HMRC collects corporation tax charges levied on unrealised profits or gains when a UK registered company transfers its place of effective management to another EU Member State (often described as an "exit charge"). The amendment will offer such companies the option to defer payment of the exit charge over a period of time, provided that certain conditions are met. The legislation will permit companies to submit claims for deferral of exit charges that fall due from 11 December 2012 onwards. A consultation document has also been published and is available on the HM Treasury website.

1.44 Banks' regulatory capital – Following consultation, legislation will be introduced to make it clear that the coupon on banks' Tier 2 regulatory capital instruments will be tax-deductible for the issuing bank and that those instruments will be treated as "normal commercial loans" for the purposes of tax grouping rules. This measure was announced by the Financial Secretary to the Treasury in a Written Ministerial Statement on 26 October 2012 and comes into force with effect from that date.

1.45 Debt cap – Following informal consultation this autumn, legislation will be introduced to amend the group treasury election rules in the debt cap. A new criterion is introduced that to be a group treasury company a company must have made an election. Additionally, if all or substantially all of a company's activities are treasury activities, and its assets and liabilities relate to such activities, then the company's financing expenses and financing income are included in the election. However, if a company cannot meet the 'substantially all' provision then the only financing expenses and financing income included in the election will be those that relate to its treasury activities. The amendment will apply to the periods of account of worldwide groups beginning on or after 11 December 2012.

1.46 Group relief – Legislation will be introduced to amend the restrictions on when companies resident in the European Economic Area can surrender losses from their UK branches as group relief from corporation tax in the UK. From 1 April 2013, these restrictions will be based on whether the losses are used elsewhere in any period, rather than on whether they could be used elsewhere.

1.47 Removing inadvertent restriction on corporate tax group loss relief – Legislation will be introduced to ensure that conditions imposed by a statutory body by which one company will leave a group at a pre-determined date will not prevent claims to group relief. This targeted amendment to the rules will not remove the current loss buying avoidance protection. The measure will have effect in relation to accounting periods ending on or after 1 April 2013.

1.48 Controlled foreign companies (CFC) regime – Legislation will be introduced to ensure that the new CFC rules in Finance Act 2012 work as intended, and to counter two tax planning opportunities. The legislation will:

- expand the definition of 'relevant finance lease' within the CFC rules, to ensure certain hire purchase business is within scope of the new CFC rules and so the definition applies to any asset;
- ensure that references to the interpretation of certain accounting practices are consistent;
- limit the UK double taxation relief available in circumstances where loans made by one CFC to another CFC are routed through a UK company; and,
- introduce a minor consequential provision relating to the arbitrage anti-avoidance rules in Part 6 of the Taxation (International and Other Provisions) Act 2010.

Property tax

1.49 Annual residential property tax – As announced in Budget 2012, and following consultation over the summer, legislation will be introduced for an annual residential property tax to be payable by certain non-natural persons that own interests in dwellings valued at more than £2 million. This tax will come into effect on 1 April 2013. It is an annual tax, and returns and payments will be required annually. Returns and payment will usually be due on 30 April, but for the first year returns will be due on 1 October 2013 and payment by 31 October 2013. The amount of tax payable will depend upon which of the fixed bands the dwelling is within. There are a number of reliefs available if the dwelling is being, or is to be, used for a genuine commercial property rental, or trading business; or if it is run as a trade. The response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.50 Stamp duty land tax (SDLT): 15 per cent rate – Finance Act 2012 introduced a 15 per cent rate of stamp duty land tax on the acquisition by certain non-natural persons of dwellings costing more than £2 million. The scope of the 15 per cent rate was included as part of the consultation on the annual residential property tax. A number of reliefs will be introduced to reduce the rate to 7 per cent where there is relief against the annual residential property tax. However, these reliefs will only apply if the property continues to satisfy the qualifying conditions throughout the following three years. If it does not, additional SDLT will become payable.

1.51 Capital gains tax: extension to certain non-natural persons disposing of UK residential property valued at over £2 million – Legislation will be introduced to bring in a capital gains tax charge payable by certain non-natural persons when they dispose of interests in high value residential property in the UK on or after 6 April 2013. Broadly, the new tax charge will be payable by these non-natural persons, on gains accruing on or after 6 April 2013, if they were liable to the new annual residential property tax on the property in question. The TIIN will be published alongside the draft legislation, in January 2013. Details of the policy are set out in the consultation response document published on 11 December 2012, which is available on the HM Treasury website.

1.52 Stamp duty land tax: transfer of rights – As announced in Budget 2012, and following consultation, legislation will be introduced to reform the SDLT rules for transfer of rights. The new legislation aims to ensure that SDLT will generally be charged only on the end purchaser of the relevant land, as under the current rules; but it also aims to provide clearer protection against schemes aiming to avoid this charge.

1.53 Real Estate Investment Trusts (REITs) – As announced in Budget 2012, and following consultation over the summer, legislation will be introduced to allow the income from a UK REIT investing in a UK REIT to be treated as income of the investing REIT's tax exempt property rental business. The legislation will take effect for accounting periods beginning on or after Royal Assent to Finance Bill 2013. As part of the same consultation, the Government considered the role REITs can play in supporting the social housing sector. Following this consultation, the Government has concluded that reforming the REIT regime to support social housing is neither viable nor necessary at this time. A response to the consultation was published on 11 December 2012 and is available on the HM Treasury website.

1.54 Lease premium relief – As announced at Budget 2012, and following informal consultation over the summer, legislation will be introduced to limit the availability of lease premium relief where leases are of more than 50 years' duration. The legislation will take effect for leases granted on or after 1 April 2013 for companies and on or after 6 April 2013 for individuals and partnerships.

1.55 Stamp duty land tax: leases simplification – As announced in Budget 2012, and following informal consultation over the summer, legislation will be introduced to simplify the reporting requirements that apply when a lease continues after the expiry of its fixed term and where an agreement for lease is substantially performed before the actual lease is granted. The rules on abnormal rent increases will also be abolished.

Indirect tax

1.56 Combined bingo – As announced in Budget 2012, legislation will be introduced to amend the accounting arrangements for combined bingo. This will remove the qualifying condition that the game is played entirely in the UK and will have effect for accounting periods that begin after Royal Assent to Finance Bill 2013.

1.57 Herbal smoking products – As announced in Budget 2012, legislation will be introduced to make tobacco-free (herbal) smoking products liable to excise duty, in the same way as tobacco products. Following consultation the Government has decided to maintain a limited exemption for non-tobacco smoking products that are used exclusively for medicinal purposes. It has also moved the effective date back to 1 January 2014. The response to this consultation was published on 11 December 2012 and is available on the HMRC website.

1.58 Air passenger duty: business jets – Legislation will be introduced to give HMRC the power to implement special accounting schemes for operators of business jets and small aircraft. The details of these schemes will be contained in secondary legislation; the TIIN will be published alongside the draft secondary legislation in early 2013.

1.59 Vehicle excise duty administration – As announced in Budget 2012, legislation will be introduced to reduce tax disc postage costs by extending to 14 days the grace period, following the payment of tax, on the non-display of a tax disc in a vehicle. The legislation will also support indefinite off-the-road declarations. The legislation will be effective for tax discs posted on or after Royal Assent to Finance Bill 2013.

1.60 Carbon price floor – Finance Bill 2013 will include the final primary provisions needed to deliver the carbon price support (CPS) rates of climate change levy (CCL) from 1 April 2013, which form part of the Government's carbon price floor announced at Budget 2011. This will include the CPS rates of CCL for 2015-16 (which will be confirmed at Budget 2013) and a number of changes to the detailed provisions included in Finance Acts 2011 and 2012, including clarifying:

- when a supply takes place for the purposes of the CPS rates of CCL and who is responsible for accounting for it to HMRC;
- how supplies to combined heat and power (CHP) stations will be taxed, in particular the treatment of fuels that will be used in producing non-electricity outputs, and the application of the previously announced generating capacity threshold; and,
- how supplies will be taxed when they are made to (and by) auto-generators and exempt unlicensed suppliers, and made to stand-by generators.

Secondary legislation will also set out the detailed administrative provisions to enable HMRC to administer the CPS rates of CCL. Separate secondary legislation will include the CPS rates of fuel duty for oils used in electricity generation for 2013-14 through to 2015-16 (the last year of which will be confirmed at Budget 2013), and the previously announced exemption from these rates for oils used in a qualifying CHP station. All the secondary legislation will also come into force on 1 April 2013.

1.61 VAT: reduced rate for energy-saving materials in charitable buildings – As announced in Budget 2012, legislation will be introduced to remove buildings that are used by charities for non-business purposes from the scope of the reduced rate of VAT for the supply and installation of energy-saving materials. The reduced rate will continue to apply to the supply and installation of energy-saving materials in residential accommodation, including accommodation operated by charities.

1.62 VAT: road fuel scale charges – As announced in Budget 2012, the annual process of updating road fuel scale charges will be simplified from 2014. UK legislation and practice will be streamlined to incorporate two extra-statutory concessions from the date of Royal Assent to Finance Bill 2013. A third concession relating to partial exemption will be withdrawn from 1 January 2014 and advice for affected businesses will be published nearer that time.

1.63 VAT: refunds for NHS bodies – As announced in Budget 2012, from 1 April 2013 the following NHS bodies will be added to the named bodies which are entitled to recover the VAT paid in relation to certain non-business purchases: the National Health Service Commissioning Board, clinical commissioning groups, the National Institute for Health and Care Excellence and the Health and Social Care Information Centre. This is as a result of the changes arising from the Health and Social Care Act 2012.

Anti-avoidance

1.64 General anti-abuse rule (GAAR) – As announced in Budget 2012, legislation will be introduced to target abusive tax avoidance schemes. Following consultation, a number of amendments have been made to the draft legislation to reflect the comments received. The key changes relate to the “double reasonableness test”, the wording of which has been clarified to ensure that the GAAR operates as intended. The list of example indicators of abusive tax arrangements has been amended and the revised legislation includes an example indicator of non-abusive arrangements. The provisions dealing with counteraction and consequential adjustments have been expanded, and the legislation makes it clear that the consequential adjustments can only reduce a person’s liability to tax. The updated draft legislation sets out the procedural requirements relevant to the application of the GAAR by HMRC. This includes details of the role in this process of the GAAR Advisory Panel. The GAAR has effect in relation to any tax arrangements entered into on or after the date of Royal Assent to Finance Bill 2013. A response to the consultation on this measure was published on 11 December 2012 and is available on the HMRC website.

1.65 Manufactured payments – As announced on 15 September 2011 and following consultation in 2012, legislation will be introduced to simplify the tax rules applying to manufactured payments. Except where entered into as part of a trade, manufactured payments relating to equities will generally be neither taxable nor tax deductible. The requirement to deduct income tax from manufactured overseas dividends, or to account for a ‘reverse charge’, will be abolished, together with the corresponding entitlement to claim double taxation relief. A response to the consultation on this measure was published on 11 December 2012 and is available on the HMRC website.

1.66 Review of the taxation of unauthorised unit trusts – As announced at Budget 2011, legislation will be introduced to provide new tax rules for unauthorised unit trusts (UUTs) and their investors to prevent avoidance, simplify the rules where possible and reduce burdens. Finance Bill 2013 will provide powers to make regulations containing the detailed rules. There will be minor changes to the proposals set out in the consultation published on 24 May 2012, to deal with minor and inadvertent breaches and the treatment of exempt investors in some types of UUT that also have one or more non-exempt investor. The legislation will take effect on different dates for different types of UUT, as set out in the TIIN at Annex A.

1.67 Disclosure of Tax Avoidance Schemes (DOTAS) – Revisions to DOTAS were consulted on over summer 2012 as part of the '*Lifting the Lid on Tax Avoidance Schemes'* consultation. Finance Bill 2013 will contain two powers for secondary legislation which will be consulted on in early 2013 alongside other changes. The Government intends to implement all the secondary legislation on a common date, later in 2013. A response to the consultation was published on 11 December 2012 and is available on the HMRC website. A further consultation on information and penalty powers specifically targeting the behaviour that is characteristic of a high-risk promoter will follow in 2013.

1.68 Abolition of income tax relief for payments of patent royalties – As announced on 5 December 2012, legislation will be introduced to abolish the income tax relief for payments of patent royalties made on or after that date. The relief relates only to payments which are not deducted in calculating taxable income from any source, such as trading.

1.69 Bank levies – As announced on 5 December 2012, legislation will be introduced to put beyond doubt that direct or recharged costs in relation to a foreign bank levy will not be an allowable deduction for UK corporation tax purposes. The legislation will take effect for periods of account beginning on or after 1 January 2013. But it will also take effect for periods of account beginning before that date where a claim is made for double taxation relief against the UK Bank Levy in respect of a foreign levy on or after 5 December 2012. Periods of account that straddle 1 January 2013 will be treated as two periods of account: one ending on 31 December 2012 and one beginning on 1 January 2013.

1.70 Avoidance schemes involving loan relationships and derivatives – As announced on 5 December 2012, legislation will be introduced to close down three financial product avoidance schemes, which in turn:

- avoid the consequences of the group mismatch legislation by using a partnership;
- exploit the property total return swaps legislation to convert capital losses into trading losses; and,
- exploit a combination of the manufactured overseas dividends legislation and group debt release legislation to avoid tax on manufactured dividends.

The first two changes will take effect in respect of accounting periods that ended on or after 5 December 2012 (with a new accounting period deemed to begin on that date) while the third will take effect in respect of any payments made on or after 5 December 2012.

Tax administration

1.71 Withdrawing a notice to file a self assessment (SA) tax return – As announced in Budget 2012, and following consultation over the summer, legislation will be introduced to enable HMRC to withdraw a notice to file a SA tax return, when it agrees a SA return is not required. This provision will have effect from the date of Royal Assent to Finance Bill 2013. A response to the consultation on this measure was published on 11 December 2012 and is available on the HMRC website.

1.72 PAYE late payment and filing penalties – As announced in Budget 2012 and following consultation, legislation will be introduced to encourage compliance with the real time information (RTI) payment and information obligations, whilst ensuring those who do not comply do not gain a significant advantage. This includes new late filing penalties for RTI returns, changes to current late payment penalties to ensure they can be charged in-year, and minor changes to the existing inaccuracy penalties so they can be charged in a way that minimises the burden on employers and HMRC. A response to the consultation on this measure was published on 11 December 2012 and is available on the HMRC website.

1.73 Simplification of regulatory penalties – Budget 2012 announced minor simplifications to regulatory penalties. Since then, the Government has concluded that, on their own, the benefits for customers from these changes would be negligible and cannot justify Finance Bill space. Instead, these changes will be made as and when an appropriate opportunity presents itself. A response to earlier consultation was published on 29 June 2012 and is available on the HMRC website.

1.74 UK-Switzerland agreement: remittance basis – Legislation will be introduced to ensure that the policy objectives behind the original agreement are delivered in full. These provisions will mean that appropriate mechanisms are in place so that levies received by HMRC under the agreement are not treated as taxable remittances themselves where they are made by or on behalf of non-UK domiciled individuals. The changes will take effect from the date that the agreement comes into force, which is expected to be 1 January 2013.

1.75 Information powers – Following consultation, legislation will be introduced to bring into effect the UK-US Agreement to Improve International Tax Compliance and to Implement FATCA (US provisions commonly known as the Foreign Account Tax Compliance Act) which was signed on 12 September 2012. A response to the consultation, draft regulations and guidance will be published on 18 December 2012.

1.76 Data-gathering from merchant acquirers – As announced in the Autumn Statement, legislation will be introduced to amend HMRC's data-gathering powers. This amendment will allow HMRC to issue notices to merchant acquirers, who process card transactions, requiring them to provide bulk data about businesses accepting credit and debit cards.

1.77 Overpayment relief: limiting the effect of prevailing practice and timing of loss mistakes – Legislation will be introduced to ensure that:

- overpayment relief claims will not be affected by prevailing practice if tax has been charged contrary to EU law; and,
- the time limit for overpayment relief claims runs in all mistake cases from the period of the mistake.

The legislation takes effect for claims received from six months after Royal Assent to Finance Bill 2013.

1.78 Criminal investigations – As announced in Budget 2012, legislation will be introduced to align HMRC's powers under the Proceeds of Crime Act 2002, bringing powers for former Inland Revenue matters such as income tax and corporation tax into line with those for indirect taxes.

1.79 Customs and excise modernisation – Budget 2012 announced that, following consultation in summer 2011, legislation will be introduced to update customs and excise powers by:

- strengthening the powers to detain goods on reasonable grounds pending investigation of their duty status. Statutory safeguards relating to time limits and the issue of detention notices will be introduced;
- replacing the current fines of £50 and £500 on ships involved in the smuggling of revenue goods with a single appealable maximum fine of £10,000; and,
- amending the Customs and Excise Management Act 1979 to make it clear that the term 'goods' includes any container.

These changes will take effect on the date of Royal Assent to Finance Bill 2013.

Cross-cutting measures

1.80 Personal Independence Payment (PIP) and Armed Forces Independence Payment (AFIP) – PIP and AFIP will be introduced from 1 April 2013 to replace Disability Living Allowance (DLA). As announced in Budget 2012, changes will be made to tax legislation to reflect the new benefits. Legislation will be introduced in Finance Bill 2013 to:

- amend the definition of hire cars for disabled persons within the Capital Allowances Act 2001 to include reference to recipients of PIP and AFIP. This change will have effect from 1 April 2013 when the phased introduction of these payments begins;
- provide a vehicle excise duty exemption for recipients of enhanced mobility PIP, and a 50 per cent discount for recipients of standard mobility PIP, with effect from 8 April 2013;
- amend, for the purposes of vulnerable beneficiary trusts, the definition of a disabled person to include those in receipt of PIP by virtue of entitlement to the daily living component, or those in receipt of AFIP; and harmonise how the trustees may apply trust income and capital. The changes will come into effect from 8 April 2013; and,
- include reference to PIP in one of the definitions of 'disabled child' for the purposes of employer supported childcare. This will ensure that the parents of a disabled child who no longer receives DLA but is in receipt of PIP can continue to receive tax relief for employer supported childcare until the first week in September following the child's 16th birthday. This measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Changes will be made by secondary legislation to ensure:

- the continuity of eligible persons qualifying for the insurance premium tax exemption for insurance contracts providing cover relating to motor vehicles leased by disabled drivers.
- continuity of treatment for those who qualify for a reduced rate of VAT for the grant-funded installation of heating equipment or security goods or connection to a gas supply where the recipients qualify for a specified benefit. Continuity of treatment for disabled people who qualify for the zero rate of VAT for the letting on hire of a motor vehicle, because they receive a relevant allowance.

Secondary legislation

1.81 Changes to the value of the tax exemption for employer supported childcare – Secondary legislation will be introduced to increase the tax exempt amount for employer supported childcare (childcare vouchers or directly contracted childcare) from £22 per week to £25 per week for additional rate taxpayers who join such a scheme on or after 6 April 2011. This will ensure the value of tax relief available for employer supported childcare continues to be aligned to the value received by basic rate taxpayers. Separate secondary legislation will align the value of the national insurance contributions disregard for childcare vouchers with the tax treatment. These changes will take effect on 6 April 2013.

1.82 Capital allowances: first year tax credits – As announced in Budget 2012, secondary legislation will be introduced to extend the time limited first-year tax credits scheme to 31 March 2018. This will enable loss making companies to surrender losses attributable to 100 per cent first-year allowances for investments in certain energy-saving or environmentally-beneficial technologies for a further five years.

1.83 VAT: reduced rate for small cable-suspended transport – As announced in Budget 2012, the rate of VAT applicable to the carriage of passengers on small, cable-suspended transport systems will be reduced from 20 to 5 per cent with effect from 1 April 2013. This will apply where vehicles carry fewer than 10 people each, as transport in larger vehicles is zero-rated. This reduction will be evaluated after three years.

1.84 Building society capital instruments – Secondary legislation will be introduced to ensure new Core Tier One regulatory capital instruments developed by building societies will be taxed in the same way as ordinary share capital in order to meet the requirements of the forthcoming Capital Resources Requirement Directive IV.

Other measures

Tax Information and Impact Notes are also being published for a small number of measures for which the Government is not publishing draft legislation. Details of these measures are set out below.

1.85 Higher rate threshold – As announced in the Autumn Statement, the higher rate threshold for income tax will increase by 1 per cent in 2014-15 and 2015-16 to levels of £41,865 and £42,285 respectively. The higher rate threshold is the point at which an individual starts to pay income tax at the higher rate.

1.86 Capital gains tax: annual exempt amount – As announced in the Autumn Statement, the capital gains tax annual exempt amount will increase by 1 per cent in 2014-15 to £11,000 and by 1 per cent in 2015-16 to £11,100.

1.87 Inheritance tax: nil rate band – As announced in the Autumn Statement, the inheritance tax nil rate band will increase by 1 per cent to £329,000 in 2015-16.

1.88 Fuel duty – As announced in the Autumn Statement, secondary legislation will be introduced to cancel the fuel duty rate increase due to come into effect from 1 January 2013. The effect will be to maintain the duty liability on all fuels at current levels.

A Tax Information and Impact Notes

Introduction

A.1 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.

A.2 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

A.3 All of the tax policy changes contained in this document have been tested against the same list of possible impacts as for regulatory 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.

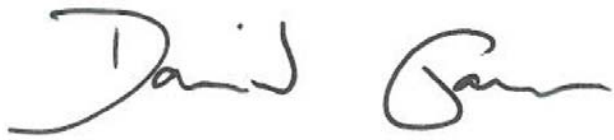
A.4 The other impacts against which each policy has been tested are:

- competition;
- small firms;
- carbon emissions;
- wider environment;
- health;
- sustainable development;
- rural proofing;
- justice; and,
- privacy.

[1] http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/I/11-1112-impact-assessment-toolkit.pdf

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

Tax Information and Impact Notes Contents

Personal Tax

Corporate Tax

Property Tax

Indirect Tax

Anti-Avoidance

Tax Administration

Cross-cutting Measures

Secondary Legislation

Other

Income tax personal allowance for those born after 5 April 1948 and basic rate limit for 2013-14

Who is likely to be affected?

Income tax payers, employers and pension providers

General description of the measure

For 2013-14, legislation in Finance Bill 2013 will increase the personal allowance for those born after 5 April 1948 to £9,440 and reduce the basic rate limit to £32,010.

These amounts announced at Autumn Statement 2012 for the personal allowance and the basic rate limit for 2013-14 supersede the amounts of £9,205 and £32,245 respectively, announced at Budget 2012.

Policy objective

The additional increase to the basic personal allowance, which from 2013-14 will be available to those born after 5 April 1948, furthers the Government's stated objectives to make the tax system fairer; to support those on low and middle incomes; and to reward work by making the first £10,000 of income free from income tax.

Background to the measure

The Government's coalition agreement (*Coalition: our programme for government*) committed, “to announce in the first Budget a substantial increase in the personal allowance from April 2011”, with, “a longer term policy objective of further increasing the personal allowance to £10,000, making further real terms steps each year towards this objective”.

For 2011-12, the personal allowance was increased by £1,000 to £7,475. For 2012-13, the personal allowance was increased by £630 to £8,105. The cash increase of £1,335 to £9,440 in 2013-14, is the next step towards the Government's longer term commitment to increase the personal allowance to £10,000.

Up to 2012-13, an individual's personal allowance depends on their age. From 2013-14, income tax personal allowances will be available by reference to an individual’s date of birth. The personal allowance of £9,440 will be available to people born after 5 April 1948. The higher personal allowance of £10,500 will be available to people born after 5 April 1938 but before 6 April 1948. The higher personal allowance of £10,660 will be available to people born before 6 April 1938.

For 2012-13, the basic rate limit was reduced by £630 to £34,370. As announced at Autumn Statement 2012, for 2013-14, the basic rate limit will be reduced by £2,360 to £32,010.

Detailed proposal

Operative date

The measure will take effect on and after 6 April 2013.

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2012 provides for income tax and sets the main rates for 2013-14.

Section 10 of the Income Tax Act 2007 (ITA 2007) provides that an individual's income is taxable at the basic rate of income tax up to a limit. Section 2 of FA 2012 sets the basic rate limit at £34,370 for 2012-13.

Section 35 of ITA 2007 provides an individual aged under 65 with a personal allowance and the amount of the allowance. Section 3 of FA 2012 sets the amount of the allowance for those aged under 65 at £8,105 for 2012-13.

Section 4, FA 2012 made changes to the main income tax personal allowances. From 2013-14, there are still three main personal allowances, but availability will be by reference to date of birth rather than age in the tax year. The higher allowances for those born before 6 April 1948 will not be increased, and in the long term they will be removed from the statute book when the personal allowance for those born after 5 April 1948 catches up.

Existing legislation within ITA 2007 requires the Government to increase personal allowances and rate limits (except the £150,000 higher rate limit and the £100,000 personal allowance income limit) by the annual percentage increase in the Retail Prices Index (RPI) for the year to September preceding the new tax year (indexation). The Government will make an Indexation Order to declare the indexed amounts for 2013-14 before the start of the tax year. The legislation to be introduced in Finance Bill 2013 will over-ride the amounts set in the Indexation Order for the personal allowance for those born after 5 April 1948, and the basic rate limit for tax year 2013-14.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to over-ride the amounts in the Indexation Order, to set the personal allowance for those born after 5 April 1948 at £9,440 and the basic rate limit at £32,010 for 2013-14.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-1000	-1110	-1110	-660	-580
	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 will reduce income tax for low and middle income individuals, improving incentives to enter employment and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. Overall employment outcomes will also depend on other measures announced relating to personal tax and national insurance contributions as well as aggregate labour demand and the performance of the wider economy.					
Impact on individuals and households	The further increase in the personal allowance will take 245,000 income taxpayers out of income tax altogether. By April 2013, the cumulative effect of this Government’s increases in the personal allowance will lift 2.2 million people under 65 out of the income tax system.					

	In 2013-14, 24.4 million individuals will gain an average of £47 (in cash terms) in addition to that already announced, of which 20.4 million are basic rate taxpayers (average gain £47) and four million higher rate taxpayers (average gain £47). In 2013-14, 531,000 individuals lose an average of £47, all of which are higher or additional rate taxpayers. These are all people who do not benefit from the Personal Allowance as they are above the taper range at which it is withdrawn. All will have incomes in excess of £118,410. In cash terms, the personal allowance increases by £1,335 in 2013-14, relative to 2012-13 - this is the largest ever cash increase. The increase in personal allowance announced at Autumn Statement 2012 overrides the increase that was announced at Budget 2012 for 2013-14, so the total impact on individuals in 2013-14 will be the combined effect of the two increases. Impacts of the Budget 2012 change were published in the tax information impact note at Budget 2012, and can be viewed on the HM Revenue & Customs (HMRC) and HM Treasury websites.
Equalities impacts	HMRC only holds administrative data about individuals' age and gender. In 2013-14, females are projected to account for 43 per cent of all taxpayers and males 57 per cent. From this measure, 2013-14 estimated impacts are: • 24.4 million individuals gain an average of £47, of which 13.7m (56 per cent) are male and 10.7m (44 per cent) are female. Average gains do not differ between males and females. 23.5m (96 per cent) were born after 5 April 1948 (£47 average gain) and 0.93m (4 per cent) were born before 5 April 1948 (£45 average gain). • 245,000 individuals taken out of tax altogether, of which 102,000 (42 per cent) are male and 143,000 (58 per cent) are female, and all of which were born after 5 April 1948.
Impact on business including civil society organisations	Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HMRC.
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible because changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	<u>Small firms impact test:</u> This measure will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is a HMRC P11 calculator on the business link website. Other impacts have been considered and none have been identified.

Monitoring and evaluation

A key aim of this measure is to boost the rewards of employment and HMRC and HM Treasury will seek to assess the cumulative labour market effects of personal allowance increases in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk).

Income tax status of Universal Credit

Who is likely to be affected?

This measure will affect people entitled to receive Universal Credit, including those who move onto Universal Credit from an existing social security benefit.

General description of the measure

This measure will exempt Universal Credit from liability to income tax.

Policy objective

Making Universal Credit tax exempt is consistent with the Government's wider aim of simplification. It also fits with the Government's stated intention to remove those on the lowest incomes from tax.

Background to the measure

Universal Credit was part of a package of measures in the Welfare Reform Act 2012. It supersedes six benefits and tax credits of which two are taxable to some degree. It is not possible to disaggregate components of an award of Universal Credit, so the tax exemption applies to an individual's total entitlement.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013.

Current law

The income tax status of social security benefits is set out in the Income Tax (Earnings And Pensions) Act 2003 (ITEPA). Table A is section 660 ITEPA includes the social security benefits that are liable to income tax. Table B, Parts 1 and 2 in section 677 ITEPA include the social security benefits that are wholly exempt from income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide that Universal Credit and its equivalent in Northern Ireland are added to the list of tax exempt benefits in Table B.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to reduce receipts by approximately £30 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 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This will affect people as they migrate from claiming a currently taxable benefit to claiming non-taxable Universal Credit. Around 300,000 individuals are estimated to pay tax currently on benefits moving into Universal Credit. Numbers affected will build over time to 300,000 reflecting the phased migration of claimants to Universal Credit.					

Equalities impacts	There is very little information on the characteristics of those individuals who currently pay tax on a benefit which will be superseded by Universal Credit. They will all gain at their marginal rate.
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. This measure impacts on income tax due for individuals only.
Operational impact (£m) (HMRC or other)	This measure will have a negligible operational impact.
Other impacts	Other impacts and been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax receipts and data from the Department for Work & Pensions as individuals are moved from currently taxable benefits to Universal Credit.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

Cap on income tax reliefs

Who is likely to be affected?

Individuals who use currently unlimited reliefs to reduce the amount of total income liable to tax.

General description of the measure

This measure will introduce a cap on certain currently unlimited income tax reliefs that may be deducted from income under section 24 of the Income Tax Act 2007 (ITA). The cap will be set at £50,000 or 25 per cent of income, whichever is greater. The primary reliefs affected will be trade and property loss reliefs that can be relieved against general income and qualifying loan interest relief. A small number of other reliefs will also be affected.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system by introducing a limit on currently uncapped income tax reliefs from April 2013.

Background to the measure

The Government announced this measure at Budget 2012. A consultation on delivery, *Delivering a cap on income tax relief: a technical consultation,* was published on 13 July 2012 and ran for a period of 12 weeks. A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013.

Current law

Section 24 of ITA details various specific reliefs that may be deducted in the calculation of income tax liability, including reliefs which can be relieved against general income. There is currently no upper limit on the amount of income tax relief claimed for the year of the claim, any other earlier year claimed, or any later year in which the relief claimed is allocated.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to set a limit on specific income tax reliefs claimed by individuals from 6 April 2013. The limit will only apply to certain reliefs, which are currently unlimited, and will be set at the greater of £50,000 or 25 per cent of income. The limit will not apply to charitable reliefs.

The following income tax reliefs will be limited to the extent that they can be relieved by individuals against general income:

- Trade loss relief against general income – available for losses made by an individual carrying on a trade, profession or vocation. This will exclude relief for losses attributable to overlap relief and business premises renovation allowances (BPRA);
- Early trade losses relief – available to an individual in the first four years of the trade, profession or vocation. This will exclude relief for losses attributable to overlap relief and BPRA;

- Post-cessation trade relief – available for qualifying payments or qualifying events within seven years of the permanent cessation of the trade;
- Property loss relief against general income – available for property business losses arising from capital allowances or agricultural expenses. This will exclude relief for losses attributable to BPRA;
- Post-cessation property relief – available for qualifying payments or qualifying events within seven years of the permanent cessation of the UK property business;
- Employment loss relief – available in certain circumstances where losses or liabilities arise from employment;
- Former employees deduction for liabilities – available for payments made by former employees for which they are entitled to claim a deduction from their general income in the year in which the payment is made;
- Share loss relief on non-Enterprise Investment Schemes / Seed Enterprise Investment Schemes shares – available for capital losses on the disposal (or deemed disposal) of certain qualifying shares;
- Losses on deeply discounted securities – available only for losses on gilt strips and on listed securities held since at least 26 March 2003; and,
- Qualifying loan interest – available for interest paid on certain loans. These include loans to buy an interest in certain types of company, or to invest in a partnership.

An individual's income will be calculated for the purposes of the limit as the same for all affected individuals as their total income liable to income tax. This figure will then be adjusted to include an individual's charitable donations made via payroll giving and to exclude pension contributions, to create a level playing field between those whose deductions are made before they pay income tax, and those whose deductions are made after tax. The result, 'adjusted total income', will be the measure of income for the limit. The limit will apply to the year of the claim and any earlier or later year in which the relief claimed is allocated against total income. The limit will not apply to relief offset against profits from the same trade or property business.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	negligible	+490	+240	+300
	These figures were set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility (OBR). More details can be found in the policy costings document published alongside the Budget 2012. In addition, excluding charitable reliefs is expected to decrease receipts by approximately £65 million per annum. These detailed figures are set out in Table 2.1 of the Autumn Statement and have been certified by the OBR. More detail can be found in the policy costings document published alongside the Autumn Statement. The impact of further revisions will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.				

Economic impact	The measure is expected to have no significant macroeconomic impacts. The cap will restrict trade loss relief set against general income, however offset of losses against income from the same trade will remain unlimited. In many cases carry-back of losses against the same trade will still provide immediate relief; failing this losses will be carried forward. Delaying loss relief reduces the net present value of investment projects and therefore may impact on investment decisions and start-ups. However as the minimum cap is set at £50,000, for most businesses this is likely to allow losses to be relieved without delay and therefore without significant impact on investment decisions. There may be some behavioural change as individuals rearrange their affairs to limit the effect of the relief cap.
Impact on individuals and households	The cap on unlimited tax relief will only affect individuals with incomes over £50,000 in a tax year, claiming specified reliefs for that year totalling in excess of £50,000. It is estimated that around 8,000 individuals each year will be affected due to use of unlimited tax relief in excess of both £50,000 and 25 per cent of their income. Those impacted are likely to have high incomes, with over 90 per cent of the static yield attributable to individuals with incomes over £150,000, with a median loss of £20,000 per person. Some individuals with very high gross incomes will be impacted significantly more. Those affected are within the Self Assessment population. The relief cap will be operated via automated calculations using information already reported as part of the Self Assessment process. Where relief is claimed against an earlier year a manual calculation will apply as now. This should not significantly increase the administrative or compliance burden on individuals. Some individuals making charitable donations through payroll giving (and wishing for these to be taken into account when calculating their adjusted income for the purpose of the cap) will need to add up their annual contributions from their payslips, as this figure is not reported on the annual certificate of pay and tax, P60. This will be voluntary, but will increase the level of relief available to an individual.
Equalities impacts	Analysis of Self Assessment data does not support detailed equality analysis but HMRC has been able to extract some distribution of those impacted: • Around 90 per cent of those expected to be impacted are male. • Approximately 70 per cent are aged between 40 and 65. The available Self Assessment data does not allow the total number of individuals affected to be broken down by ethnicity, disability, religion, belief or sexual orientation. However, it is not expected that the policy would adversely or disproportionately impact on any of these groups.
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The relief cap with be operated via automated calculations using information already reported as part of Self Assessment. Some businesses will incur a negligible one-off cost due to familiarisation with the policy, and a negligible additional on-going administrative burden due to the requirement for more complex calculations.

Operational impact (£m) (HMRC or other)	Implementation will require changes to HMRC’s Self-Assessment system and processes. The costs of these are currently estimated to be £500,000.
Other impacts	Small firms impact test: the cap is likely to have some limited impacts on small businesses, as it will restrict relief for losses against other income of the same year. However, losses can still be offset against profits of the same trade to an unlimited extent; therefore in most cases the losses can still be eventually relieved. Other impacts have been considered and none have been identified.

Monitoring and evaluation

A key aim of this measure is to ensure that wealthy individuals make fairer income tax contributions and HMRC and HM Treasury will seek to assess the effects of cap in the context of other relevant tax changes.

The measure will be kept under review through regular communication with the relevant business sector and where it sees evidence of any abuse emerging, including artificially constructed ways to circumvent the cap specific and targeted action will be taken.

Further advice

If you have any questions about this change, please contact Carolyn Howes on 020 7147 3508 (email: carolyn.howes@hmrc.gsi.gov.uk).

Statutory residence test

Who is likely to be affected?

The statutory residence test will determine if an individual is resident in the UK or not for tax purposes. However, the vast majority of individuals will be unaffected by the introduction of the test.

General description of the measure

This measure will introduce a statutory residence test which will provide greater clarity and certainty to individuals when determining their residence status for tax purposes in the UK. The current rules for determining tax residence depend to a large extent on cases decided by the courts. Many of these cases were decided some time ago and do not reflect modern work or travel patterns.

Policy objective

The measure will introduce a statutory residence test that is transparent, objective and simple to use.

Background to the measure

The Government announced at Budget 2011 that it would introduce a statutory residence test. A consultation on the statutory residence test during summer 2011 raised a number of detailed issues requiring careful consideration to ensure the legislation achieves its objectives.

In December 2011, the Government announced that it would defer the introduction of the test until April 2013 to give time for further consideration. In June 2012, the Government published draft legislation and a summary of responses document opening up a further consultation which closed in September 2012.

Detailed Proposal

Operative Date

The measure will have effect on and after 6 April 2013.

Current law

The current rules for determining tax residence depend to a large extent on cases decided by the courts and can be found in HM Revenue & Customs (HMRC) guidance. There are many different factors which will determine whether an individual is resident in the UK under current rules. If an individual is in the UK for 183 days or more in a tax year, they are resident in the UK. However, an individual can also be resident in the UK if they are here for fewer than 183 days depending on the purpose and pattern of their presence and their connections to the UK.

Proposed revisions

The statutory residence test will replicate as far as possible the residency outcomes delivered by the current rules. The test will also take into consideration the days spent in the UK and connections to the UK and will be structured into three parts.

Firstly, the automatic overseas test will determine if an individual is automatically non-resident.

Secondly, the automatic UK test will determine if an individual is automatically resident.

Thirdly, the sufficient ties test will determine the residency position if an individual meets neither the automatic overseas nor the automatic UK test. The sufficient ties test determines residency based on a combination of the amount of time spent in the UK with the number of ties a person has.

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><td>2017-18</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. Any impact will be set out at Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="6">Providing clarity on tax residency may increase the attractiveness of the UK as a place to invest, which may lead to a small increase in inward investment in the medium term.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The statutory test will provide greater certainty for the taxpayer and reduce the administrative complexity of navigating the current rules. There will be a small number of individuals whose residence status will change as a result of this test but it is not possible to calculate precisely how many will be affected.

Anyone who becomes resident as a result of this test will potentially be faced with additional burdens in completing a Self Assessment tax return, disclosing worldwide income or claiming double taxation relief. Anyone who becomes non-resident as a result of this test will benefit from a corresponding reduction in burdens.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The introduction of a statutory residence test is not intended to change the residence status outcome in the vast majority of cases and it is not expected to have a particular impact, either positive or negative, on any equality group.</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. Providing certainty on the residence status of individuals is expected to result in a negligible decrease in ongoing administrative burdens for companies which employ expatriate workers, since they will need to spend less time in ensuring the optimal tax status of these workers. There may be some negligible one-off costs in becoming familiar with the new provisions.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be an initial resource cost for HMRC to develop the test and to provide guidance to those who use it. In the longer term there is likely to be a reduction in operational costs for HMRC by making the rules easier to police and simplifying compliance activity. It would also reduce instances of litigation and associated legal costs.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test:</u> there will be a negligible impact on businesses, some of which will be small firms.

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 these changes, please contact the offshore personal tax team (email: offshorepersonal.taxteam@hmrc.gsi.gov.uk).

Reforms to ordinary residence

Who is likely to be affected?

Individuals who currently claim the remittance basis of taxation on the grounds of being not-ordinarily resident and individuals who currently benefit from Overseas Workday Relief (OWR) for three full tax years will be affected. However, transitional rules will minimise any impact on these individuals. OWR will also be available to non-domiciles who come to the UK regardless of their intention to settle in the UK.

General description of the measure

This measure will abolish the concept of Ordinary Residence and will retain OWR and place it on a statutory footing. OWR will be available to non-domiciled arrivers who come to the UK and have not been UK resident in the previous three tax years regardless of their intention to settle in the UK.

Policy objective

This measure will support the aim of simplifying the tax system. It will also provide greater certainty and clarity to individuals.

Background to the measure

The measure was announced at Budget 2012. Draft legislation was published in June 2012 which included a test attempting to replicate the intention to settle test for individuals claiming OWR. However, respondents during consultation expressed that this test was vague and subjective and suggested an alternative policy of offering OWR to all arrivers regardless of their intention to settle in the UK. On 11 December 2012, the Government published draft legislation containing these new rules on OWR.

Detailed Proposal

Operative Date

The legislation will have effect on and after 6 April 2013.

Current law

The UK does not have a statutory definition of Ordinary Residence. The rules are provided in guidance by HM Revenue & Customs (HMRC). An individual who has always lived in the UK will be ordinarily resident. Individuals who come to live in the UK will be ordinarily resident if it is clear that they intend to stay for longer than three years. Under current rules, OWR is available to individuals who are resident but not-ordinarily resident in the UK (broadly meaning that they intend to remain in the UK for less than three years).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to abolish Ordinary Residence and to place OWR on a statutory footing. OWR will be available to individuals who come to the UK regardless of their intention to settle in the UK and will be available for the tax year that they become UK resident and the following two tax years. It will be restricted to non-domiciles who have not been resident in the UK in the previous three tax years prior to coming to work in the UK. The transitional rules will ensure that individuals who would currently benefit from

OWR for three full tax years will continue to be able to benefit for this amount of time if they are claiming OWR when the new rules come into force in April 2013.

Retaining OWR will ensure that employers can continue to benefit from a significant administrative easement for short-term secondees. Restricting the relief to non-domiciles may create a disincentive for some employers to deploy domiciles to the UK, but very few domiciles currently use the relief so any impact is expected to be minimal.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Abolishing ordinary residence will be a major simplification to the current rules and will lessen the administrative burden for individuals. At present, it is possible to claim the remittance basis on the grounds of being not ordinarily resident. This will not be possible after the reforms are introduced. Data from the financial year 2008-09 shows that around 300 individuals claimed the remittance basis on the grounds of not being ordinarily resident. However, transitional rules will minimise any impact on individuals who currently benefit from being not ordinarily resident. The vast majority of individuals who currently benefit from OWR will not lose access under the new rules. These reforms will widen the availability of the relief to all arrivers regardless of the length of time they intend to stay in the UK. However, as OWR is currently available for three full tax years, there will be a number of individuals who will not benefit from OWR for as long as they would have done under current rules. There will also be transitional rules for anyone who is still in receipt of OWR when the rules come in force in April 2013.					
Equalities impacts	There is no impact on groups with protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses because is it directed at individuals rather than organisations. A small number of employers may be actively engaged in ensuring optimal tax status for their employees, and in these cases there may be some one-off costs in terms of familiarisation with the new provisions and a negligible change in ongoing administrative costs. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	Simplification will result in some efficiencies for HMRC in undertaking and checking calculations, but these will not be significant.					
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 these changes, please contact the offshore personal tax team (email: offshorepersonal.taxteam@hmrc.gsi.gov.uk).

Employee shareholder status: capital gains tax exemption

Who is likely to be affected?

Individuals who have taken up the 'employee shareholder' employment status and have capital gains.

General description of the measure

This measure exempts any capital gains made by individuals on the disposal of shares acquired through the adoption of the 'employee shareholder' employment status from capital gains tax (CGT).

Policy objective

This measure is part of a wider policy to introduce a new ‘employee shareholder' employment status to reduce regulatory burdens on business. This measure is intended to relieve those individuals taking up the 'employee shareholder' status from any CGT charge that might arise on the disposal of shares acquired through the adoption of the new status.

Background to the measure

On 8 October 2012 the Government announced its intention to introduce a new 'employee shareholder' employment status. Individuals adopting the status will receive between £2,000 and £50,000 of CGT-exempt shares.

The Department for Business, Innovation and Skills published a consultation on the implementation of the 'employee shareholder’ status on 18 October 2012. The consultation closed on 8 November.

Detailed proposal

Operative date

The exemption will apply to shares received through the adoption of the new 'employee shareholder' status on or after 6 April 2013.

Current law

Section 3 of the Taxation of Chargeable Gains Act 1992 (TCGA) provides that individuals pay CGT only on their chargeable gains (net of allowable losses and all other reliefs) that exceed the annual exempt amount (currently £10,600) for the tax year. Shares are assets for the purposes of capital gains tax (section 21 TCGA 1992) and, in the absence of provisions to the contrary, gains on disposals of such assets are chargeable to capital gains tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to exempt any capital gains on the disposal of shares acquired through the adoption of the 'employee shareholder' employment status from CGT. Existing share pooling and identification rules will be amended as necessary.

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><td>2017-18</td></tr>
<tr><td>-</td><td>nil</td><td>nil</td><td>negligible</td><td>-20</td><td>-80</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">As it is entirely new, predicting the take up of the new employment status is highly uncertain. It is broadly expected that 20,000 to 40,000 individuals a year may eventually benefit from the CGT exemption on disposal of the shares.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The gender split for CGT payers has been relatively stable over time, with men making up around 60 per cent of those filing a tax return that includes a capital gain and women making up around 40 per cent. Those aged 45-50 and 55-60 are most likely to file a return that includes a capital gain.

The introduction of this CGT exemption 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">Most of the companies affected are likely to be those already awarding employee shares and reporting to HM Revenue & Customs. The requirement to notify the awards of shares associated with the new employee shareholder status is likely to involve minimal additional activity in form returns. There may be a small number of companies that are attracted by the measure and start awarding shares to employees. Overall no significant cost is expected, both in terms of one off implementation costs and ongoing administrative burdens.

Overall, this measure is expected to have a negligible impact on businesses and civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The ongoing costs of operating the ‘employee shareholder’ employment status, including the provision of valuation services, form processing and compliance work, are estimated to be in the region of £1.6 million a year. These include operational costs relating to the wider policy, as well as the CGT exemption.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test:</u> the impact on small firms (with fewer than 20 employees) has been considered. This measure is a beneficial measure and excluding companies with fewer than 20 employees would not achieve the stated policy objective.

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 change, please contact Rob Clay (email: rob.clay@hmrc.gsi.gov.uk) or Edward Odell (email: edward.odell@hmtreasury.gsi.gov.uk).

HM Revenue & Customs

Enterprise management incentives: qualification for capital gains tax entrepreneurs' relief

Who is likely to be affected?

Individuals who have received share options under the enterprise management incentives (EMI) scheme and have capital gains.

General description of the measure

This measure extends capital gains tax entrepreneurs' relief in relation to gains accruing on the disposal by an individual of shares acquired through the exercise of an EMI qualifying option.

Policy objective

The measure aims to help small and medium enterprises (SMEs) recruit and retain high calibre employees by extending the tax advantages available to employees granted share options under the scheme.

Background to the measure

This measure was announced at Budget 2012 as part of a package of changes to EMI.

Detailed proposal

Operative date

This measure will have effect for eligible shares acquired on or after 6 April 2012 that are disposed of on or after 6 April 2013.

Current law

Entrepreneurs' relief is provided for at Chapter 3 (sections 169H to 169S) of Part V of the Taxation of Chargeable Gains Act 1992. The relief allows gains accrued on the disposal of shares in a trading company to be taxed at the reduced rate of 10 per cent provided that the disposal is by an individual who, throughout the year ending on the date the shares are sold, has worked for the company and owned at least 5 per cent of the ordinary shares in the company. The relief also applies to the sale of shares in the holding company of a trading group. Entrepreneurs' relief is subject to a lifetime limit on the first £10 million of gains.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove, for shares acquired through the exercise of a qualifying EMI option, the requirement for entrepreneurs' relief that the person must hold 5 per cent or more of the ordinary share capital in the company. The normal 12 month minimum holding period requirement will include the period the option is held.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to reduce receipts by approximately £15 million per annum from 2013-14. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	In 2009-10 approximately 17,000 employees were awarded EMI options. This measure will benefit those individuals with capital gains above the Annual Exempt Amount. Those benefiting from the measure may face new compliance costs as a result of the need to track and report the gains on their EMI shares separately from non-EMI shares.					
Equalities impacts	No equalities impact is expected.					
Impact on business including civil society organisations	This measure is expected to have no impact in terms of administrative burdens on businesses or civil society organisations. The changes should increase the ability of qualifying start-ups/SMEs to recruit and retain high calibre employees.					
Operational impact (£m) (HMRC or other)	A negligible impact is expected.					
Other impacts	Small firms impact test: this measure is likely to have a positive effect on small firms as it aimed at supporting qualifying SMEs to recruit and retain high calibre employees. Competition assessment: EMI aims to address a well-defined market failure faced by small and medium enterprises looking to recruit and retain high calibre employees. It is unlikely that any businesses will face adverse competition consequences as a result of this measure. 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 Alan McGuinness on 020 7147 2766 (email: alan.mcguinness@hmrc.gsi.gov.uk).

Tax advantaged employee share schemes: Office of Tax Simplification recommendations

Who is likely to be affected?

Employers and employees eligible to use any of the tax advantaged employee share schemes, their advisers and representatives, and payroll and share plan administrators.

General description of the measure

This measure will give effect to some of the changes recommended by the Office of Tax Simplification (OTS) to the rules governing the four tax advantaged employee share schemes - Share Incentive Plans (SIP), Save As You Earn Option Schemes (SAYE), Company Share Option Plans (CSOP) and Enterprise Management Incentives (EMI).

Policy objective

This measure simplifies the employee share schemes rules where they currently create undue complexities or unnecessary administrative burdens for scheme users, and supports the Government's objective to simplify the tax system.

Background to the measure

The Government asked the OTS to examine the scope for simplifying the rules for the four tax advantaged employee share schemes. The OTS published its report on 6 March 2012, recommending various changes to the current provisions.

The Government issued a consultation document on 27 June 2012, inviting comments on the detailed implementation of some of the OTS recommendations.

A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The changes which relate to the reinvestment of cash dividends paid on SIP shares come into effect on and after 6 April 2013. The other changes will take effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

The rules for the four tax advantaged employee share schemes are set out in the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) in the following areas:

- Retirement of individuals: the present rules for SIP (section 498(2)(e), paragraph 98 Schedule 2), SAYE (paragraphs 31, 33 and 34 Schedule 3) and CSOP (section 524, paragraph 35A Schedule 4) specify when individuals who leave employment on retirement may receive favourable tax treatment under the scheme.
- Treatment of share awards and options on cessation of employment: the present legislation specifies for SAYE (section 519 and paragraphs 32 - 34 Schedule 3) and CSOP (section 524 and paragraph 24 Schedule 4) when those leaving employment other than on retirement may receive favourable tax treatment; and sets out rules for SIP (paragraphs 86 / 87 Schedule 2), SAYE (paragraphs 37 - 39 Schedule 3) and CSOP (paragraphs 26 /27 Schedule 4) on how share awards and options are treated in the event of a cash takeover of the company.

- Material Interest Rules: under the current legislation for SIP (paragraph 19 Schedule 2), SAYE (paragraphs 11 - 13 Schedule 3) and CSOP (paragraphs 9-11 Schedule 4) individuals are not eligible to participate if they already have a 'material interest' in the share capital of the business (or in some cases the assets of the business).
- Restricted Shares: the present rules for SIP (paragraphs 30-33 Schedule 2), SAYE (paragraph 21 Schedule 3) and CSOP (paragraph 19 Schedule 4) specify that only certain kinds of restrictions are to be applied to shares used in schemes.
- Partnership Shares: paragraphs 51 / 52 Schedule 2 set out the terms on which employees may purchase SIP shares by deduction from their salary over a period of up to 12 months, referred to in the legislation as an 'accumulation period'.
- Dividend Shares: paragraphs 68 / 69 Schedule 2 set out the conditions on which cash dividends paid on SIP shares may be reinvested in 'dividend shares', further tax advantaged shares held under SIP.
- Employee Share Ownership Trusts: paragraph 78 Schedule 2 sets out a rule concerning the acquisition by SIP trustees of shares from a qualifying employee share ownership trust.
- Disqualifying Events: section 532(1) sets a time limit of 40 days for exercise of EMI options with favourable tax treatment when a 'disqualifying event' as defined in the legislation occurs.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the existing provisions that govern tax advantaged employee share schemes. The main changes are:

- Simpler and more consistent rules for SIP, SAYE and CSOP to govern when employees who leave employment on retirement are entitled to favourable tax treatment.
- Simpler and more consistent rules for SAYE and CSOP to govern when those leaving employment other than on retirement are entitled to favourable tax treatment as 'good leavers'. There will also be provision to allow tax free exercise of SAYE or CSOP options, or tax free payments for SIP shares, in certain cases where there is a cash takeover of the company that established the scheme.
- Abolishing the present rules for SIP and SAYE that prevent participation by employees holding a 'material interest' in the company, and aligning the level of control in the company that triggers the 'material interest' restriction for CSOP with that used for EMI, by raising it from 25 per cent to 30 per cent.
- Removing the present prohibitions under SIP, SAYE and CSOP on the use of certain restricted shares.
- Amending the rules on allocation of SIP Partnership Shares where employees purchase shares by deduction from salary over an 'accumulation period'. Employers will be allowed greater flexibility in setting the valuation basis for determining the number of shares awarded to employees at the end of the accumulation period.
- Simplifying the SIP rules on reinvestment of cash dividends paid on SIP shares in 'dividend shares' held under SIP. The present conditions that reinvestment is limited to £1,500 per employee per year, and must take place within three years, will be abolished.
- Repealing the provision in the SIP legislation concerning the acquisition by SIP trustees of shares from qualifying employee share ownership trusts.
- Extending from 40 to 90 days the time available for those holding qualifying EMI options to exercise them with favourable tax treatment after a 'disqualifying event' occurs.

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><td>2017-18</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 reduce receipts by approximately £40 million per annum from 2013-14. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.</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">Individuals participating in tax advantaged share schemes benefit from tax and National Insurance Contributions relief on employee shares. The schemes also enable these individuals to own a stake in the companies for which they work, and to share in the growth of these companies.

Respondents to HM Revenue & Customs' (HMRC) consultation on these proposals suggested that many of the proposed changes could encourage further take up of schemes by employees, or increase the benefits available to scheme participants. In particular, it is anticipated that proposals in relation to cash takeovers; the material interest rules; SIP dividend reinvestment; 'good leaver' provisions; and EMI disqualifying events could increase the tax advantages available to individuals in certain circumstances.

The proposed changes in relation to retirement, restricted shares and SIP partnership shares and accumulation periods could reduce the benefits available to individuals in certain circumstances.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">Detailed information on the use of the schemes by individuals with protected characteristics is not available.

It is not anticipated that any of the proposed changes would impact disproportionately on any individuals with protected characteristics. This includes the changes relating to individuals leaving employment on retirement, where those responding to a consultation did not consider that the changes discussed would have a significant effect on the number of participants treated as having retired for the purposes of the schemes.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">Respondents to HMRC's consultation on these proposals told us that many of the proposed changes could reduce costs, complexities and administrative burdens for those businesses that choose to offer tax advantaged schemes. For example, business costs or uncertainty could be reduced by proposals in relation to the 'good leaver' rules for SAYE and CSOP; SIP dividend reinvestment; the retirement and material interest rules; and cash takeovers.

Other proposed changes could enable more employers to offer tax advantaged schemes, or increase the flexibility available to businesses that offer schemes. This includes proposals in relation to SIP partnership shares and accumulation periods, and the use of restricted shares.

It is not expected that the proposed changes would increase the cost of offering a tax advantaged share scheme, although there may be some one-off costs to businesses associated with familiarising themselves with any changes to scheme rules. In addition, minor costs may arise for businesses choosing to apply restrictions to the shares they offer under the schemes. These include those relating to obtaining valuation of the shares and providing details of the restrictions to participants.</td></tr>
</table>

	As the number of businesses affected by these changes is likely to be small, the total associated changes in administrative burden cost are expected to remain modest. Overall the measure is expected to have a negligible impact on businesses and civil society organisations.
Operational impact (£m) (HMRC or other)	No major impact is expected although the proposal on restricted shares may require additional requests to HMRC to agree share valuations.
Other impacts	Small firms impact test: As set out above, many of these proposed changes could reduce the cost of offering a scheme, or increase the flexibility available to businesses that offer schemes. It is not expected that the proposed changes would increase the cost of offering a tax advantaged share scheme, although there may be some one-off costs to businesses associated with familiarising themselves with any changes to scheme rules. In addition, minor costs may arise for businesses choosing to apply restrictions to the shares they offer under the schemes. These include those relating to obtaining valuation of the shares and providing details of the restrictions to participants. 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 Andrew Ellis on 020 7147 2658 (email: andrew.ellis1@hmrc.gsi.gov.uk).

Glasgow Commonwealth Games

Who is likely to be affected?

Non-UK resident sportspeople competing in the Glasgow 2014 Commonwealth Games (Glasgow 2014).

General description of the measure

This measure provides an exemption from UK income tax for non-resident sportspeople on any income received as a result of their performance at Glasgow 2014, or as a result of any activity carried out during the period for which athletes' accreditation cards are valid (accreditation period) where the main purpose is to support or promote Glasgow 2014 or future Commonwealth Games.

Policy objective

This exemption has been put in place to help prolong the legacy of the London 2012 Olympic and Paralympic Games, and spread that legacy to Scotland.

Background to the measure

This exemption was announced on 26 January 2012. It is similar to the exemption provided for non-resident competitors who took part in the London 2012 Olympic and Paralympic Games. It applies only to income received by non-resident sportspeople who compete at or carry out activities during the accreditation period of Glasgow 2014 whose main purpose is to support or promote Glasgow 2014 or future Commonwealth Games.

Detailed proposal

Operative date

The measure will affect income of non-resident competitors in Glasgow 2014 which arises during the Glasgow 2014 accreditation period.

Current law

Section 27 of Income Tax (Earnings and Pensions) Act 2003 and sections 13 and 14 of Income Tax (Trading and Other Income) Act 2005 impose a UK income tax charge on respectively non-resident sportspeople's employment and self-employment income that is connected to a performance which takes place in the UK. Without the exemption provided by this measure, non-resident sportspeople would be taxed in the UK on both their income gained as a result of their performance at Glasgow 2014, plus a proportionate share of their worldwide sponsorship income. The exemption will not apply to the income of UK resident sportspeople.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide an exemption from the above UK income tax charges for non-resident sportspeople on income related to a Glasgow 2014 performance.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-	negligible	negligible	-	-
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The exemption means that non-resident sportspeople will not be subject to UK income tax on income related to Glasgow 2014. They would be liable to tax on this income in the countries in which they are resident. UK resident competitors will not benefit from the exemption. The fact that exempted individuals would not need to fill out tax returns for this income will reduce the administrative burden on them.					
Equalities impacts	There is no impact on groups 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. It only affects a small number of non-resident sportspeople and may have a very slight effect in easing the burden on a very small number of associated accountants or management companies.					
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any additional costs for HM Revenue & Customs (HMRC).					
Other impacts	Small firms impact test: a negligible and non-differential impact is expected on small firms. 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 HMRC's Foreign Entertainers Unit on 0151 472 6488 or John Pay (email: john.pay@hmrc.gsi.gov.uk).

Expenses paid to members of the devolved administrations

Who is likely to be affected?

Assembly Members in Wales (AMs); Members of the Legislative Assembly in Northern Ireland (MLAs); Members of the Scottish Parliament (MSPs).

General description of the measure

The measure exempts from income tax and National Insurance contributions (NICs) certain travel expenses paid to members of the three devolved administrations by the Assembly or Parliament.

Policy objective

The measure will bring the income tax and NICs treatment of travel expenses paid to members of the devolved administrations into line with the treatment of similar expenses paid to Westminster MPs. In doing so, it will formalise most aspects of the existing income tax and NICs treatment of payments of travel expenses received by members of the devolved administrations.

Background to the measure

The current tax and NICs treatment of certain travel expenses received by members of the three devolved administrations is currently subject to some long-standing special rules which recognise the unique constitutional role of members. The rules are based on existing statutory exemptions as well as some informal concessionary arrangements.

Following the creation of the Independent Parliamentary Standards Authority (IPSA) and the introduction of the new MPs' Expenses Scheme, legislation was enacted in Finance (No.2) Act 2010 to continue existing statutory exemptions and formalise aspects of these concessions as they applied to Westminster MPs.

Similar legislation is now needed to formalise the income tax and NICs treatment of travel and subsistence expenses incurred by members of the devolved administrations and to ensure consistency in the treatment of all parliamentary expenses.

The measure was announced at Budget 2012.

Detailed proposal

Operative date

The measure will apply to expenses paid or reimbursed on or after 6 April 2013.

Current law

Sections 337 to 339 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) set out the rules under which an income tax deduction is available for payments or reimbursements made to an employee or office holder for travel undertaken in the performance of duties or for necessary attendance at a temporary workplace. The NICs disregard of such expenses is determined by legislation in the Social Security (Contributions) Regulations 2001, Schedule 3, Part 8, paragraph 3 which is applicable to all employed earners in relation to travel expenses. On a strict application of these rules certain expenses paid or reimbursed to members as necessary travel for the performance of their Parliamentary or Assembly duties would not qualify for income tax or NICs relief.

To recognise the requirement of members in having to carry out their duties in both their constituencies and the Assembly or Parliament, these rules have therefore, under a long standing concessionary arrangement, been extended to allow relief for journeys between their home in their constituency or region and Parliament or Assembly, and their constituency or regional office.

Section 293A of ITEPA formalised this concessionary treatment as it applied to expenses incurred on similar journeys by Westminster MPs. Section 293A also introduced a statutory exemption for travel by MPs' spouses and partners where paid or reimbursed by IPSA. Paragraph 16(c) of Schedule 3 of the Social Security (Contributions) Regulations 2001 mirrors section 293A of ITEPA for NICs purposes.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to exempt from income tax payments or reimbursements of expenses in respect of:

- travel by AMs, MLAs and MSPs between their constituency or region (including a home within the constituency or region or within 20 miles its boundary) and Parliament or Assembly complex or a residence close to it;
- travel by AMs, MLAs and MSPs within their constituency. Travel between a member's home in their constituency or region and their only or most frequently occupied constituency or regional office will become taxable; and,
- travel undertaken by the spouse or partner of a member between the constituency or regional home and a member's residence close to the Parliament or Assembly where the spouse or partner shares caring responsibilities for a dependent with the member.

The exemptions will be employment income exemptions (as defined at section 227(3) Income Tax (Earnings and Pensions) Act 2003 (ITEPA)).

Regulations which will be made under existing powers will also be introduced to ensure that the treatment of NICs will mirror that for income tax.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals and households	This measure brings the tax treatment of reimbursed expenses for members of the devolved administrations into line with the treatment for MPs. AMs, MLAs and MSPs who currently receive tax-free expenses for journeys between their home and their most regularly attended constituency or regional office will have to pay income tax on those expenses from April 2013. There are 297 elected members who could potentially receive payments in respect of such travel.					

Equalities impacts	The measure has no negative effect on the relative positions of different equality groups.
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. The measure only affects expenses paid to members of the devolved administrations.
Operational impact (£m) (HMRC or other)	This measure formalises rules that have applied for many years, so there are no new operational or compliance costs for HM Revenue & Customs.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with the devolved administrations.

Further advice

If you have any questions about this change, please contact Basil Rajamanie on 020 7147 2384 (email: basil.rajamanie@hmrc.gsi.gov.uk).

Reducing the pensions tax annual and lifetime allowances

Who is likely to be affected?

Individuals whose UK tax relieved pension contributions are greater than £40,000 a year or whose total UK tax relieved pension savings are near to or more than £1.25 million.

Employers who contribute to registered pension schemes on behalf of their employees.

Scheme administrators of registered pension schemes and advisers with clients who have UK tax relieved pension savings.

General description of the measure

This measure will reduce the standard lifetime allowance to £1.25 million and the annual allowance to £40,000 for tax year 2014-15 onwards.

Policy objective

The measure supports the Government's objective of a system of pensions tax relief that is fair, affordable and sustainable. The reduction to both lifetime and annual allowances is an integral part of the Government's deficit reduction plans, protects the public finances from the growing cost of the relief and limits the amount of relief going to higher earners.

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 and the annual allowance from £50,000 to £40,000 for the 2014-15 tax year.

The Government also announced that a fixed protection regime will be offered to individuals to prevent retrospective tax charges arising as a result of the reduction in the lifetime allowance.

In addition to fixed protection, the Government also wishes to offer a personalised protection regime for individuals and will discuss the feasibility of this with interested parties in the coming months.

Detailed proposal

Operative date

The reduction in the standard lifetime allowance and the annual allowance will have effect for 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 2004 (FA 2004).

Although there are no limits to how much can be saved in registered pension schemes, there is an overall limit on the total amount of an individual's tax-relieved annual pension savings, including employer contributions, known as the annual allowance (sections 227 to 238A of FA 2004). The annual allowance is £50,000 for the tax year 2011-12 onwards. Unused annual allowance from the three previous tax years for the individual can be carried forward and added to the annual allowance. If the individuals' pension savings for the tax year exceed this total, the annual allowance charge is applied to the excess. The annual allowance charge is linked to the individual's marginal rate of tax.

There is also an overall limit, known as the lifetime allowance, on the total amount of tax relieved pension savings that an individual can have over their lifetime. The standard lifetime allowance is £1.5 million for the tax year 2012-13 onwards.

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 to 226 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).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to reduce the annual allowance to £40,000 and the standard lifetime allowance to £1.25 million for tax years 2014-15 onwards.

Legislation will also introduce a transitional protection regime (fixed protection 2014) for individuals with UK tax relieved pension rights of more than £1.25 million or who think they may have rights in excess of £1.25 million by the time they take their pension benefits. Individuals will need to notify HM Revenue & Customs (HMRC) by 5 April 2014 if they want to rely on fixed protection 2014. Individuals with fixed protection 2014 will be entitled to a personal lifetime allowance of the greater of £1.5 million and the standard lifetime allowance. The conditions for maintaining fixed protection 2014 will be that;

- individuals in defined contribution pension schemes must ensure that no further pension contributions are received by the scheme on or after 6 April 2014, and
- individuals in a defined benefits scheme must not accrue further benefits above a ’relevant percentage’ from this date. The relevant percentage for savings will normally be either the annual rate specified in scheme rules as of 11 December 2012 for the revaluation of accrued rights, or CPI (if no rate is specified), although certain statutory increases will be excluded from the test.

Relieved members of relieved non-UK pension schemes will also be able to apply for fixed protection 2014 subject to their not having a pension input amount of greater than nil in the non-UK pension scheme in any tax year from 2014-15.

An amendment will also be made to ensure that, where an individual dies before 6 April 2014, but a relevant lump sum death benefit is paid on or after 6 April 2014, the relevant lump sum death benefit will be tested against the standard lifetime allowance at the time of the individual’s death.

These changes will mainly be made through primary legislation although some will need to be made in secondary legislation.

The Government will also discuss with interested parties whether to offer, in addition to fixed protection 2014, a form of personalised protection which entitles individuals to a lifetime allowance of the greater of the value of their pension rights on 5 April 2014, up to an overall maximum of £1.5 million or the standard lifetime allowance. However unlike with fixed protection 2014, individuals with personalised protection would not be subject to any restrictions on future contributions or accruing further benefits.

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><td>2017-18</td></tr>
<tr><td>+50</td><td>+200</td><td>+300</td><td>+600</td><td>+1000</td><td>+1125</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 changes in pensions tax relief could lead to an increase in the tax paid by those affected. Some reduction of pension contributions is expected in response to the measure. It may affect individuals’ disposable income and their decision to supply labour. Macroeconomic impacts are expected to be small.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Up to 140,000 individuals are expected to be affected by the reduction in the annual allowance. The reduction in the lifetime allowance could potentially affect around 360,000 individuals who could have pension wealth between the new and the old lifetime allowances in future years when they retire. Around 30,000 of these individuals are expected to have pension assets that are worth between £1.25 million and £1.5 million in 2014-15.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">HMRC’s data does not allow identification of groups sharing protected characteristics within the affected population. However the nature of the change means that those affected will be in higher income groups so they are less likely to be from ethnic minority groups, women or the disabled. The change will have a greater effect on those later in life and closer to 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="6">There will be some additional burdens for pension schemes and employers to provide information and guidance to individuals, and to update their systems to reflect the reduced lifetime allowance and reduced annual allowance.

Anticipated one-off burdens include: salary and pension adjustments, legal and consultation advice, providing valuations of pension pots, and training and familiarisation.

Anticipated ongoing burden increases arise from the need for pension schemes to send individuals their contribution values (and information for carry forward), dealing with scheme pays requests and lifetime allowance charges.

In total, HMRC anticipates one-off costs across employers and pension schemes of £80 million, and additional annual burden of £10 million/year:

<table>
<tr><th></th><th>Cost</th><th>Time Period (yrs)</th></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£80m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£10m</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£120m</td><td>N/A</td></tr>
</table>
</td></tr>
</table>

	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)	-£120m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	**Decrease**	**Net Impact**
	£10m	£0	£10m
Operational impact (£m) (HMRC or other)	There will be additional costs for HMRC to administer and monitor the new protection regime and deal with enquiries from customers. These are estimated to be £1 million for IT changes and £6.4 million for staff resources over a five year period.		
Other impacts	Small firms impact test: the impact on small firms has been considered. The measure restricts the amount of UK tax relief available to individuals on their pension savings. The original policy was subject to a formal consultation in 2010 and was widely discussed with business, individuals and experts throughout the development process. The implementation of this further change, particularly around any tools, guidance or help that can be offered, will also be discussed over the next twelve months with interested parties. It would not be appropriate for the policy 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 behavioural responses to the restriction of pensions tax relief.

Further advice

If you have any questions about the policy rationale for this change, please contact David Zentler-Munro on 020 7270 6222 (email: David.Zentler-Munro@hmtreasury.gsi.gov.uk). For questions on the draft legislation, please contact Paul Cottis on 03000 564209 or Jon Prothero on 0207 147 2785 (email: pensions.policy@hmrc.gsi.gov.uk).

HM Revenue & Customs

Family pension plans

Who is likely to be affected?

Employees who, as part of their flexible remuneration package, have pension contributions made by their employer paid into family members' registered pension schemes.

Employers who offer family pension plans as part of their flexible remuneration package to employees.

General description of the measure

This measure will ensure that where an employer pays a pension contribution to a registered pension scheme of an employee's spouse or family member as part of the employee's flexible remuneration package, the value of the contribution will give rise to tax and National Insurance contribution (NIC) liabilities on the employee and the employer respectively.

Policy objective

The measure aligns with the Government's objective of a system of pensions tax relief that is fair, affordable and sustainable. Reform of the pensions tax regime is also an integral part of the Government's deficit reduction plans and the Government will clamp down on action that runs contrary to the policy objective of this reform.

Background to the measure

The Government announced at Budget 2012 that it will take action to prevent an existing exemption from being exploited in a way which was not envisaged when the legislation was introduced.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013.

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).

An individual receives tax relief at their marginal income tax rate on their pension savings (section 188 FA 2004). Although there are no limits to how much can be saved in registered pension schemes, there is an overall limit on the total amount of an individual's tax-relieved annual pension savings, including employer contributions, known as the annual allowance (sections 228 to 238 FA 2004). The annual allowance is £50,000 for the tax year 2012-13.

In addition to tax relief on individual contributions, section 308 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provides that no liability to income tax arises in respect of earnings where an employee's employer makes contributions under a registered pension scheme.

Employers' contributions paid into employees' registered pension schemes are deductible as an expense for corporation tax purposes so long as they meet the requirements of the wholly and exclusively test for the purposes of the employer's trade as detailed in section 74(1)(a) Income and Corporation Taxes Act 1988 and section 34 Income Tax (Trading and Other Income) Act 2005. Such contributions are also disregarded in the calculation of earnings in respect of all contributions paid by an employer to which section 308 of ITEPA applies. Therefore such contributions do not attract employers' NICs (SI 2001/1004 Schedule 3).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Section 308 ITEPA to restrict the employee's income tax exemption to employer contributions made to the employee's registered pension scheme, rather than contributions made to any registered pension scheme.

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><td>2017-18</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. Any impact will be set out at Budget 2013. This measure supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="6">This measure is not expected to have significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The number of individuals and households impacted by this measure is expected to be very small and the impact on those who choose to partake in such arrangements, where their employer offers them, to be limited. The measure will put the individuals back in the position the legislation intended with tax efficient employer support for pension savings limited to their employees’ pensions only.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">This measure does not impact any protected equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The impact of this measure is considered to be negligible for all businesses. Businesses who offer such arrangements as part of flexible remuneration packages will still be able to do so, but the tax incentives for the employee will be removed as the payment will be taxed as a benefit in kind and the employer would be subject to employer NICs on such payments. Businesses will have to report such payments in line with other employee benefits through the normal payroll processes.</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 anticipated to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test</u>: the impact on small firms has been considered but as the measure is about exploitation of the legislation in a way it was not envisaged it would not be appropriate to exclude small firms from the measure. However, the impact of these changes on all businesses is considered 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 communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Jon Prothero on 020 7147 2785 (email: pensions.policy@hmrc.gsi.gov.uk).

Pensions tax legislation amendments, as a result of the abolition of contracting out (defined contribution schemes)

Who is likely to be affected?

People who until 5 April 2012 were contracted out of the state second pension through a defined contribution (money purchase) pension scheme; administrators of formerly contracted out defined contribution (money purchase) pension schemes; and financial advisers.

General description of the measure

Contracting out of the state second pension through a defined contribution pension scheme was abolished from 6 April 2012 by Pensions Act 2007 and Pensions Act 2008.
The measure will make consequential changes to pensions tax legislation to reflect the position.

Policy objective

The measure will simplify the pensions tax legislation and remove any possible cause for confusion by removing or amending provisions referring to contracting out through a defined contribution pension scheme, in line with the changes Parliament has already made to the contracting out legislation itself.

Background to the measure

The Government announced at Budget 2012 that legislation will be introduced in Finance Bill 2013 to bring tax legislation into line with Pensions Act 2007 and Pensions Act 2008, the policy for which was extensively consulted on by the Department for Work and Pensions. The Finance Bill clause is being published for consultation on 11 December 2012. The associated draft amendments to pensions tax regulations will be published in January 2013.

Detailed proposal

Operative date

Amendments to primary legislation will have effect from 6 April 2013, 6 April 2015 and 6 April 2016, with one remaining subsection to be repealed from a date to be appointed by the Treasury. The associated amending regulations will be laid following Royal Assent to Finance Act 2013 and will come into force at least 21 days after being laid. They will contain provisions having retrospective effect from 6 April 2013 and provisions taking effect on 6 April 2015, in line with the relevant amendments to primary legislation.

Current law

The Finance Act 2004 provisions and the regulations in SI 2009 no 1171 set out various rules relating to tax relief on payments made into contracted-out defined contribution registered pension schemes, deal with tax relief in relation to age-related rebates, minimum contributions or minimum payments which may have been due before the abolition of contracting out through defined contribution pension schemes from 6 April 2012, and whether contracted out contributions of certain descriptions are treated as member contributions for various purposes.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to repeal provisions which following abolition of contracting out will no longer be needed.

Some of these provisions will be repealed from 6 April 2013, and others from 6 April 2015 and 6 April 2016. The latter two effective dates will allow time for late payments of amounts due before abolition, and adjustments to payments already made in respect of contributions due before abolition, to continue to be made to schemes with the same tax consequences as similar payments which were made at the correct time and for HM Revenue & Customs (HMRC) to account to the National Insurance Fund for those payments. From 6 April 2015, under amendments already made to pensions legislation, any further late payments will be made directly to individuals, rather than to schemes, and consequently will not attract tax relief. One further specific provision which is used to make regulations that enable the recovery of overpaid sums to be recovered by HMRC will continue to have effect until the Treasury appoints a day for the repeal to have effect, which is expected to be done once those recoveries cease.

Consequential amendments will also be made from 6 April 2013 so that the part of the employer's minimum payments prior to abolition that was in respect of employee National Insurance contributions (NICs) can be included in the calculation of the upper limit on a full or partial short service refund lump sum if the employer had recovered that amount from the member. The amendments will also clarify that payments from HMRC in respect of NIC rebates (due to the age related reduced rate NIC) are considered members contributions for the purposes of the short service refund lump sum calculation.

The amendments will be made through a combination of primary legislation and regulations.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 economic impacts.					
Impact on individuals and households	There is no impact on individuals in relation to the provisions which are to be repealed or revoked from 6 April 2013 because since 6 April 2012 these provisions have not been used. The other legislative provisions under this measure which are still being used will cease to apply from 6 April 2015 or 6 April 2016, allowing late and adjustment payments to be made to schemes up to 2015 (and relevant accounting to the National Insurance Fund until 2016). Thereafter for the very small number of people whose tax position in relation to periods before 6 April 2012 has not yet been adjusted, the Pension Schemes Act 1993 has already been amended so that the rebates will be paid directly to them rather than to their pension scheme. There is thus no impact on the individual of making these changes in Finance Bill 2013.					
Equalities impacts	There is no additional or adverse impact on any equality group.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Businesses will incur a negligible one-off cost due to familiarising themselves with the change in pension tax legislation. There will be no additional on-going administrative burdens for businesses as no system or process changes are required.
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs / savings for HMRC.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

As this measure is purely to align tax legislation with the Pensions Acts 2007 and 2008, there is no need for monitoring or evaluation.

Further advice

If you have any questions about this change, please contact Nick Jones on 020 7147 0403 (email: pensions.policy@hmrc.gsi.gov.uk).

Bridging pensions

Who is likely to be affected?

Individuals receiving, or with a right to receive, a bridging pension from a registered pension scheme; pension providers; pension scheme administrators; and employers.

General description of the measure

This measure aligns the tax rules on the payment of bridging pensions with the Department for Work & Pensions changes to the state pension age. Bridging pensions may be paid by occupational pension schemes when an individual starts receiving a pension before state pension age. The pension is higher at the outset and, when the individual reaches state pension age, it is reduced.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system by ensuring that pension schemes can pay bridging pensions up to the new state pension age without incurring an unauthorised payments tax charge.

Background to the measure

The Government announced at Budget 2012 that changes would be made to the pensions tax legislation to reflect the increase in state pension age.

Detailed proposal

Operative date

This measure will have effect in relation to bridging pension payments made on or after 6 April 2013.

Current law

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

Paragraph 2 of Schedule 28 FA 2004 sets out when a pension payable to a member is a scheme pension.

Paragraph (2)(3) ensures that the pension must remain level in order to continue to qualify as a scheme pension.

Paragraphs 2(4)(a) to 2(4)(h) set out the circumstances when a reduction in level of pension is allowable.

Paragraph (2)(4)(c) allows the pension to reduce not earlier than when the member reaches age 60 and no later than age 65 by an amount that does not exceed state retirement pension. This allows the scheme to pay a bridging pension at the outset and reduce it when the member starts to receive state retirement pension.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend paragraph 2 of Schedule 28 FA 2004 to introduce a permitted period during which the pension can be reduced. This permitted period will allow the reduction to take place between the age of 60 and state pension age.

Consequential amendments to paragraph 1 of Schedule 29 FA 2004 will also be introduced and paragraph 21 of Schedule 23 to FA 2006 will be repealed.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 individuals and households as the measure maintains the status quo in allowing bridging pensions to be paid up until state pension age.					
Equalities impacts	This measure does not impact any protected equality group.					
Impact on business including civil society organisations	This measure is not expected to impact on businesses or civil society organisations as there are no changes to the information that will be provided to HMRC by occupational pension schemes who make bridging pension payments as no specific information on bridging pensions is reported.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs or savings for HMRC.					
Other impacts	Small firms impact test: This change will impact on small and large firms in the same way but impacts are negligible for both. 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 Samantha Skill on 03000 564149 (email: pensions.policy@hmrc.gsi.gov.uk).

Overseas transfers of UK pension savings

Who is likely to be affected?

Scheme managers of qualifying recognised overseas pension schemes (QROPS) and scheme managers of overseas pension schemes that are no longer QROPS that have received transfers of UK pension savings.

General description of the measure

The purpose of this measure is to strengthen the reporting requirements and powers of exclusion relating to the QROPS regime. The measure supports the changes made to the QROPS regime that took effect from 6 April 2012.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system. The measure does this by making changes to the rules for QROPS and for pension schemes that have received transfers of pension savings free of UK tax but are no longer QROPS. It will strengthen reporting requirements and grounds for exclusion and introduce a system of re-notification for QROPS to ensure that scheme managers continue to meet their obligations once they have accepted tax-free transfers of UK pension savings.

Background to the measure

The measure was announced at Budget 2012 to support the changes that took effect from 6 April 2012. These changes have not been subject to consultation previously.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

A QROPS is a pension scheme that must be established outside the UK. It must meet other requirements, including the regulatory requirements of pension schemes in the country in which it is established. It must also be recognised for tax purposes as a pension scheme there. In addition the scheme must be established in one of the countries set out in legislation or meet requirements in relation to the payment of pension benefits from the scheme.

These rules are set out in the Pension Schemes (Categories of Country and Requirements for Overseas Pension Schemes and Recognised Overseas Pension Schemes) Regulations 2006, as amended by the Registered Pension Schemes and Overseas Pension Schemes (Miscellaneous Amendments) Regulations 2012.

To receive transfers of UK pension savings free of UK tax, the scheme manager of a QROPS has to notify HM Revenue & Customs (HMRC) that the scheme meets the conditions to be a QROPS and undertake to comply with any information requirements. A pension scheme can be excluded from being a QROPS if there has been a failure to provide information that leads to the serious impediment to the assessment or collection of tax or where the information not provided is substantial. These provisions are set out in section 169 of Finance Act 2004 (FA 2004).

The scheme manager of the QROPS has to report to HMRC the payments it makes out of the transferred UK pension savings to individual members who are UK resident or have been UK resident at any time during the five full tax years before the payment is made. The individual will be subject to the UK tax rules that would apply to similar payments made by a UK registered pension scheme. These tax charges are set out in paragraph 1 of Schedule 34 of FA 2004. A scheme manager of a QROPS is also required to report any payments it makes out of transferred pension savings regardless of where the individual is resident if it is made within 10 years of the transfer from the UK scheme.

These requirements are set out in the Pension Schemes (Information Requirements - Qualifying Overseas Pension Schemes, Qualifying Recognised Overseas Pension Schemes and Corresponding Relief) Regulations 2006.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide for additional circumstances that may lead to a pension scheme being excluded from being a QROPS including a failure to notify HMRC that a scheme continues to meet the conditions to be a QROPS every five years. The legislation will also provide a power to make regulations to ensure that reporting requirements extend to all transfers of pension savings to a QROPS made free of UK tax.

Secondary legislation will be introduced so that the scheme manager of a pension scheme will continue to report to HMRC payments made out of transfers of pension savings they have accepted from UK pension schemes, even when that scheme has ceased to be QROPS since accepting the transfer.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. This measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	These changes are not expected to have any significant economic impacts.					
Impact on individuals and households	This measure will not impact on individuals and households.					
Equalities impacts	The changes do not impact any equality group as they will apply to scheme managers of overseas pension schemes. Also the changes do not alter the way pensions tax reliefs and restrictions apply to the nine equality groups.					
Impact on business including civil society organisations	There will be additional reporting requirements for non-UK pension schemes that receive the transfers of UK pension savings but it will still be less than is required from UK schemes and it will be information that legitimate pension schemes are used to providing. There will also be new circumstances in which an overseas scheme can be excluded from being a QROPS but this is expected to have a negligible impact.					

	The changes are intended to improve compliance with the QROPS regime so the main impact is likely to fall on those who do not meet the information obligations that they undertook when notifying HMRC that they met the conditions to be a QROPS.
Operational impact (£m) (HMRC or other)	The changes will have a negligible operational impact on HMRC.
Other impacts	Small firms impact test: Any small or micro QROPS provider firms are anticipated to have the capacity to understand and implement the changes with a negligible impact. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from notifications, information reported, receipts and other statistics.

Further advice

If you have any questions about this change, please contact Beverley Davies on 020 7147 2869 (email: pensions.policy@hmrc.gsi.gov.uk).

HM Revenue & Customs

Attributions of gains to members of non-resident companies

Who is likely to be affected?

UK residents who are participators in non-UK resident closely controlled companies that realise a gain when disposing of assets. Broadly, a close company is one which is under the control of five or fewer participators or where the directors control the company.

General description of the measure

Section 13 of the Taxation of Chargeable Gains Act 1992 (section 13) is an anti-avoidance provision that in broad terms may attribute to UK-resident participators in a non-UK resident closely controlled company gains arising from the disposal of assets. The measure extends the range of commercial activities excluded from the application of the provision and raises the threshold at which apportionment of gains takes place.

Policy objective

The measure aims to update this anti-avoidance provision to maintain its compatibility with EU law and to restrict the range of participators affected to those with easier access to the information they need to report gains.

Background to the measure

An infraction notice (Reasoned Opinion) was issued by the European Commission on 16 February 2011. The Commission argued that section 13 breaches the treaty freedoms of establishment and movement of capital.

On 6 December 2011 the Government announced, by way of written ministerial statement, that there would be a consultation on amendments proposed to update section 13 and address the infraction. This was confirmed at Budget 2012.

The consultation document was published on 30 July 2012 and the closing date for comments was 22 October 2012 and a response to the consultation was published on 11 December 2012.

Detailed proposal

Operative date

The legislation is expected to come into force on the date that Finance Bill 2013 receives Royal Assent, but with retrospective effect on and after 6 April 2012. The effect is expected to be tax-relieving or neutral, but the retrospection will be subject to election to meet any exceptional cases.

Current law

Section 13 is designed to prevent avoidance of tax on capital gains by sheltering them in an overseas closely controlled company. These are gains on which UK resident individuals or companies would otherwise be taxed had they disposed of the asset and realised the gain themselves.

It operates by attributing gains realised by a non-UK resident closed controlled company to UK resident participators in proportion to their interests. Reliefs are available where, for example, a participator to whom gains have been attributed subsequently realises a gain on his shares, and certain types of gain are excluded, notably on trading assets.

Proposed revisions

The measure will modify the existing provision by creating a new exemption which will exclude gains from genuine business activity overseas from the scope of charge.

It will also increase the participation threshold at which participators may have gains attributed to them from over 10 per cent to over 25 per cent.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure amends existing anti-avoidance legislation and will only impact on a small number of individuals. In some cases it may ease constraints for minority participators not engaged in tax avoidance.					
Equalities impacts	No equalities impact is expected.					
Impact on business including civil society organisations	The measure is designed to avoid any impact on economically significant activity and focuses on artificial arrangements to avoid tax. A negligible benefit may be felt by some businesses as a result of the certainty the new exemption test will bring, particularly in connection with ongoing compliance costs.					
Operational impact (£m) (HMRC or other)	This measure is not expected to have any significant operational impacts.					
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 please telephone Adrian Cooper on 020 7147 2347 or James Driver on 020 7147 3977 or e-mail PTIConsultation.Specialistpersonaltax@hmrc.gsi.gov.uk

Amendments to the transfer of assets abroad legislation

Who is likely to be affected?

UK residents who have transferred assets so that income has become payable to an overseas person, or who benefit from such transfers.

General description of the measure

The measure adds a new exemption from the transfer of assets charge where EU treaty freedoms are engaged which focuses on the nature of transactions and activities related to the transfer rather than their purpose. There is an existing exemption where there is no tax avoidance purpose, or where the transactions are genuine commercial transactions, and any tax avoidance purpose was incidental.

Policy objective

The measure aims to update this anti-avoidance provision to maintain its compatibility with EU law, and to make certain other amendments to improve the clarity of the rules.

Background to the measure

An infraction notice (Reasoned Opinion) was issued by the European Commission on 16 February 2011. The Commission argued that the transfer of assets legislation breaches the treaty freedoms of establishment and movement of capital.

On 6 December 2011 the Government announced, by way of written ministerial statement, that there would be a consultation on amendments proposed to update the transfer of assets legislation and address the infraction. This was confirmed at Budget 2012.

The consultation document was published on 30 July 2012 and the closing date for comments was 22 October 2012. The Government's response to the consultation was published on 11 December 2012.

Detailed proposal

Operative date

The legislation is expected to come into force on the date that Finance Bill 2013 receives Royal Assent, but with retrospective effect from 6 April 2012 for the new exemption.

Current law

The transfer of assets legislation is designed to prevent individuals avoiding tax by using offshore structures to shelter income. Broadly, the transfer of assets rules impose a charge to income tax on an individual who is ordinarily resident in the UK (from 6 April 2013 the legislation will apply where an individual is resident in the UK) where there has been a transfer of assets and, as a result of the transfer (and/or any associated operations), income becomes payable to a person abroad, but an individual can still enjoy income, or receive or have entitlement to receive a capital sum or other benefits from the arrangements.

There is an exemption from the charge where it would be unreasonable to draw the conclusion, from all the circumstances of the case, that avoiding liability to taxation was the purpose, or one of the purposes, for which the relevant transactions or any of them were effected, or (if that is not the case) all the relevant transactions were genuine commercial transactions and it would not be reasonable to draw the conclusion, again from all the circumstances of the case, that any one or more of those transactions was more than incidentally designed for the purposes of avoiding liability to taxation.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to modify the existing provision by creating a new exemption which operates where the EU treaty freedoms are engaged and which focuses on whether the nature of transactions is genuine and whether they serve the purpose of the freedoms. Business transactions will not be regarded as genuine unless they are on arm's length terms[1] and, in the case of transactions for the purposes of a business establishment, give rise to income attributable to economically significant activity that takes place overseas.

These changes will provide exemption for genuine commercial business activities overseas and also for transactions that do not involve commercial activities but that are nevertheless genuine transactions that are protected by the single market.

The measure will also make a series of other changes to the transfer of assets provisions aimed at clarifying the way certain aspects operate. There will be an amendment to provide more certainty about how benefits received by an individual are matched to the 'relevant income' arising to the person abroad, in circumstances when an individual other than the transferor is the chargeable person.

There will also be an amendment to provide greater clarity around the prevention of double charging, in circumstances where the same income could be the subject of both a transfer of assets charge and also a charge under another part of the Taxes Acts.

Additionally the measure will clarify how the transfer of assets rules operate in relation to reliefs under double taxation agreements. This will ensure that neither treaty provisions nor the transfer of assets legislation is applied in an unintended way to allow a relief that would not otherwise be due.

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><td>2017-18</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 reduce receipts by approximately £10 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 2013.</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 amends existing anti-avoidance legislation and will only impact on a small number of individuals engaging in certain cross-border tax avoidance activity.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">No equalities impact is expected.</td></tr>
</table>

1 The extended arm's length test in the existing legislation which includes whether a transaction would have been entered into between unconnected persons dealing at arm's length.

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 is not expected to have any significant operational impacts.
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 these changes please send an e-mail to PTIConsultation.Specialistpersonaltax@hmrc.gsi.gov.uk

Income tax rules on interest: disguised interest

Who is likely to be affected?

Individuals and other persons subject to income tax rules on the taxation of savings and investment income.

General description of the measure

The measure will introduce legislation to ensure that a person who receives an amount that is economically equivalent to interest will be charged to income tax on that amount.

Policy objective

This measure will support fairness in the tax system by reinforcing the protection already afforded to the Exchequer against potential loss of tax as a result of avoidance arrangements intended to secure that interest-like returns escape income tax. It will support HM Revenue & Customs' (HMRC) anti-avoidance strategy to protect revenues and deter and counter tax avoidance by making anti-avoidance rules in this area more robust. The measure will also enable some existing anti-avoidance legislation in this area to be repealed, and in due course will allow for some other income tax rules on interest-like returns, such as those on deeply discounted securities and accrued income profits, to be rationalised and simplified.

Background to the measure

The measure was announced at Budget 2012 and a proposal to introduce legislation on disguised interest was included in a consultation document on possible changes to income tax rules on interest published by HMRC in March 2012.

Detailed proposal

Operative date

The legislation applies to all arrangements to which a person becomes party on or after 6 April 2013. In addition, where arrangements are in place on that date to which any of the repealed provisions applies, the legislation on disguised interest will apply to those arrangements.

Current law

Interest received by individuals and other non-corporate persons is subject to income tax in accordance with Chapter 2 of Part 4 of the Income Tax (Trading and Other Income) Act (ITTOIA) 2005. Chapter 12 of Part 4 of ITTOIA 2005 charges income tax on guaranteed returns from disposals of futures and options which give an interest-like return. Chapters 4 to 6 of Part 11 of the Income Tax Act (ITA) 2007 apply to amounts arising under stock lending and sale and repurchase arrangements (repos) which are treated as payments of interest.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Part 4 of ITTOIA 2005 and insert a new Chapter 2A. The new chapter will provide for income tax to be charged on returns produced from arrangements that provide amounts that are economically equivalent to interest. A return will be 'economically equivalent to interest' if it arises by reference to the time value of money, at a rate comparable to a commercial rate of interest, and is practically certain to be produced. The legislation will apply where no other income tax charge applies to the same income and there will be rules to prevent double taxation.

As a consequence of the introduction of this legislation, Chapter 12 of Part 4 of ITTOIA 2005 (guaranteed returns from the disposal of futures and options), and Chapters 4 to 6 of Part 11 of ITA 2007 (deemed manufactured payments and price differences under repos), will be repealed. Consequential changes will be made to related legislation in the Taxation of Chargeable Gains Act 1992.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. This measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals and households	The proposed changes will impact only a small number of individuals and households who receive amounts that fall to be treated as disguised interest.					
Equalities impacts	The proposed changes are not expected to have a disproportionate impact on any protected equality groups.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The changes will affect primarily non-business income tax payers. Compliance costs and administrative burdens on the small number of non-corporate businesses that receive amounts treated as disguised interest are not expected to be significant.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any significant additional costs or savings for HMRC or other public sector delivery organisations.					
Other impacts	Small firms impact test: Small firms may be affected, but as for other businesses the changes are expected to be negligible. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC will monitor income tax returns and avoidance disclosures to ensure that the legislation operates as intended.

Further advice

If you have any questions about the changes, please contact Tony Sadler on 020 7147 2608 (email: tony.sadler@hmrc.gsi.gov.uk).

Income tax rules on interest: deduction of income tax

Who is likely to be affected?

Persons who are required to deduct income tax from certain payments of interest.

General description of the measure

The measure will amend tax rules on the deduction of income tax from yearly interest to provide that interest in respect of compensation payments will be subject to deduction of income tax at source. It will also clarify the meaning of the term 'arising in the UK' for the purposes of the duty to deduct income tax at source. It shall introduce a rule on the valuation of interest in kind and additionally require a person paying interest in kind or by funding bond to issue a certificate showing details of the payment.

Policy objective

This measure will protect tax revenues by ensuring that existing legislation on the deduction of income tax at source from interest operates as intended and will benefit persons paying and receiving interest under deduction of tax by removing uncertainty from the application of these rules.

Background to the measure

The measure was announced at Budget 2012 and proposals to amend this legislation were included in a consultation document on possible changes to income tax rules on interest published by HM Revenue & Customs (HMRC) in March 2012.

A summary of responses was published in October 2012.

Detailed proposal

Operative date

The amended legislation applies to payments of interest made on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Interest is taxable in accordance with legislation in Chapter 2 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005).

Certain payments, including payments of 'yearly interest arising in the United Kingdom', are required to be made under deduction of income tax, in accordance with legislation in Part 15 of the Income Tax Act 2007 (ITA 2007).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 874 of ITA 2007 to provide that income tax must be deducted from interest payable to an individual in respect of compensation payments. This will apply regardless of whether the interest paid is yearly interest. A secondary legislative power will allow this requirement to be disapplied where necessary. Sections 875 and 878 of ITA 2007 will be amended so that the exceptions from the duty to deduct income tax from payments of yearly interest made by building societies and by banks in the ordinary course of their business will not apply to interest in respect of compensation payments.

Section 874 of ITA 2007 will also be amended, to put it beyond doubt that in determining whether interest arises in the UK for the purposes of the duty to deduct income tax from certain payments of yearly interest, no account is to be taken of the location of a deed under which interest is paid.

Chapter 2 of Part 4 of ITTOIA 2005 will be amended by inserting a new section 370A, to provide a rule for the valuation of interest in kind.

A new section 975A will be inserted into ITA 2007 requiring a person paying interest in kind to provide the recipient with a certificate showing the gross amount of interest paid and amount of tax deducted (if any). The same requirement will apply to a person paying interest in the form of a funding bond under section 380 of ITTOIA 2005 or section 413 of the Corporation Tax Act 2009.

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><td>2017-18</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. Any impact will be set out at Budget 2013. This 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 economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The proposed changes will only impact those individuals and households who receive interest which is covered by these proposals. The amount of additional administrative burden is thought to be negligible, and may represent a saving for certain taxpayers in that deduction of basic rate income tax at source may remove the need for them to complete a self assessment. Non-taxpayers will still be able to recover any tax deducted at source.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The proposed changes are 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="6">This measure is expected to have a negligible impact on businesses and civil society organisations. These measures will impact businesses that pay interest which is covered by these proposals. The main impacts will be on financial institutions and other businesses that make compensation payments to individuals on which interest is paid.

A small number of businesses that pay interest in kind will be affected. One-off compliance costs and on-going administrative burdens (for example, arising from familiarisation with the amended legislation and from IT and other systems changes) are expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">It is not anticipated that implementing this change will incur any significant additional costs or savings for HMRC or other public sector delivery organisations.</td></tr>
<tr><td>Other impacts</td><td colspan="6">Small firms impact test: Small firms may be affected, but as for other businesses the changes are 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 continuing discussion and engagement with interested parties, in particular financial sector firms and professional advisers.

Further advice

If you have any questions about the changes, please contact Tony Sadler on 020 7147 2608 (email: tony.sadler@hmrc.gsi.gov.uk).

Life insurance: qualifying policies

Who is likely to be affected?

Higher and additional rate taxpayers with life insurance policies that are qualifying policies (QPs).

General description of the measure

This measure will restrict tax relief for higher and additional rate taxpayers with QPs.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system by ensuring that tax reliefs for QPs are correctly targeted. Under the current regime there is no upper limit on the investment premiums payable into a QP allowing individuals to obtain unlimited relief from higher and additional rates of income tax. This measure will restrict the amount of premiums that can be paid into a QP.

Background to the measure

The Government announced at Budget 2012 that they would consult on the implementation of an upper limit on the amount of premiums that a policyholder could pay into a QP.

Formal consultation opened on 15 June 2012 and closed on 6 September 2012. A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013 with transitional rules for the period between 21 March 2012 and 5 April 2013 inclusive.

Current law

The current law is set out in Chapter 9, Part 4 Income Tax (Trading and Other Income) Act 2005. This is known as the chargeable event gain regime. These rules ensure that gains made by individuals from their policies are subject to income tax at the individual's marginal rate.

Section 485 Income Tax (Trading and Other Income) Act 2005 prescribes how QPs are taxed whilst Schedule 15 to Income and Corporation Tax Act 1988 provides the rules for determining whether a policy is a qualifying policy or not. If a policy has QP status this means that, in general, any gains arising are exempt from income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide for an annual premium limit of £3,600 for QPs from 6 April 2013.

Transitional rules will apply to policies issued between 21 March 2012 and the 5 April 2013 inclusive. Policies issued in this period will be restricted so that relief is only attributable to premiums payable or treated as payable in the transitional period and for premiums payable up to the £3,600 annual limit thereafter.

The legislation will also introduce powers to make regulations as follows:

- regulations providing for a statutory declaration from beneficial owners of policies on the issue of new policies on or after 6 April 2013 or the modification of existing policies on or after that date that they have not breached the annual premium limit; and,
- regulations providing for reporting requirements for insurers.

Both sets of regulations will be published for consultation in January 2013.

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><td>2017-18</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. Any impact will be set out at Budget 2013</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 will impact a relatively small number of individuals and households who would have used such arrangements for higher value investment. It is expected that there will be no impact on individuals making regular moderate value investments for which premiums payable will not exceed the limit.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">There is no evidence that this impacts on any group sharing a protected characteristic set out in the Equality Act.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure is expected to have an impact on businesses that sell QPs, which amounted to 30 life insurers and 12 friendly societies in 2010.

Details of the declarations and reporting requirements are still being discussed with industry and so the final number of businesses affected and the impact of this change on them cannot be quantified at this stage. It is anticipated that there will be an increase in annual administrative burdens due to the requirements to obtain a declaration from individuals on issue and to provide annual returns to HM Revenue & Customs (HMRC). There is also likely to be a one off cost to businesses to familiarise themselves with this policy change and put systems and training in place to capture and report this information to HMRC, and to amend marketing materials.

Estimates of the impacts on the total business population will be established once details of the declarations and reporting requirements have been finalised and their impact fully evaluated. At this time a revised tax information and impact note will be published.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be some additional costs incurred by HMRC in implementing the new reporting requirements. The amount will depend on the final design but is not expected to be significant.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test</u>: The new rules will impact on several providers, who may be classified as small firms but as average premiums paid under policies issued by these firms are expected to be much lower than the proposed limit, the impacts are likely to be negligible. The precise detail of the reporting requirements is still under discussion with industry.

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 the industry, which will capture issues around implementation and ongoing compliance and administrative costs. In addition, individuals are required to prepare tax returns which will provide data to inform any such evaluation.

Further advice

If you have any questions about this change, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk) or Elizabeth Ward-Penny on 020 7147 3037 (email: elizabeth.ward-penny@hmrc.gsi.gov.uk).

HM Revenue & Customs

Life insurance: time apportioned reductions

Who is likely to be affected?

Policyholders who have been resident outside the UK at any time during the life of their life insurance policy.

General description of the measure

This measure will provide a greater alignment between the treatment of policies issued by insurers inside and outside the UK, and ensure that the rules on time apportioned reductions provide a more appropriate reduction to chargeable event gains.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system by aligning the treatment of policies issued by UK insurers with that of insurers outside the UK. It also will provide a calculation methodology that more accurately reflects relevant periods of non residence.

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Background to the measure

The Government announced at Budget 2012 that there would be a consultation on reforming rules within the chargeable event gain regime that are designed to reflect a policyholder’s period of residence outside the UK.

Formal consultation opened on 13 August 2012 and closed on 5 November 2012. A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013.

Current law

The current law is set out in Chapter 9, Part 4 Income Tax (Trading and Other Income) Act 2005 (ITTOIA). This is known as the chargeable event gain regime. These rules ensure that gains made by individuals from their policies are subject to income tax at the individual's marginal rate.

Section 528 ITTOIA provides that a chargeable event gain from a policy issued by a foreign insurer is reduced proportionately if the policyholder has been resident outside the UK at any time during the life of the policy.

Proposed revision

Legislation will be introduced in Finance Bill 2013 to extend time apportioned reductions to life policies issued by UK insurers. The legislation will also amend the methodology used to calculate the reductions.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	nil	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals and households	The proposed changes are expected to impact on a relatively small number of individuals who have periods of residence outside the UK during their ownership of a life insurance policy.					
Equalities impacts	HM Revenue & Customs (HMRC) has no data about the type of people who hold UK or overseas policies but no negative equalities impacts are expected.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The proposed changes will only affect insurers and advisers, who currently provide marketing material and guidance on the impact of the chargeable event gain rules. UK businesses will face negligible one-off costs in familiarising themselves with the new rules and producing new marketing material. Insurers outside the UK will face negligible one-off costs to make initial changes to their product material. There will be no change in ongoing administrative burdens as no further changes are required.					
Operational impact (£m) (HMRC or other)	Other than providing revised guidance, it is not anticipated that implementing this change will incur any additional costs for HMRC.					
Other impacts	Small firms impact test: the impact on small firms has been considered and is expected to be negligible because very few firms will be affected. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC has an established programme of liaison with the industry, which will capture issues around implementation and ongoing compliance and administrative costs. In addition, individuals are required to prepare tax returns which will provide data to inform any such evaluation.

Further advice

If you have any questions about this change, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk) or Elizabeth Ward-Penny on 020 7147 3037 (email: elizabeth.ward-penny@hmrc.gsi.gov.uk).

Inheritance tax: spouses and civil partners domiciled overseas

Who is likely to be affected?

Individuals who are domiciled outside the UK and who have a UK-domiciled spouse or civil partner and UK-domiciled individuals who have a non-UK domiciled spouse or civil partner.

General description of the measure

The measure will increase the inheritance tax (IHT) exempt amount that a UK-domiciled individual can transfer to their non-UK domiciled spouse or civil partner. The legislation will also allow individuals who are domiciled outside the UK and who have a UK-domiciled spouse or civil partner to elect to be treated as domiciled in the UK for the purposes of IHT.

Policy objective

To ensure that UK domiciles and non-UK domiciles are treated in a similar manner for IHT purposes whilst protecting tax revenues.

Background to the measure

Budget 2012 included commitments to raise the IHT-exempt limit on the value of transfers of assets to a non-UK domiciled spouse or civil partner and introduce a new election regime.

Detailed proposal

Operative date

The measure will have effect in relation to transfers of value made on or after 6 April 2013.

Current law

IHT charges are based on domicile status. Domicile is a common law concept and is not defined in statute for tax purposes. Broadly, it is where an individual has their permanent home or intends to settle permanently. Individuals domiciled in the UK are liable to IHT on their worldwide assets; individuals whose domicile lies outside the UK are only liable to IHT on assets situated in the UK.

All individuals, irrespective of their domicile status, benefit from an IHT nil-rate band, currently £325,000. Transfers of assets between spouses and between civil partners, whether gifts made during a person's lifetime or transfers of assets occasioned by the death of one of the couple, are generally exempt from IHT.

Where the spouse or civil partner to whom the assets are transferred does not have a UK domicile there is a lifetime limit (cap) on the value of the assets that can be transferred free of IHT. The cap is currently £55,000 - section 18(2) Inheritance Tax Act 1984.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to reform the IHT treatment of transfers between UK-domiciled individuals and their non-UK domiciled spouse or civil partners in two ways:

- the cap will be increased to the level of the prevailing nil-rate band level; and,
- under a new election regime, individuals domiciled other than in the UK and who are married or in a civil partnership with a UK domiciled person will be able to elect to be treated as UK-domiciled for IHT purposes.

Where an individual chooses not to elect for UK domicile treatment their overseas assets would, as now, be exempt from IHT but any transfers from their spouse or civil partner would be subject to the increased cap. Individuals who choose to make an election would benefit from uncapped IHT-exempt transfers from their spouse or civil partner, but subsequent disposals by them would be liable to IHT (subject to their own nil-rate band), irrespective of the location of the assets.

The lifetime limit on the amount that can be transferred exempt from IHT to a spouse or civil partner domiciled outside the UK (or treated as such for IHT purposes) will be increased from its current level of £55,000. Initially the cap will be raised to £325,000. Going forward its level will be linked to any future changes in the nil-rate band.

The election will only affect an individual's treatment for IHT purposes. The election will need to be made in writing to HM Revenue & Customs (HMRC) and may be made at any time after marriage or registration of the civil partnership. Elections made while both of the couple are still alive will take effect for transfers on or after the date of the election. Where there has been a transfer as a result of a disposition on the death of a UK domiciled individual, a surviving non-UK domiciled spouse or civil partner may elect to be treated as UK domiciled for IHT purposes from the date of death. Elections that follow a death will only be valid if they are made within two years of the death, and only where death occurs on or after 6 April 2013.

Elections will be irrevocable while the electing individual continues to remain resident in the UK. An election will cease to have effect if the electing person is resident outside the UK for more than three full consecutive tax years.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to reduce receipts by approximately £5 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 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure will affect only a small number of individuals and households as the base of estates that fall within the charge to IHT is fairly small (in 2011-12 it is forecast that there would be approximately 19,000 estates left on death paying IHT, representing less than 4 per cent of the total). The number of individuals affected will be reduced considerably further as the policy affects only those whose spouse is non-UK domiciled.					

	There will be a slight increase in administrative burdens for affected individuals as they will be required to inform HMRC if they wish to elect to be treated as UK domiciled for IHT purposes only.
Equalities impacts	HMRC does not have any evidence of negative impacts on different equality groups as a result of this measure.
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. There will be a negligible increase in administrative burdens and a one off cost for personal representatives as they familiarise themselves with the new guidance. As very few individuals will be affected by this measure, those businesses advising them or acting as their representatives will also be few in number.
Operational impact (£m) (HMRC or other)	The operational impact on HMRC will be minimal.
Other impacts	Small firms impact test: there will be a negligible impact on small businesses (firms with fewer than 20 employees) involved in the administration of lifetime and death estates due to the need to familiarise themselves with the change of rules. Although there has been no consultation with small firms or any other groups, the measure will benefit individuals whose spouse or civil partner is domiciled abroad and non UK domiciled individuals whose spouse or civil partner is domiciled in the UK. 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 020 7147 2861 (email: antonio.zagara@hmrc.gsi.gov.uk).

Preserving capital gains tax relief for settlors of heritage maintenance funds

Who is likely to be affected?

Trustees and settlors of heritage maintenance funds (HMFs) who are carrying on 'open house' businesses in heritage property.

General description of the measure

This measure will allow people who have gifted property to HMFs to continue to enjoy relief from capital gains tax without a tax charge arising on beneficiaries of the Funds when trustees distribute income to those beneficiaries.

Policy objective

The Government recognises the contribution of the heritage sector to the UK economy and to the life of the country. The measure will protect and enhance this contribution by improving the availability of income from HMFs for use in maintaining and repairing Britain's historic houses and other heritage properties.

Background to the measure

The Government announced at Budget 2012 that this measure would be introduced in Finance Bill 2013. It has not been subject to formal consultation, but relevant representative bodies have been consulted informally.

Detailed proposal

Operative date

The measure will have effect retrospectively in relation to the operation of the anti-avoidance rules concerning gift hold-over relief in tax year 2012-13 and subsequent years.

Current law

Section 165 Taxation of Chargeable Gains Act 1992 (TCGA) allows relief from capital gains tax to taxpayers who make gifts of business assets in certain circumstances. In order to prevent avoidance of tax, this relief is not available, or is clawed back, where certain conditions are not met. Section 169D stops these anti-avoidance rules from applying where the gift of assets is to an HMF.

One requirement for section 169D to apply is that the trustees of an HMF must have made an election under section 508 of the Income Tax Act 2007 (ITA), but an indirect result is that when the trustees make payments to the settlor for use in the 'open house' business, the payment is treated as a taxable receipt of that business. (The direct effect of the election is that the Fund's income is taxed on the trustees rather than on the person who settled the assets on the trust.)

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 169D TCGA so that it will have the effect of switching off the anti-avoidance rules when an election under section 508 ITA could be made by the trustees, as well as when one is in fact made. This will allow trustees to reimburse trading settlors out of Fund income for their expenditure on the repair and maintenance of historic properties without those reimbursements being taxable receipts in the hands of the settlor.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Negligible impact for those acting as trustees for HMFs. Largely countervailing negligible impact on settlors of HMFs. The tax charge which arises on certain beneficiaries in receipt of income from trustees of HMFs where the trustees are taxed on the trust's income will be removed.					
Equalities impacts	No impact is expected on any protected group.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses and civil society organisations. An estimated 40 'open house' businesses will be able to receive funds from HMFs without causing unintended tax charges, therefore there will be no one-off costs or changes in ongoing administrative burdens.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing these changes would incur any additional costs or savings for HMRC.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored for effectiveness in facilitating repair and maintenance work on heritage properties through ongoing communication with customers, in particular with the Historic Houses Association.

Further advice

If you have any questions about this change, please contact Rob Clay on 03000 570649 (email: rob.clay@hmrc.gsi.gov.uk).

Inheritance tax: investments in open ended investment companies and authorised unit trusts

Who is likely to be affected?

Investors switching UK assets from trusts settled by non-UK domiciled individuals to open ended investment companies (OEICs) and authorised unit trusts (AUTs).

General description of the measure

The measure will allow trustees to switch UK assets held in settlement made by non-UK domiciled individuals to investments in OEICs and AUTs without incurring inheritance tax (IHT). It will allow the legislation to work as originally intended at the time legislative changes to the IHT treatment of OEICs and AUTs were introduced in Finance Act 2003 (FA 2003) and does not constitute a new tax incentive for non-UK domiciled individuals.

Policy objective

The measure ensures that the switching of assets in a trust settled by a non-UK domiciled individual to investments in OEICs and AUTs is exempt from IHT charges. It also ensures that no tax will have arisen on those trusts which held OEICs or AUTs when the changes introduced in 2003 came into force.

Background to the measure

The Government announced on 5 December 2012 that this measure will be introduced in Finance Bill 2013 and will create a retrospective amendment.

The measure is wholly relieving and will therefore not be subject to formal consultation.

Detailed proposal

Operative date

The amendment will be retrospectively effective from 16 October 2002, the date from which the original changes to the IHT treatment of OEICs and AUTs in FA 2003 applied.

Current law

Section 186 of Finance Act 2003 introduced section 6(1A) to Inheritance Tax Act 1984 (IHTA 1984). It extended the class of asset which qualifies as excluded property to include holdings by non-UK domiciled investors in OEICs and AUTs. The same act introduced an equivalent provision, S48(3A), to provide a similar exemption for holdings in authorised unit trusts or open ended investment companies held in trust provided the settlor was domiciled outside the UK when the settlement was made. The new provisions came into effect for transfers of value or events occurring on or after 16 October 2002.

Section 65 IHTA 1984 provides for a charge to tax where the property comprised in a settlement ceases to be relevant property. Section 65(7) provides for an exception to this charge where property comprised in a settlement ceases to be relevant property "by reason only that property comprised in a settlement ceases to be situated in the UK and thereby becomes excluded property by virtue of section 48(3)(a)". There is not a similar exception to the section 65 charge in respect of relevant property that is invested in OEIC and AUT fund units and thereby becomes excluded property by virtue of section 48(3A)(a). Consequently, if trustees switch from UK assets to OEICs or AUTs, the trust property switches to excluded property and it ceases to be relevant property and becomes liable to an IHT charge.

When FA 2003 introduced section 48 (3A) to IHTA 1984 making investments in OEIC and AUT fund units excluded property, it was not intended that this should create a section 65 charge. Currently, an IHT liability would be imposed on taxpayers and they would be required to make IHT returns in respect of these transactions. In addition, where relevant property trusts were already holding OEICs and AUTs at the time s48(3A) was introduced these would have ceased to be relevant property from the date the new provisions took effect with a consequent IHT charge.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide a further exception to the s65 charge, similar to s65(7), in respect of relevant property that is invested in OEICs and AUTs so that the switching of UK assets in a trust settled by a non-UK domiciled individual, to investments in OEICs and AUTs, is exempt from inheritance tax charges. The amendment will have retrospective effect so that no tax will have arisen in those trusts which held OEICs or AUTs when the changes introduced in s186 to FA 2003 came into effect.

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><td>2017-18</td></tr>
<tr><td>negligible</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. Any impact will be set out at Budget 2013.</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 will benefit investors switching UK assets from trusts settled by non-UK domiciled individuals to OEICs and AUTs and it will remove the need for them to submit an Inheritance Tax return.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The Government has no evidence to suggest that the measure will have any adverse equalities impacts.</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 due to the need for trust advisors to familiarise themselves with the change of rules. These are just one-off implementation costs. There are no annual on-going costs.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The operational impact on HM Revenue & Customs will be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test:</u> There will be a negligible impact on small businesses (firms with fewer than 20 employees) involved in the administration of trusts due to the need to familiarise themselves with the change of rules. The measure will benefit investors switching UK assets from trusts settled by non-UK domiciled individuals to OEICs and AUTs.

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 the relevant business sector.

Further advice

If you have any questions about this change, please contact Tony Zagara on 020 7147 2861 (email: antonio.zagara@hmrc.gsi.gov.uk).

HM Revenue & Customs

Community investment tax relief

Who is likely to be affected?

Individuals and companies investing in community development finance institutions (CDFI) and CDFIs themselves

General description of the measure

The measure relaxes the rules for claiming relief and allows the carry forward of unused relief into later years as long as at least part of the investment remains for the relevant period. It also introduces a restriction on the amount of both equity and loans that companies can invest in CDFIs.

The measure also relaxes the onward lending rules for CDFIs by altering the annual dates for calculating whether the prescribed level of onward lending has been attained, from the anniversary of a CDFI's accreditation date to the anniversary of an investment first being made in the CDFI in an accreditation period. Onward reporting dates will also be based around that new anniversary. A new obligation is created for a CDFI to report the first investment date.

Policy objective

The measure is intended to encourage investment into CDFIs and to allow more time for CDFIs to meet the required onward lending limits. The limit on corporate investment relief reflects European State aid rules.

Background to the measure

The continuation of the tax relief was announced Budget 2011 along with a consultation on how the relief could be made more effective.

An informal consultation with CDFIs followed, closing in early 2012. The proposed changes arising from this consultation; the carry forward of relief and the amended SI, were announced at Budget 2012.

State aid approval from the European Commission expired in October 2012. In order for the UK to continue the relief, community investment tax relief (CITR) is being amended to meet State aid de minimis requirements. A restriction for corporate investors has been introduced as a result.

Detailed proposal

Operative date

As regards availability of relief, the measure will have effect for all investments made by individuals from 6 April 2013 and by companies from 1 April 2013.

For CDFIs the change in the reporting date will apply to those CDFIs whose first accreditation date is after 1 April 2012 and where the first investment in that accreditation period is made after 1 April 2013.

Current law

Investment by individuals is covered in Part 7 Income Tax Act 2007. Companies are covered by Part 7 Corporation Tax Act 2010. Regulations in relation to the operation of CDFIs are contained in Statutory Instrument 2003/96.

The current law allows both individuals and companies to invest in CDFIs by way of equity or loan and to receive a tax relief of 5 per cent of the amount invested over a period of 5 years as long as the investment remains. Some withdrawal is permitted from the third year but tax relief on the withdrawn amounts does not continue. There is no limit to the amount an individual or company can invest in a CDFI.

The operation and, specifically, the onward lending limits for CDFIs in SI 2003/96 require CDFIs to invest at least 25 per cent of the fund by the first anniversary of the accreditation date with further limits of 50 per cent by the second anniversary and 75 per cent by the third and each subsequent anniversary. The onward lending must be in qualifying enterprises in disadvantaged communities or areas. Annual reporting dates are calculated by reference to the accreditation date.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow the unused balance of the five per cent annual relief to be carried forward and used in a later year as long as some part of the investment still remains within the CDFI. Carry forward will not however be permitted beyond the five year investment period.

To meet with the State aid de minimis requirements limits are being introduced for the amounts that companies can invest in CDFIs. The new limits for equity investment and investment by loan will be a maximum of the equivalent of €200,000 in any three year period. HM Revenue & Customs (HRMC) will issue guidance on how companies should calculate the de minimis aid.

SI 2003/96 will be amended to alter the anniversary dates for onward lending by CDFIs (and the annual reporting cycle) from the anniversary of accreditation to the anniversary of the date on which an investment qualifying for the relief is first raised and create a new requirement for CDFI's to report that date of first investment.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Around 3,000 individuals have claimed tax relief through CITR since its inception in 2002. Some individual investors will benefit by not losing income tax relief in a year where their tax liability was less than the relief due, with unused relief being carried forward to later years.					
Equalities impacts	As a tax relief, the impact is only on those who make investment, and the scale of impact depends on the amount of tax relief secured under CITR, rather than any equality measure.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Businesses already taking advantage of the scheme will face one-off costs in familiarising themselves with the updated regulations, and there will be no change in ongoing administrative burdens. Businesses newly wishing to take advantage of the scheme may face negligible one-off and ongoing administrative costs. Around 120 companies have made investments under the scheme, and fewer than 10 will be affected by the investment cap. They will see a reduction in the amount they can invest and in the maximum relief available,
Operational impact (£m) (HMRC or other)	There will be a small operational impact on HMRC, however, with only around 3,100 total investors since 2002 the annual impact would be very small.
Other impacts	<u>Small firms impact test:</u> the scheme only impacts those companies who choose to invest in CDFIs. The majority of the investment by businesses is made by large companies, but any company of any size can invest and will benefit from a tax relief which would negate any cost related with using the scheme and making the claim. There would be a negligible impact on small and large businesses using the scheme. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through monitoring the uptake of the relief in terms of the numbers of companies and individuals claiming the relief; the amount of relief claimed; and the amount of the associated investment.

Further advice

If you have any questions about this change, please contact Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk).

Non-domicile taxation

Who is likely to be affected?

UK resident non-domiciled individuals who are taxed on the remittance basis.

General description of the measure

This measure will make a series of minor changes to the remittance basis rules designed to reduce administrative complexity and remove anomalies.

Policy objective

The changes introduced by this measure aim to simplify some parts of the remittance basis rules, which can in some circumstances be complicated to operate; this will benefit individuals and their advisors.

Background to the measure

Reforms to the remittance basis of taxation, which is available to non-domiciled individuals who are resident in the UK, were announced by the Government in Budget 2010 and 2011.

Draft legislation implementing these reforms was published for consultation in December 2011. In Finance Act 2012, the Government introduced these reforms to the remittance basis. At that time, the Government said it would consider the case for further changes to the remittance basis which would be introduced in the 2013 Finance Bill.

Draft legislation setting out the rules for inadvertent remittances will be published in January 2013

Detailed proposal

Operative date

This legislation will have effect on and after 6 April 2013.

Current law

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

These include special rules in sections 809X to 809Z6 which apply to property which has been purchased overseas, wholly or in part, with foreign income and gains and which is brought to the UK by an individual who is taxed on the remittance basis. Such property is known as exempt property and, provided certain conditions are met, can be brought to the UK without the foreign income and gains which were used to acquire the property being treated as a taxable remittance.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to make changes to the exempt property rules to remove a tax charge which can arise where such property is lost, stolen or destroyed whilst it is in the UK. Changes will also be made to the exempt property rules to remove a minor anomaly and to extend the range of exempt property which can be brought to the UK for the purpose of public display at an approved establishment such as a museum or gallery and clarify the interaction between the various time limits for the exempt property rules.

Draft legislation setting out the rules for inadvertent remittances will be published in January 2013.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals and households	The proposals affect only individuals who are resident non-domiciles and who are taxed on the remittance basis. In 2009-10, there were approximately 45,000 individuals who elected to pay on the remittance basis. The objective of the proposals is to reduce the complexity of calculations that individuals and their advisers have to make to comply with the remittance basis rules.					
Equalities impacts	No impacts based on race, gender disability or other equality groups are anticipated.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations, as it only affects individuals. As a simplification, it could not in any case increase burdens on businesses or civil society organisations.					
Operational impact (£m) (HMRC or other)	Simplification will result in some efficiencies for HMRC in undertaking and checking calculations, but these will not be significant.					
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 these changes, please send an email to: offshorepersonal.taxteam@hmrc.gsi.gov.uk

Corporation tax: main rate

Who is likely to be affected?

Incorporated businesses with profits above £1.5 million which pay corporation tax (CT) at the main rate, and incorporated businesses with profits between £300,000 and £1.5 million which pay tax at the main rate reduced by marginal relief.

General description of the measure

The measure adds an additional 1 per cent to the previously announced reduction of the CT main rate for the Financial Year beginning 1 April 2014. The CT main will be set at 21 per cent for the Financial Year beginning 1 April 2014.

Policy objective

This measure supports the Government's objective of a more competitive corporate tax system to provide the right conditions for business investment and growth.

Background to the measure

Budget 2012 announced that the main rate for the financial year beginning 1 April 2012 would drop by an extra 1 per cent to 24 per cent, followed by two further annual 1 per cent cuts to 22 per cent by the Financial Year beginning 1 April 2014.

Autumn Statement 2012 announces an additional 1 per cent reduction to that previously announced, so from 1 April 2013 the rate will be 23 per cent followed by 21 per cent for the Financial Year beginning 1 April 2014.

This tax information and impact note in part supersedes the note published at Budget 2012 to reflect the changes announced then to the CT main rate.

Detailed proposal

Operative date

The reduction in the CT main rate for Financial Year 2014 will have effect on and after 1 April 2014.

Current law

A rate of 24 per cent for the Financial Year beginning 1 April 2012 was set by section 5 of the Finance Act 2012 for all non-ring fence profits and a rate of 23 per cent for the Financial Year beginning 1 April 2013 was set by section 6 of the Finance Act 2012.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to reduce the main rate of CT for all non ring fence profits to 21 per cent from April 2014.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-10	-415	-785	-875	-875
	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	A lower corporation tax rate makes the UK more attractive as a destination to locate business activity. A reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment.					
Impact on individuals and households	This measure concerns incorporated businesses and has no direct impact on individuals or households.					
Equalities impacts	This measure concerns the taxation of the body corporate which is a non-gender/race specific entity in law. As such it is very unlikely that there will be any impact on equality.					
Impact on business including civil society organisations	This measure will lower the tax bills of 40,000 businesses which have profits over £1.5 million and pay at the main rate of CT; and a further 41,000 which have profits between £300,000 and £1.5 million and pay at the main rate of CT but receive marginal relief. This measure is expected to result in negligible one-off costs as businesses familiarise themselves with the rate change and update administrative systems. The change makes little difference to the complexity of the tax calculation and is not expected to increase compliance costs on an ongoing basis. This measure will have no impact on civil society organisations					
Operational impact (£m) (HMRC or other)	Implementation is likely to have only minor operational impact but will necessitate some changes to HM Revenue & Customs IT systems and online filing products.					
Other impacts	Competition assessment: a lower CT main rate makes the UK more attractive as a destination to locate. Small firms impact test: although only a minority of small businesses pay CT at the main rate, for those affected, the impact is positive - a reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment. 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 corporation tax changes.

Further advice

If you have any questions about this change, please contact Ellen Milner on 020 7147 3961 (email: ellen.milner@hmrc.gsi.gov.uk).

HM Revenue & Customs

Bank Levy: 2013 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 the Bank Levy raises at least £2½ billion each year, and takes account of the benefit to the banking sector from the additional reductions in corporation tax announced at Budget 2011, Budget 2012 and Autumn Statement 2012, the rate of the Bank Levy will increase to 0.130 per cent from 1 January 2013. A proportionate increase to 0.065 per cent will be made to the half rate, also with effect from 1 January 2013.

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 ensure that the value of the contribution from the Bank Levy remains in line with previous expectations while ensuring the UK remains a competitive location for international financial services.

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. The Government has made clear that the Bank Levy is expected to raise at least £2½ billion each year.

The December 2012 forecasts published by the Office for Budget Responsibility (OBR) imply that, without amendment, receipts for future years will fall short of the expected £2½ billion.

At Autumn Statement 2012 the Government announced an increase in the rate of the Bank Levy from 1 January 2013.

Detailed proposal

Operative date

The measure increases the rates of the Bank Levy from 1 January 2013 to 0.130 per cent for the full rate and 0.065 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 2013 to amend the rates of Bank Levy. For periods falling wholly or partly after 1 January 2013 the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.0525 per cent to 0.065 per cent and the rate for short term chargeable liabilities will be increased from 0.105 per cent to 0.130 per cent.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	+515	+545	+540	+545	+545
	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 changes proposed here add no additional costs.					
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 firms impact test: the banks, building societies and banking groups affected by the Bank Levy are not considered to be small firms. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The Bank Levy will be reviewed in 2013 to make sure it is operating efficiently. 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 020 7147 0654 (email: anthony.c.fawcett@hmrc.gsi.gov.uk).

Research and development tax credits reform: Above the Line

Who is likely to be affected?

Companies claiming research and development (R&D) tax relief.

General description of the measure

The introduction of an 'Above the Line' (ATL) Credit to further encourage R&D investment by large companies.

Policy objective

The measure will increase the attractiveness of the UK as a location for large company R&D investment by introducing a more visible, more certain, and more effective form of R&D relief.

Background to the measure

Announced changes follow the Government's consideration of responses to:

- *Corporate Tax reform: delivering a more competitive tax system* – a consultation document, including a consultation on R&D tax relief, published on 29 November 2010 on the HM Treasury website.

- *Research and Development Tax Credits: response and further consultation* – a response document published on 10 June 2011 on the HM Treasury website.

- *Consultation on an 'Above the Line' credit for Research and Development* – a consultation document published on March 2012 on the HM Treasury website.

The Government announced at Autumn Statement 2011 that it would introduce an 'Above the Line' credit for large-company R&D investment in April 2013.

The Government announced at Budget 2012 that the ATL credit would be taxable, paid at a minimum pre-tax rate of 9.1 per cent, and be payable to companies with no corporation tax liability.

Detailed proposal

Operative date

Companies will be able to claim the ATL credit for their qualifying expenditure incurred on or after 1 April 2013.

The ATL credit scheme will initially be optional and companies will be required to elect to claim R&D relief under this scheme. Companies that do not elect to claim the ATL credit will be able to continue claiming R&D relief under the current large company scheme until 31 March 2016. The ATL credit will become mandatory on 1 April 2016.

Current law

R&D Relief for large companies is currently given under Part 13 Chapter 5 of Corporation Tax Act 2009. Relief is given as an additional deduction in calculating the profits or losses of an enterprise within the charge to corporation tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow large companies to claim R&D relief as a taxable ATL credit to the value of 9.1 per cent of their qualifying R&D expenditure. The credit will be fully payable to companies with no corporation tax liability.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-5	-205	-	-	-
	These figures were set out in Table 2.1 of the Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget 2012. The impact of further revisions will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.					
Economic impact	The ATL credit is designed to increase the aggregate level of R&D in the UK economy by increasing the visibility of UK R&D relief and reducing the cost of R&D investment for companies with no corporation tax liability. This is expected to benefit the wider economy through the positive spillover of new processes, technologies, skills and innovations.					
Impact on individuals and households	There is no impact on individuals, partnerships or households. This change only affects enterprises within the charge to corporation tax.					
Equalities impacts	This change only affects enterprises within the charge to corporation tax and is considered to have no differential impact on any protected equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses in terms of administrative and one-off costs. Around 2,500 companies currently claim under the large-company R&D tax credit scheme each year. These companies will benefit from a more visible and more certain form of R&D relief that is payable in the absence of corporation tax liability. These changes have been consulted on. The changes will only affect how R&D relief is delivered, and therefore it estimated that there will be no change overall in ongoing administrative burdens between the old and new schemes. There will be negligible one-off costs associated with the introduction of the measure as businesses familiarise themselves with the new legislation, processes and requirements. The measure will have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be some additional costs in terms of revised guidance and business support. Due to the nature of this particular change, the Company Tax return CT600 will also require some design alteration.					

Other impacts	Small firms impact test: the impact should be minimal. Small firms will be able to claim the credit in specific circumstances and will be supported in doing so by the specialist R&D units. 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 Carol Johnson on 020 7147 3252 (email:carol.johnson4@hmrc.gsi.gov.uk) or contact Neil Smillie on 020 7147 0864 (email:neil.smillie@hmrc.gsi.gov.uk).

HM Revenue & Customs

High-end television tax relief

Who is likely to be affected?

Companies within the charge to corporation tax that are directly involved in the production of high-end television.

General description of the measure

The measure will enable eligible companies to claim tax relief for qualifying high-end television production expenditure.

Policy objective

The measure aims to promote the sustainable production of culturally relevant high-end television productions in the UK.

Background to the measure

The Government announced at Budget 2012 the introduction of corporation tax reliefs for animation, high-end television and video games production. A consultation on the design entitled *Consultation on creative sector tax reliefs* was published on 18 June 2012 and closed on 10 September 2012.

Detailed proposal

Operative date

Subject to State aid approval by the European Commission this measure will have effect for qualifying expenditure incurred on or after 1 April 2013.

Current law

There are currently no targeted reliefs for this sector. However, the new high-end television tax relief is based on the successful film tax relief (FTR) and some television companies who have made films and documentaries intended for theatrical release may have in the past benefited from the FTR. Since its introduction in January 2007, the FTR has supported £5.5 billion of investment into 825 British films which have received approximately £800 million in relief.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to introduce the new tax relief for the production of high-end television.

The high-end television tax relief will allow eligible companies engaged in the production of qualifying high-end television productions to claim an additional deduction in computing their taxable profits and where that additional deduction results in a loss, to surrender those losses for a payable tax credit. Both the additional deduction and the payable credit are calculated on the basis of UK core expenditure up to a maximum of 80 per cent of the total core expenditure by the qualifying company. The additional deduction is 100 per cent of qualifying core expenditure and the payable tax credit is 25 per cent of losses surrendered.

Productions must be certified by the Department of Culture, Media & Sport (DCMS) as culturally British in order to eligible for relief.

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><td>2017-18</td></tr>
<tr><td>-</td><td>-5</td><td>-25</td><td>-45</td><td>-60</td><td>-70</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">This measure is expected to have a positive impact on the high-end television industry, but is not expected to have significant wider macroeconomic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">The relief would be available to companies producing high-end television and so is unlikely to impact on individuals and households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The Government has carefully considered whether this measure impacts on people with protected characteristics and has not identified any equalities impacts.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">
The high-end TV tax relief will allow qualifying companies to claim a payable tax credit, supporting the production of culturally high-end TV programmes. This measure is expected to have a significant impact on those businesses. There are approximately 50 high-end television production companies in the UK that may benefit from the relief.
Eligible companies may face some one-off and ongoing administrative costs in order to qualify for this relief. There will be negligible one-off costs associated with familiarisation with new legislation, processes and requirements. The ongoing costs include costs of claiming the relief and fulfilling the requirement to pass a cultural test for each production. It is estimated that on average companies will make one claim per year. Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.
This measure is expected to have no impact on civil society organisations.
<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>£0.5m-£0.8m</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£2.4 m-£3.7m</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>- £2.4 m-£3.7m</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>£0.5m-£0.8m</td><td>£0</td><td>£0.5m-£0.8m</td></tr>
</table>
</td></tr>
</table>

Operational impact (£m) (HMRC or other)	The estimated annual cost to HM Revenue & Customs of administering all three new creative industry tax credit regimes is £500,000. Training and familiarisation with the new legislation will be required. DCMS may also require additional resource to administer a cultural test. Additional resource will have to come out of existing departmental budgets, which may impact on resource allocation elsewhere.
Other impacts	Small firms impact test: this measure is not expected to have a significant impact on small firms. Competition assessment: introducing this sector specific tax relief is likely to be of particular benefit to larger television production companies with the necessary resources to reach the minimum spend threshold. The overall effect on competition is not expected to be significant, given the overall size of the high-end television sector. 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 new reliefs 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 020 7147 2617 (email: kerry.pope@hmrc.gsi.gov.uk) or contact Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk).

HM Revenue & Customs

Animation tax relief

Who is likely to be affected?

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

General description of the measure

The measure will enable eligible companies to claim tax relief for qualifying animation production expenditure.

Policy objective

The measure aims to promote the sustainable production of culturally significant animation productions in the UK.

Background to the measure

The Government announced at Budget 2012 the introduction of corporation tax reliefs for animation, high-end television and video games production. A consultation on the design entitled *Consultation on creative sector tax reliefs* was published on 18 June 2012 and closed on 10 September 2012.

Detailed proposal

Operative date

Subject to State aid approval by the European Commission, this measure will have effect for qualifying expenditure incurred on or after 1 April 2013.

Current law

There are currently no targeted reliefs for this sector. However, the new animation tax relief is based on the successful film tax relief (FTR) and some animation companies who have made films intended for theatrical release may have in the past benefited from the FTR.

Since its introduction in January 2007, the FTR has supported £5.5 billion of investment into 825 British films which have received approximately £800 million in relief.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to introduce the new tax relief for the production of animation.

The animation tax relief will allow eligible companies engaged in the production of qualifying animated productions to claim an additional deduction in computing their taxable profits and where that additional deduction results in a loss, to surrender those losses for a payable tax credit. Both the additional deduction and the payable credit are calculated on the basis of UK core expenditure up to a maximum of 80 per cent of the total core expenditure by the qualifying company. The additional deduction is 100 per cent of qualifying core expenditure and the payable tax credit is 25 per cent of losses surrendered.

Productions must be certified by the Department of Culture, Media & Sport (DCMS) as culturally British in order to be eligible for relief.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-5	-10	-15	-15
	This measure is part of the package on Creative Sector Tax Reliefs. These figures were set out in the consultation issued on 18 June 2012 and have been certified by the Office for Budget Responsibility at Budget 2012.				

Economic impact	This measure is expected to have a positive impact on the animation industry, but is not expected to have significant wider macroeconomic impacts.
Impact on individuals and households	The relief would be available to companies producing animation 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	The animation tax relief will allow qualifying companies to claim a payable tax credit, supporting the production of culturally British animation. There are approximately 50-100 animation companies in the UK that may benefit from the relief. Eligible companies may face some one-off and ongoing administrative costs in order to qualify for this relief. There will be negligible one-off costs associated with familiarisation with new legislation, processes and requirements. The ongoing costs include costs of claiming the relief and fulfilling the requirement to pass a cultural test for each production. It is estimated that on average companies will make one claim per year. Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value. This measure is expected to have no impact on civil society organisations.

	Cost	**Time Period (yrs)**
Compliance Costs		
One-off Costs	negligible	N/A
Average Annual Costs	£50k-£130k	5
Total Costs (PV)	£230k-£600k	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)	-£230k -£600k	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	**Decrease**	**Net Impact**
£50k-£130k	£0	£50k-£130k

Operational impact (£m) (HMRC or other)	The estimated annual cost to HM Revenue & Customs of administering all three new creative industry tax credit regimes is £500,000. Training and familiarisation with the new legislation will be required. DCMS may also require additional resource to administer a cultural test. Additional resource will have to come out of existing departmental budgets, which may impact on resource allocation elsewhere.
Other impacts	Small firms impact test: the Government recognises that there may be some increase in administration impacts on small businesses. However, overall the tax relief will impact positively on qualifying small companies. There will also be a specialist unit set up to help facilitate claims. Competition assessment: this relief is targeted at a specific sector. All companies in this sector are eligible, so introduction is unlikely to affect competition within the sector. There should not be any significant impact on competition with other business sectors. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The new reliefs 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 020 7147 2617 (email: kerry.pope@hmrc.gsi.gov.uk) or contact Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk).

Video games tax relief

Who is likely to be affected?

Companies within the charge to corporation tax (CT) that are directly involved in the development of video games.

General description of the measure

The measure will enable eligible companies to claim tax relief for qualifying video games development expenditure.

Policy objective

The measure aims to promote the sustainable production of culturally significant video games in the UK.

Background to the measure

The Government announced at Budget 2012 the introduction of CT reliefs for animation, high-end television and video games production. A consultation on their design entitled *Consultation on creative sector tax reliefs* was published on 18 June 2012 and closed on 10 September 2012.

Detailed proposal

Operative date

Subject to State aid approval by the European Commission, the measure will have effect for qualifying expenditure incurred on and after 1 April 2013.

Current law

There are currently no targeted reliefs for this sector, although some video games companies may already benefit from the research & development tax credit regime.

The new video games tax credit is based on the successful film tax relief (FTR). Since its introduction in January 2007, the FTR has supported £5.5 billion of investment into 825 British films which have received approximately £800 million in relief.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to introduce the new tax relief for the development of video games.

The video games tax relief will allow eligible companies engaged in the production of qualifying video games to claim an additional deduction in computing their taxable profits and where that additional deduction results in a loss, to surrender those losses for a payable tax credit. Both the additional deduction and the payable credit are calculated on the basis of UK core expenditure up to a maximum of 80 per cent of the total core expenditure by the qualifying company. The additional deduction is 100 per cent of qualifying core expenditure and the payable tax credit is 25 per cent of losses surrendered.

Productions must be certified by the Department of Culture, Media & Sport (DCMS) as culturally British in order to be eligible for relief.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-10	-25	-25	-25
	This measure is part of the package on creative sector tax reliefs. These figures were set out in the consultation issued on 18 June 2012 and have been certified by the Office for Budget Responsibility at Budget 2012.				
Economic impact	This measure is expected to have a positive impact on the video games industry, but is not expected to have significant wider macroeconomic economic impacts.				
Impact on individuals and households	The relief would be available to companies developing video games 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	The video game tax relief will allow qualifying companies to claim a payable tax credit, supporting the production of culturally British video games. There are approximately 300 video games companies in the UK that may benefit from the relief. Eligible companies may face some one-off and ongoing administrative costs in order to qualify for this relief. There will be negligible oneoff costs associated with familiarisation with new legislation, processes and requirements. The ongoing costs include costs of claiming the relief and fulfilling the requirement to pass a cultural test for each production. It is estimated that on average companies will make one claim per year. Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value. This measure is expected to have no impact on civil society organisations.				

	Cost	**Time Period (yrs)**
Compliance Costs		
One-off Costs	negligible	N/A
Average Annual Costs	£0.8 m-£1.2m	5
Total Costs (PV)	£3.7m-£5.5m	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)	-£3.7m - £5.5m	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	**Decrease**	**Net Impact**
£0.8 m-£1.2m	£0	£0.8 m-£1.2m

Operational impact (£m) (HMRC or other)	The estimated annual cost to HM Revenue & Customs of administering all three new creative industry tax credit regimes is £500,000. Training and familiarisation with the new legislation will be required. DCMS may also require additional resource to administer a cultural test. Additional resource will have to come out of existing departmental budgets, which may impact on resource allocation elsewhere.
Other impacts	Small firms impact test: the Government recognises that there may be some increase in administration impacts on small businesses. However, overall the tax relief will impact positively on qualifying small companies. There will also be a specialist unit set up to help facilitate claims. Competition assessment: this relief is targeted at a specific sector. All companies in this sector are eligible, so introduction is unlikely to affect competition within the sector. There should not be any significant impact on competition with other business sectors. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The new reliefs will be monitored and assessed alongside other measures in the Government's package of CT reforms.

Further advice

If you have any questions about this change, please contact Kerry Pope on 020 7147 2617 (email: kerry.pope@hmrc.gsi.gov.uk) or contact Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk).

Annual investment allowance: increase to £250,000 for two years

Who is likely to be affected?

Businesses investing more than £25,000 a year in plant or machinery from 1 January 2013.

General description of the measure

Legislation will be introduced in Finance Bill 2013 to increase the maximum amount of the annual investment allowance (AIA) from £25,000 to £250,000 for a temporary period of two years from 1 January 2013.

Policy objective

This measure is designed to stimulate growth in the economy by providing an additional time-limited incentive for businesses to invest in plant or machinery.

Background to the measure

This temporary increase in the amount of the AIA was announced at Autumn Statement 2012.

Detailed proposal

Operative date

The measure will have effect from 1 January 2013 for all businesses (whether within the charge to corporation tax (CT) or within the charge to income tax (IT)). Where a business has a chargeable period that straddles either or both of: (i) the operative date of the increase on 1 January 2013, or (ii) the operative date of the decrease to £25,000 on 1 January 2015 (that is, after the two year period of the increase has elapsed), the transitional rules outlined below will apply.

Current law

Since 1 April 2008 (CT) and 6 April 2008 (IT) most businesses, regardless of size, have been able to claim the AIA on their expenditure on plant or machinery, up to a specified annual amount each year (subject to certain conditions mentioned below). With effect from 1 April 2012 (CT) or 6 April 2012 (IT) the maximum amount of the AIA became £25,000 for qualifying expenditure incurred on or after those dates.

Businesses are able to claim the AIA in respect of their expenditure on both general and "special rate" plant and machinery (although there are certain exceptions, set out in section 38B of the Capital Allowances Act 2001 (CAA), the main exception being expenditure on cars). The AIA is effectively a 100 per cent allowance that applies to qualifying expenditure up to a specified annual limit or cap.

Where businesses spend more than the annual limit, any additional expenditure is dealt with in the normal capital allowances regime, entering either the main rate or the special rate pool, where it will attract writing-down allowances at the 18 per cent or 8 per cent rate respectively.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to revise the CAA. This will increase the AIA from £25,000 to £250,000 from 1 January 2013, for all businesses (whether within the charge to CT, or within the charge to income tax) for a temporary period of two years.

A business with a calendar year chargeable period will be entitled to a maximum AIA of £250,000 for each of its 2013 and 2014 chargeable periods, and the business' maximum entitlement will revert to £25,000, for its 2015 chargeable period.

Chargeable periods spanning date of increase to £250,000

A business with a chargeable period that spans the operative date of the increase on 1 January 2013 may have a chargeable period that began either (i) on or after 1 or 6 April 2012 (the date when the AIA maximum was reduced to £25,000, for CT or income tax purposes respectively) or (ii) before the date of the April 2012 reduction. The transitional provisions for each of these two groups will be outlined separately below.

Businesses in category (i)

A business in category (i), with a chargeable period that began on or after the date of the AIA reduction, will calculate its maximum AIA for that period in two parts:

(a) its AIA entitlement, based on the previous £25,000 annual cap for the portion of a year falling before 1 January 2013; and,

(b) its AIA entitlement, based on the new £250,000 cap for the portion of a year falling on or after 1 January 2013.

Example

A company with a financial year chargeable period from 1 April 2012 to 31 March 2013 would calculate its maximum AIA entitlement based on:

(a) the proportion of a year from 1 April 2012 to 31 December 2012, that is, 9/12 x £25,000 = £18,750; and,

(b) the proportion of a year from 1 January 2013 to 31 March 2013, that is, 3/12 x £250,000 = £62,500.

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) = £18,750 + £62,500 = £81,250, although in relation to (a) (the part period falling before 1 January 2013, no more than a maximum of £25,000 of the company's actual expenditure in that particular part period would be covered by its transitional AIA entitlement (the maximum claimable before the increase to £250,000).

Businesses in category (ii)

A business in category (ii) above, with a transitional chargeable period that began before the date of the AIA reduction on 1st or 6th April 2012 (as the case may be) will calculate its maximum AIA for that period in three parts:

(a) its AIA entitlement, based on the £100,000 annual cap that applied before 1 or 6 April 2012 for the portion of a year falling before that date; and,

(b) its AIA entitlement, based on the current £25,000 cap for the portion of a year from 1 or 6 April (for CT or IT purposes respectively) to 31 December 2012; and,

(c) its AIA entitlement, based on the new cap of £250,000 for the portion of a year falling on or after 1 January 2013.

Example

A company with a transitional chargeable period from 1 March 2012 to 28 February 2013 would calculate its maximum AIA entitlement based on:

(a) the proportion of a year from 1 March 2012 to 31 March 2012, that is, 1/12 x £100,000 = £8,333; and,

(b) the proportion of a year from 1 April 2012 to 31 December 2012, that is, 9/12 x £25,000 = £18,750; and ,

(c) the portion of a year from 1 January 2013 to 28 February 2013, that is 2/12 x £250,000 = £41,667.

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) + (c) = £8,333 + £18750 + £41,667 = £68,750, although in relation to part (b) (the part period falling on or after 1 April 2012 and before 1 January 2013) no more than a maximum of £22,917 (that is, 11/12ths x £25,000) of the company's actual expenditure in that particular part period would be covered by the company's maximum AIA entitlement. (The restriction to £22,917 is a consequence of the transitional rules applying to the reduction from £100,000 to £25,000.)

Chargeable periods spanning date of return to £25,000

In the next year (chargeable periods relating to the year 2013-14), businesses would be entitled to the new AIA maximum of £250,000. However, in relation to the year following, that is, 2014-15, businesses with chargeable periods spanning 1 January 2015 (that is, the ending of the two-year temporary increase in the AIA) would calculate their maximum allowance for that transitional period in two parts:

(a) the AIA entitlement, based on the temporary AIA cap of £250,000 for the portion of a year falling before 1 January 2015; and,

(b) the AIA entitlement, based on the reversion to the current AIA cap of £25,000 for the portion of a year falling on or after 1 January 2015.

Example

A company with a financial year chargeable period from 1 April 2014 to 31 March 2015 would calculate its maximum AIA entitlement for its transitional, 2014-15, chargeable period based on:

(a) the proportion of a year from 1 April 2014 to 31 December 2014, that is, 9/12 x £250,000 = £187,500; and,

(b) the proportion of a year from 1 January 2015 to 31 March 2015, that is 3/12 x £25,000 = £6,250.

The company's maximum AIA for this transitional chargeable period would therefore be the total of (a) + (b) = £187,500 + £6,250 = £193,750, although in relation to (b) (the part period falling on or after 1 January 2015), no more than £6,250 of the company's actual expenditure in that particular part period would be covered by its maximum AIA entitlement for this period as a whole. (Again the restriction to £6,250 is a consequence of the transitional rules applying to the reduction from £250,000 to £25,000.)

Further details

The more detailed rules about entitlement to an AIA (for example, in relation to companies that fall within the company law definition of a group, or when businesses under common control are regarded as "related" for AIA purposes) are based on similar time-apportioned principles as applied to the rules in sections 51K of CAA (operation of the annual investment allowance where restrictions apply). Details are contained in the relevant draft legislation and relative explanatory note as published.

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><td>2017-18</td></tr>
<tr><td>-305</td><td>-670</td><td>-910</td><td>-400</td><td>+300</td><td>+235</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">By accelerating the relief on qualifying expenditure between £25,000 and £250,000, this measure will provide an incentive, particularly to small and medium-sized businesses, to increase or bring forward their capital expenditure on plant and machinery.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Capital allowances can only be claimed in the course of a business. There is no evidence to indicate that the measure would have any impacts on groups sharing protected characteristics.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The proposal does not impact on the equality of groups with protected characteristics.</td></tr>
</table>

Impact on business including civil society organisations	It is estimated that around 90,000 businesses, spending over £25,000 a year on qualifying plant and machinery, would benefit from this accelerated tax relief measure. It increases the net present value of capital allowances to investors in plant or machinery and provides a cash flow benefit, likely to be of most help to small and medium-sized businesses. This measure is expected to result in a negligible increase in one off compliance costs for businesses, as they will need to familiarise themselves with the change and carry out a small update to their software to take into account the increase in AIA. The impacts on businesses' on-going administrative burdens are also expected to be negligible as most of the businesses affected are likely to still need to calculate some capital allowances on a year-by-year basis for previously pooled expenditure and/or new expenditure not qualifying for the temporary £250,000 AIA. This measure is not expected to have a significant impact on civil society organisations.
Operational impact (£m) (HMRC or other)	There are additional IT and compliance costs for HMRC in implementing a temporary two-year increase in the AIA from 1 January 2013. However, HMRC currently assess that it will be possible to subsume these additional costs in their business as usual budget.
Other impacts	<u>Small firms impact test</u>: precise data on the impact on small firms (those with less than 20 full-time employees) is not available as businesses are not required to give this information on tax returns. However, as the qualifying expenditure of most small firms is already fully covered by the current AIA threshold of £25,000, most small firms are unlikely to be affected. Small firms investing over the current AIA threshold are expected to benefit from the temporary increase in the AIA, as it will potentially provide them with a tax timing benefit. Other impacts have been considered and none have been identified.

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 email Joy Guthrie (email: joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith (email: malcolm.smith3@hmrc.gsi.gov.uk) or telephone 020 7147 2610.

100 per cent first-year capital allowances for gas refuelling equipment

Who is likely to be affected?

Businesses planning to purchase equipment for refuelling vehicles with natural gas, biogas or hydrogen fuel.

General description of the measure

The 100 per cent first-year allowance (FYA) for expenditure incurred on gas refuelling equipment that was due to end on 31 March 2013 will be extended for an additional two years to 31 March 2015.

Policy objective

This allowance is designed to support the development and installation of refuelling infrastructure for motor vehicles powered by natural gas, biogas and hydrogen as part of the process of promoting the wider uptake of such vehicles. The relief also complements the 100 per cent FYA for cars with low carbon dioxide (CO_2) emissions that is being extended to 31 March 2015.

Background to the measure

The availability of 100 per cent FYAs for expenditure incurred on gas refuelling equipment expires on 31 March 2013. The Government announced its intention to extend the availability of this allowance at Budget 2012. There has been no consultation.

Detailed proposal

Operative date

The measure will have effect for expenditure incurred on or after 1 April 2013.

Current law

Business expenditure on plant and machinery normally qualifies for tax relief as capital allowances, which are normally given at the rate of 18 per cent a year on a reducing balance basis. Under section 45E(1)(a) Capital Allowance Act 2001, 100 per cent FYAs are available to businesses that purchase equipment required to refuel natural gas, biogas and hydrogen powered vehicles. The allowance is due to end on 31 March 2013.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to extend this allowance for two years, to 31 March 2015.

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><td>2017-18</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. Any impact will be set out at Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="6">This measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Capital allowances can only be claimed on qualifying expenditure incurred by business. Therefore, the extension of the FYA for gas refuelling equipment for a further period, or letting it end, should have no impact on individuals and households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The Government does not believe that an extension of the current relief to 2015 will 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 a negligible impact on business.

It has not been possible to determine how many businesses use natural gas, biogas and hydrogen fuelled vehicles. However, as the latest available information suggests that there were only 220 gas refuelled vehicles as at 2010, and the numbers appear to have declined from 540 in 2007, it is expected that very few businesses will be affected.

It is expected that the majority of the businesses who will benefit from the decision to continue the relief, which provides a modest cash flow boost, are concentrated in the transport sector, either haulage or passenger transport. As the rules for claiming the relief have not changed, there should be no new one-off costs associated with the need for businesses to familiarise themselves with a new initiative.

It will not effect civil society organisations who cannot make claims for capital allowances.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">This change will not increase HM Revenue & Customs’ processing or compliance resource needs.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test:</u> this measure applies to all sizes of business, but in practice it impacts only on those businesses with qualifying plant and machinery expenditure above the level of the annual investment allowance of £250,000. As a result there is expected to be an extremely limited impact on small firms, the vast majority of which incur less than £250,000 per annum on capital expenditure and who are unlikely invest in this technology due to the costs of the equipment, vehicles and lack of a national gas refuelling infrastructure.

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 the Department for Transport.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

Capital allowances for business cars

Who is likely to be affected?

Any business that buys or leases cars.

General description of the measure

The 100 per cent first-year allowance (FYA) for expenditure incurred on cars with low carbon dioxide (CO_2) emissions and electrically propelled cars that is due to end on 31 March 2013 will be extended for an additional two years to 31 March 2015. In line with other FYA schemes, cars acquired for leasing will no longer be eligible for the FYA.

In addition, the measure reduces the emissions thresholds governing the availability of FYAs, the rate at which writing down allowances are available and the restriction of lease rentals.

Policy objective

Focussing capital allowances on a car's CO_2 emissions, by encouraging businesses to choose cleaner cars over more polluting ones, helps ensure that the Government's environmental objective of reducing overall CO_2 emissions by business cars is met.

Background to the measure

The availability of 100 per cent FYAs for expenditure incurred on cars with low CO_2 emissions and electrically propelled cars expires on 31 March 2013. The Government announced its intention to extend the availability of this allowance at Budget 2012. At the same time the Government announced that the qualifying threshold for low CO_2 emissions will be reduced to match EU emissions targets for 2020 and that the threshold for main rate cars will also be reduced, as will the associated lease rental restriction, to match EU emissions targets for 2015.

Although there has been no formal consultation, this policy was designed in discussion with business to keep the overall compliance costs for businesses as low as possible.

Detailed proposal

Operative date

For capital allowances, the measure will have effect for expenditure on cars incurred on or after 1 April 2013.

The change to the lease rental restriction will have effect for leases commencing on or after 1 April 2013 for corporation tax purposes and 6 April 2013 for income tax purposes.

Current law

Business expenditure on plant and machinery normally qualifies for tax relief as capital allowances, which are normally given at the rate of 18 per cent a year on a reducing balance basis. Under current law, section 45D Capital Allowances Act 2001, 100 per cent FYAs are available to businesses that purchase cars with low CO_2 emissions or electrically propelled cars. The allowance is due to end on 31 March 2013.

The capital allowances rules for cars are based on their CO_2 emissions per kilometre driven. Currently, cars that emit:

- 110 grams of CO_2 per kilometre driven (g/km) or less are eligible for a 100 per cent FYA;
- over 110g/km but not more than 160g/km are written down at 18 per cent per annum on the reducing balance basis; and,
- over 160g/km are written down at eight per cent per annum, also on the reducing balance basis.

In addition, where a business hires a car for over 45 days, and does not sub-hire it, it is subject to a lease rental restriction which restricts the amount of car lease rental payments that can be deducted for tax purposes. This restriction disallows 15 per cent of the payments in respect of cars with emissions exceeding 160g/km.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to extend the FYA for two years, to 31 March 2015. In addition, to bring these FYAs in line with other FYAs, expenditure incurred on cars that are to be leased will be excluded from the scope of the relief.

Since the current thresholds were introduced the car fleet has become much cleaner with more cars emitting less than 110g/km and fewer cars emitting more than 160g/km. To ensure that the measure remains properly focussed, the CO_2 emission thresholds which determine the rate at which capital allowances are given, and at which lease rentals will be restricted, will also be revalorised so that cars that emit:

- 95g/km or less are eligible for a 100 per cent FYA;
- over 95g/km but not more than 130g/km are written down at 18 per cent per annum on the reducing balance basis; and,
- over 130g/km are written down at eight per cent per annum, also on the reducing balance basis.

The emissions level applicable for the lease rental restriction will also be reduced with effect from 1 April 2013 to disallow 15 per cent of the payments in respect of cars with emissions exceeding 130g/km.

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>-</td><td>+25</td><td>+115</td><td>+185</td><td>+250</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of the Budget 2012 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is expected to encourage higher levels of investment in the most environmentally-friendly business cars.

Since the threshold for the 100 per cent FYA was last revalorised in 2008, the car fleet has become much cleaner with more new cars qualifying for the FYA. Only two per cent of new cars sold in 2008-09 qualified for the FYA whereas 18 per cent of new car sales in 2012-13 qualify at the current threshold.

Similarly there are now far fewer cars emitting more than 160g/km (12 per cent of new car sales) than when this threshold was introduced in 2009 (24 per cent of new cars sold).</td></tr>
</table>

Impact on individuals and households	Capital allowances can only be claimed on qualifying expenditure incurred by businesses. Any extension to the FYA regime and amendments to the CO_2 emission thresholds should have no impact on households. There may be some impact on the self employed who tend to purchase second-hand cars, which can be slightly more polluting than new cars, because technology has moved on since those vehicles were originally made.
Equalities impacts	The Government does not believe that any revision to the CO_2 emission thresholds will have any adverse equality impact. Although more men than women tend to have company cars, companies will have identical policies as to the types of cars the employees are entitled to. The self-employed often use cars both for private and domestic purposes and their choice of vehicle will be determined by factors such as age and cost of the vehicles and domestic considerations, not solely tax considerations. It is claimed that cars provided to or used by the disabled are more polluting because they have to be bigger vehicles to accommodate any special equipment, or are automatic cars, being easier to drive. No issues have however been brought to our attention since the capital allowances treatment of cars has been based on their CO_2 emission thresholds.
Impact on business including civil society organisations	For car manufacturers this measure should increase the demand for lower carbon car models with respect to models that emit higher levels of CO_2. For those businesses purchasing cars, depending on their individual purchasing decisions, this measure could accelerate or slow the rate at which the costs of car purchases can be deducted against taxable profits. The extension of the FYA is expected to have a negligible impact on administrative burdens for business as the measure extends an existing FYA scheme. Bringing the FYA in line with other FYAs to exclude leased cars may increase the demand for direct vehicle purchases with respect to leasing. The withdrawal of the FYA from those cars to be leased, whilst impacting on car leasing companies, is expected to have a negligible impact on business as there are no changes to businesses ongoing administrative burdens. Similarly the revalorisation of the CO_2 emissions thresholds is expected to have a negligible impact on businesses. There is expected to be an impact for business resulting from the lease rental restriction due to the revalorisation of the CO_2 emission thresholds. Businesses may be required to calculate the restriction on more of their car fleet, with the average number of cars affected over the scorecard period expected to be 300,000. The expected impact is detailed below:

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	Negligible	N/A
Average Annual Costs	£550k	5
Total Costs (PV)	£2.6m	5

<table>
<tr>
<td></td>
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<table>
<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>-£2.6m</td><td>5</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>£200k</td><td>£0</td><td>£200k</td></tr>
</table>
(Note: The impact on administrative burden (included in net benefit) represents the expected cost for the first year. The £550,000 included in compliance costs represents the average amount over the five years).
The changes proposed will not affect the writing down treatment of cars that were purchased before the changes takes effect. There may be some transitional costs to business in respect of understanding the new rules however these are expected to be negligible.
The measures are expected to have a negligible impact on civil society organisations. Civil society organisations cannot make claims for capital allowances, although if they lease cars their rentals may be more expensive if they chose to lease more polluting cars.
</td>
</tr>
<tr>
<td>Operational impact (£m) (HMRC or other)</td>
<td>There will be a negligible cost to HM Revenue & Customs (HMRC) for updating guidance. The measure will not increase HMRC's processing or compliance resource needs.</td>
</tr>
<tr>
<td>Other impacts</td>
<td>
<u>Carbon assessment</u>: the measure will have an indirect impact reducing carbon emissions and support the Government's objectives to reduce greenhouse gas emissions.
<u>Small firms impact test:</u> the impact of this measure on small businesses is not anticipated to differ from that on large businesses.
Other impacts have been considered and none have been identified.
</td>
</tr>
</table>

Monitoring and evaluation

This measure will be kept under review by regular monitoring of cars sales data provided by industry.

Further advice

If you have any questions about this change, please contact Andrew Donaldson on 020 7147 2282 (email: andrew.s.donaldson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Simpler income tax for the simplest small businesses

Who is likely to be affected?

Individuals carrying on a trade or profession as self employed sole traders or in partnership with other individuals.

General description of the measures

The first measure will allow eligible unincorporated businesses to calculate taxable income figures on a simpler cash basis if this suits the business. Such businesses will not have to compute figures of debtors, creditors and stock, or distinguish between 'capital' and ‘revenue’ expenditure and will not have to compute capital allowances to arrive at taxable income.

The second measure will allow all unincorporated businesses to choose to use flat rate expenses for particular items of business expenditure.

Policy objective

The objective is to simplify the calculation of taxable income for small unincorporated businesses. The policy aim is to give these small businesses greater certainty over the preparation of taxable income figures for their Self Assessment return and to clarify and simplify self assessment of business income.

The measures are intended to reduce the concerns, uncertainty and administrative burden of preparing a taxable income figure for these businesses. The measures will allow customers to choose the method of computing taxable income that best suits their business. They will not be suitable for all small businesses.

Background to the measures

The simpler income tax measures respond to proposals made by the Office of Tax Simplification (OTS). The OTS found that small businesses are concerned about the difficulty and uncertainty involved in preparing a taxable income figure. The OTS published their report *Simpler income tax for the smallest businesses* in February 2012.

At Budget 2012 the Government announced that from April 2013 the Government will introduce a new cash basis for calculating tax for small unincorporated businesses.

HM Revenue & Customs (HMRC) issued a consultation document in March 2012 and workshops were undertaken with interested parties.

HMRC has considered all the responses to the consultation as detailed in the summary of responses published on 11 December 2012.

Further draft legislation will be published shortly on the transition to and from the cash basis.

Detailed proposal

Operative date

The measures will apply from the tax year 2013 -14.

Current law

The current legislation requires that the profits of a trade are calculated on an accruals basis in accordance with Generally Accepted Accountancy Practice (Section 25 Income Tax (Trading and Other Income) Act 2005 (ITTOIA)).

Capital expenditure is not an allowable deduction for tax purposes (Section 33 ITTOIA). While capital expenditure is not an allowable deduction a business can claim capital allowances in respect of certain capital expenditure, for example plant and machinery. The capital allowances legislation is in the Capital Allowances Act 2001.

In calculating taxable profit, deductible expenses have to be for the purpose of the business (Section 34 ITTOIA). Where there is both a business and a private use element to expenses they are apportioned to arrive at the appropriate amount to be deducted for tax purposes.

Barristers can use a cash basis in the early years of trading (Section 160 ITTOIA), and on moving to profit figures prepared under GAAP can have any adjustment to profits arising on the change of accounting basis spread over a number of years (Section 238 ITTOIA).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow eligible small businesses to calculate their taxable income by taking business cash received in a year and deducting business cash expenses paid in a year. This will mean they will generally not have to distinguish between revenue and capital expenditure.

For flat rate expenses, legislation will be introduced in Finance Bill 2013, with effect for the tax year 2013-14, to allow all unincorporated businesses to deduct certain expenses on a simplified flat rate basis. Businesses that choose to adopt the cash basis will be required to use simplified expenses for business mileage but use of the other flat rate expenses will be optional.

Eligible barristers will be able to choose either to use the new cash basis and simplified expenses or the current accruals basis. The existing cash basis legislation for barristers will be repealed (except for barristers already using it, for the remainder of their qualifying period).

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	nil	-165	+25	-5	negligible
	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	Individuals and households claiming Universal Credit or other benefits are expected to be able to use a compatible cash basis, and the flat rate expenses of Simpler Income Tax measures, when preparing their income figures for the Department for Work & Pensions (DWP).					
Equalities impacts	The proposals relate to a voluntary simplified scheme to compute business profits for tax purposes. No impact on equality of protected groups has been identified.					

Impact on business including civil society organisations	This measure is likely to result in a small on-going annual admin saving to businesses due to simplification of the calculations needed to complete tax returns combined with greater certainty and understanding of those calculations. In addition the change is likely to incur a one off cost to business due to familiarisation with this new approach. Initial calculations estimate that approximately 3 million businesses could take advantage of this measure. Estimates of the impacts on the total business population will be established once the business design for this policy has been finalised and the impact fully evaluated. At this time a revised Tax Information and Impact Note will be published.
Operational impact (£m) (HMRC or other)	Potential options for changes to paper and online tax returns are being considered. Initial estimates of the external IT costs of these options are in the range of £80,000 to £1.9 million, depending on the extent of the changes.
Other impacts	Small firms impact test: The measure is targeted at small firms and steps have been taken to consult with them and their representative bodies. Certain design changes have been made as a result of their responses. The changes and associated guidance are to be road tested before implementation, this is to ensure the process is easier and enables small businesses to calculate their own tax. Other impacts have been considered and none have been identified.

Monitoring and evaluation

These measures will be monitored by the numbers of businesses using the scheme as reported either in their tax returns or using a survey to identify take up.

Further advice

If you have any questions about this change, please contact Robert Nott (email: robert.nott@hmrc.gsi.gov.uk) or contact Alison Bull on 020 7147 2595 (email: alison.bull@hmrc.gsi.gov.uk).

Disincorporation relief

Who is likely to be affected?

Small companies and their shareholders that choose to disincorporate, that is, to transfer a business and its assets as a going concern to one or more of the company's shareholders, to continue the business in an unincorporated form.

General description of the measure

The measure provides a time-limited opportunity for a company and its shareholders to make a joint claim for qualifying business assets to be transferred from the company to one or more of its shareholders with no immediate corporation tax (CT) charge on the company.

Policy objective

The measure will make it easier for the owners of a small incorporated business to disincorporate by removing some of the tax charges that arise when assets are transferred by the company to the shareholders who wish to continue the business in an unincorporated form. The measure will allow the business greater flexibility to choose the most appropriate legal structure in which to operate. This measure offers a simpler method of carrying on a business.

Background to the measure

In February 2012 the independent Office of Tax Simplification (OTS) published its final reports into small business tax. One of these reports identified a population of businesses operating as limited companies who would prefer to operate in unincorporated form and highlighted a number of tax charges and administrative issues that might currently discourage this.

At Budget 2012 Ministers announced a consultation to consider the OTS proposals for a disincorporation relief. That consultation closed on 30 August 2012. The Government has considered all the responses to the consultation and published a summary of the responses on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on or after the date that Finance Bill 2013 receives Royal Assent and will have effect for disincorporations on and after 1 April 2013 to 31 March 2018.

Current law

The current legislation requires a company to pay CT under the Taxation of Chargeable Gains Act 1992 when chargeable gains arise on disposals of assets, and CT under the intangible fixed assets rules at Part 8 of the Corporation Tax Act 2009 when credits arise from a realisation of goodwill, based on the market value of the asset at the time of the transfer.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow joint claims to be made by the company and its shareholders to allow qualifying business assets (goodwill and land and buildings used in the business) to transfer at a reduced value for CT and capital gains tax purposes. The joint claim will allow the asset to be transferred at the reduced value so that no CT will be payable by the company on the transfer of the qualifying business assets.

Claims will be restricted to those businesses where the market value of the classes of assets allowed for disincorporation relief does not exceed £100,000. Joint claims must be made to HM Revenue & Customs (HMRC) within two years of the date of the transfer of business assets and other eligibility criteria will also apply.

Shareholders to whom the assets are transferred will inherit the transfer value for the purpose of capital gains tax and the shareholders must use this transfer value in any subsequent transactions. In effect the gain or profit that would have arisen to the company will be deferred until the disposal of the assets by shareholders.

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><td>2017-18</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 reduce receipts by approximately £5 million per annum from 2013-14. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.</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 CT free transfer of assets from a company to a shareholder, enabled by the relief, will impact on individuals to the extent that the relief affects the future capital gains tax position of shareholders on subsequent disposals of those assets.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">This proposal relates to the owners of small companies seeking to carry on business in self-employment instead. This may have a different impact on different groups which are more likely than others to fall into this category, however no data is available.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">At an asset limit of £100,000, around 610,000 businesses will be eligible for this relief. It will make it less costly for an eligible company to move to unincorporated legal form.

There will be on-going savings for companies choosing to disincorporate such as not submitting a CT return to HMRC and not operating PAYE; on-going costs such as filing ITSA returns to HMRC; and one-off costs, such as notifying HMRC of the new business; transferring VAT numbers; and notifying suppliers and/or customers.

There will be other ongoing benefits for business from taking up the relief, outside the savings from their dealings with HMRC. These include no longer having to file annual returns and statutory accounts with Companies House. Businesses may also be eligible to use the new cash basis for unincorporated businesses, simplifying their tax calculations. Unincorporated businesses may be more likely to no longer use an agent to calculate their tax, or if they continue, they may be charged less than in incorporated form, further reducing ongoing administrative costs. It is not currently possible to quantify the level of these savings, but they are expected to be significant.

The costs and savings for businesses in dealing with the tax system are summarised in the table below. Please note that this only includes the costs and savings from businesses' interactions with HMRC, these do not include other administrative savings from dealings with Companies House.</td></tr>
</table>

<table>
<tr>
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<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>£6.9m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£6.1m</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£34.2m</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>£9.5m</td><td>5</td></tr>
<tr><td>Total Benefit (PV)</td><td>£42.4m</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£8.2m</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>£3.5m</td><td>£5.4m</td><td>-£1.9m</td></tr>
</table>
Note: The impact on administrative burden (included in net benefit) represents the expected costs and benefits for the first year. The £6.1 million included in compliance costs and £9.5 million included in compliance benefits represent the average amounts over the five years.
</td>
</tr>
<tr>
<td>Operational impact (£m) (HMRC or other)</td>
<td>HMRC does not envisage changes to income tax systems and forms, however additional resource may be required to administer the relief. Further work to cost the operational impact will be carried out during the consultation on draft legislation.</td>
</tr>
<tr>
<td>Other impacts</td>
<td><u>Small firms impact test:</u> The Government consulted on a relief to reduce some of the tax charges on disincorporation, to make this process easier for small businesses. This should help the owners of small businesses to choose the appropriate legal form for their business, which will have a positive impact on their businesses by reducing their admin burdens.

The relief may not address non-tax barriers to disincorporation, such as those connected to winding up a company. These burdens, as well as the relative tax advantages of being a company, may affect the number of businesses using the relief.

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

Monitoring and evaluation

The measure will be monitored through data published on number of liquidations by Companies House.

Further advice

If you have any questions about this change, please contact Alex Darmoo on 020 7270 6056 (email: alexander.darmoo@hmtreasury.gsi.gov.uk) or John Williams on 020 7147 3117 (email: john.r.williams@hmrc.gsi.gov.uk).

Foreign currency assets and chargeable gains

Who is likely to be affected?

Companies making non-exempt share disposals which have a functional currency other than sterling, or at some time during the period of ownership of the shares had a functional currency other than sterling, or which have made a designated currency election.

General description of the measure

The measure simplifies the calculation of chargeable gains on share disposals for companies which have, or have had, a functional currency other than sterling and for investment companies which have made a designated currency election. Most of these companies will be multinational inward investors.

Such companies will be required to use their functional currency, or in certain circumstances their designated currency, to compute any chargeable gains and losses on disposals of shares not covered by the substantial shareholdings exemption.

Policy objective

The measure contributes to the Government's objective of a fairer tax system by more closely aligning economic outcomes with tax outcomes. Currently, foreign exchange movements against sterling can give rise to gains or losses in chargeable gains computations. This is because profits or losses may arise from the requirement to convert the non sterling acquisition costs and disposal proceeds of shares into sterling if, as is likely, different exchange rates apply at the relevant dates.

Closer alignment with economic outcomes should reduce barriers to commercial decision making by businesses faced with tax gains not matched by a gain of economic substance and reduce administrative burdens for businesses attempting to manage the effects of such gains.

Detailed proposal

Operative date

The measure will have effect for disposals of shares by relevant companies on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 5 of the Corporation Tax Act 2010 (CTA 2010) provides that chargeable gains must be computed in sterling. Unlike for computations of income profits, there are no exceptions to the rule for chargeable gains.

Therefore, even when a company operates entirely in a non-sterling environment, it must translate its costs and proceeds into sterling for the purpose of computing any chargeable gain or loss. This can result in chargeable gains and losses arising (or increasing/decreasing) simply due to changes in foreign exchange rates, between the company's operating currency and sterling, during the period of ownership of the shares.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to change the chargeable gains computation for share disposals by companies which have a functional currency other than sterling, or at some time during the period of ownership of the shares had a functional currency other than sterling, or companies which have made a designated currency election (under section 9A CTA 2010).

Companies will be required to compute their chargeable gains and losses using their functional currency at the date of disposal. Any chargeable gain or loss will then be translated into sterling using the exchange rate at the date of disposal.

There is an exception for investment companies which have made a designated currency election. These companies will be required to use their designated currency if the designated currency is the functional currency the company would have had if it was a standalone entity. If the designated currency and standalone functional currency differ, these companies must use their actual functional currency, like all other companies.

There will be special rules for recalculating the base cost of the shares when the functional currency of the company holding the shares changes. This might happen because a change in the facts and circumstances in which the holding company operates causes the functional currency to change, or it could be due to the company changing its accounting standards. It would also happen when shares are transferred intra-group between two companies with different functional currencies.

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><td>2017-18</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. Any impact will be set out at Budget 2013.</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 will have no impact on individuals or households.</td></tr>
<tr><td>Equalities impact</td><td colspan="6">This measure is not expected to have an equality impact on people with any protected characteristic.</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 or civil society organisations. It applies to multinational companies which have a functional currency other than sterling, of which, fewer than 500 are affected.

Each company will only be affected in years they dispose of non-exempt shares. The one-off costs will be negligible and limited to reading/understanding the new legislation. Ongoing savings are negligible with some savings due a simpler chargeable gains computation.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">This measure is will have a negligible operational impact.</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

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 Ellen Milner on 020 7147 3961 (email: ellen.milner@hmrc.gsi.gov.uk).

New NHS bodies: VAT and corporation tax

Who is likely to be affected?

The NHS Commissioning Board, clinical commissioning groups, the National Institute for Health and Care Excellence, and the Health and Social Care Information Centre.

General description of the measure

These measures will exempt these bodies from corporation tax (CT) and add them to a scheme in the Value Added Tax Act 1994 (VATA 1994) which refunds VAT, ensuring 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.

Policy objective

The bodies that are the subject of these measures will replace certain NHS bodies which are already entitled to recover VAT and which are exempt from corporation tax. These measures maintain that treatment.

Background to the measure

As a result of changes arising from the Health and Social Care Act 2012, primary care trusts are to be abolished and replaced by the NHS Commissioning Board and clinical commissioning groups.

Presently the National Institute of Health and Clinical Excellence and the NHS Information Centre are special health authorities. From 1 April 2013 they will cease to exist as special health authorities, and be replaced by two newly created non-departmental public bodies - the National Institute for Health and Care Excellence and the Health and Social Care Information Centre.

The measures were announced at Budget 2012 and will ensure that the successor bodies will continue to recover the same levels of VAT as the existing bodies can and will be exempt from CT as the existing bodies are.

Detailed proposal

Operative date

VAT recovery will take effect from 1 April 2013 and the CT exemption will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

Primary care trusts and special health authorities are named in section 41(7) of VATA 1994 and can recover VAT under section 41(3).

In so far as HM Treasury directs, section 41(3) refunds VAT to government departments, and to a variety of NHS bodies (named in section 41(7)), including NHS trusts, foundation hospitals, strategic health authorities and special health authorities.

Health service bodies are generally exempt from corporation tax, as they are either part of the Department of Health or have specific exemption provided by sections 985 and 986 of the Corporation Tax Act 2010 (CTA 2010).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to add the successors to Primary Care Trusts (the NHS Commissioning Board and clinical commissioning groups), and the successors to two special health authorities (which will be the National Institute for Health and Care Excellence and the Health and Social Care Information Centre) to section 41(7) of VATA 1994.

Legislation will amend section 986 CTA 2010 to include the new bodies within the list of health service bodies exempt from CT as provided for by section 985 of that Act.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	nil	nil	nil	nil	nil
	These measures are not expected to have an Exchequer impact.					
Economic impact	These measures are not expected to have any significant economic impacts.					
Impact on individuals and households	These measures should not impact on individuals and households.					
Equalities impacts	These measures should have no equalities impact.					
Impact on business including civil society organisations	These measures are expected to have no impact on businesses or civil society organisations as it ensures the new bodies avoid the need to provide additional resources for accounting systems and tax advice.					
Operational impact (£m) (HMRC or other)	These measures will have no operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measures will be kept under review by Public Bodies Group, which specialises in government and NHS matters, through communication with affected taxpayer groups.

Further advice

VAT refund: If you have any questions about this change, please contact David Ogilvie on 020 7147 0473 (email: david.ogilvie@hmrc.gsi.gov.uk).

CT exemption: If you have any questions about this change, please contact Simon Moulden on 020 7147 2629 (email: simon.moulden@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation tax: deferral of payment of exit charges

Who is likely to be affected?

UK resident companies that intend to transfer residence to another EU or European Economic Area (EEA) member state.

General description of the measure

This measure amends legislation governing when corporation tax payments must be made in respect of exit charges. Exit charges are corporation tax charges that arise on certain unrealised profits and gains when a company ceases to be tax resident in the UK. This measure provides that companies can temporarily elect to defer the payment of such charges, subject to conditions, in accordance with recent jurisprudence of the Court of Justice of the European Union (CJEU).

Policy objective

This measure will minimise the relative cash flow disadvantage associated with the transfer of a company's place of management to another EU or EEA member state, when compared to an equivalent intra-UK transfer. This will ensure that UK rules are consistent with a recent ruling by the CJEU.

Under this measure, the ability of a company to elect to defer the payment of certain corporation tax charges will be subject to such conditions as are required to ensure that HM Revenue & Customs (HMRC) receive full payment of the deferred amount over time. Consequently this change is not expected to have any overall Exchequer impact.

Background to the measure

In November 2011, the CJEU ruled that where a company transfers its place of effective management to another member state, then, to ensure its rules do not infringe the right of the freedom of establishment of an EU or EEA incorporated company, a member state must offer a choice between immediate payment or the option of deferral of exit charges, subject to certain conditions. Subsequently, the UK has decided to update its legislation.

Detailed proposal

Operative date

This measure will be included in Finance Act 2013 and apply retrospectively to allow companies to opt for deferred payment arrangements from the publication of the draft legalisation on 11 December.

Current law

On migration a company is currently deemed to have disposed of all its assets and immediately reacquired them for their market value. This triggers a corporation tax charge, which, under Section 59D(1) of the Taxes Management Act 1970 is payable nine months and one day after the end of the accounting period.

There are various classes of assets that give rise to such a charge, and which are affected by this measure. Sections 185 and 187 of Chargeable Gains Act 1992 (CGA 1992) provide for general rules on taxation of unrealised capital gains levied on migrating companies.

Sections 859 and 860 of the Corporation Tax Act 2009 (CTA 2009) provide corresponding rules for the taxation of intangible fixed assets. Section 609 CTA 2009 provides for the taxation of the value of rights and liabilities arising from derivative contracts on the occasion of a company migrating, while section 333 CTA 2009 provides corresponding rules for the treatment of loan relationships.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to retain the existing rules that require companies to pay corporation tax on all the profits and gains arising in the period up to the date they cease to be resident in the UK within nine months and a day of the end of that period. However, where a company that is incorporated in the UK or another EEA territory becomes a resident of, and established in, another Member State of the EU (or EEA), it will have two further payment options to manage corporation tax charges that arise in respect of ss. 185 and 187 CGA 1992, ss. 859-860 CTA 2009, s. 609 CTA 2009 and s. 333 CTA.

Both of these new options allow companies to defer the time at which they must settle some or all of the tax they are due to pay under current tax rules.

The first new option is designed to ensure minimal compliance burden. It involves a calculation of the tax due at the time of migration, with staged payments of the tax attributable to exit charges then made in six equal annual instalments starting with the first payment due within nine months and one day of the end of the accounting period. This option allows all assets to be taken together, without distinguishing between different classes, and without the need for them to be tracked individually after migration.

The second new option is more directly related to the economic life of assets. It involves a calculation of the tax due at the time of exit, with the tax attributable to exit charges allocated on an asset by asset basis. Companies would be obliged to provide HMRC with an annual statement identifying the realisations of assets in that period, and the tax would become payable in respect of those realisations. For intangible assets, derivative contract and loan relationship profits, the useful economic life of each asset would be determined at the point of migration. Tax would then be payable in equal annual instalments over the useful life of the asset. Tax related to exit charges on any other assets may be deferred for up a maximum of ten years, or until the disposal of the asset if sooner.

The amounts deferred under either of the above options will be subject to interest.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure will have no impact on individuals or households.					
Equalities impacts	This measure is not expected to have an equality impact on people with any protected characteristics.					
Impact on business including	This measure is expected to have a negligible impact on businesses or civil society organisations. It will provide migrating companies with an option to elect to defer the payment of certain corporate tax charges, without prejudice					

civil society organisations	to any of their existing rights. The number of companies affected by this measure is expected to be very small; this may be revised after consultation. The impacts on businesses' one-off compliance costs are expected to be negligible as a very small number of businesses will need to familiarise themselves with the change. The impacts on businesses' on-going administrative burdens are also expected to be negligible as a very small number of businesses will be affected. If affected they will either have to make an annual report to HMRC or take advantage of an option to use a simplified method that would greatly reduce these burdens. There will be no impact on companies that do not opt to defer payment.
Operational impact (£m) (HMRC or other)	The operational impact of this measure is expected to be negligible.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Phil Donlan on 020 7147 2633 (email: philip.donlan@hmrc.gsi.gov.uk) or Michael Contaldo on 020 7270 4745 (email: michael.contaldo@hmtreasury.gsi.gov.uk).

Corporation tax treatment of banks' Tier 2 regulatory capital

Who is likely to be affected?

Banks with Tier 2 capital instruments.

General description of the measure

The corporation tax (CT) rules on distributions will be amended to ensure that (except in cases of tax avoidance) the coupon on Tier 2 capital that forms part of a bank's regulatory capital, whether already in issue or yet to be issued, will be deductible for the issuer in computing its profits. The rules will also be amended to ensure that holders of these instruments will not be treated as equity holders in the issuer for the purposes of the tax grouping rules.

Policy objective

This measure is designed to make it clear that the coupon on Tier 2 regulatory capital instruments will be tax-deductible for the issuer and that these instruments will be treated as ‘normal commercial loans’ for the purposes of tax grouping rules.

Background to the measure

Banks must ensure compliance with regulatory requirements, including the forthcoming EU Capital Requirements Directive (CRD IV). Tier 2 capital instruments that banks are issuing now include terms that ensure compliance with CRD IV, or with the rules, regulations, requirements, guidelines and policies relating to capital adequacy in force or pending implementation in the UK. In particular, issuing banks may have to make it clear to investors that these instruments could be either written down or converted to share capital in the event that the issuer nears insolvency.

A process of informal consultation with those affected by regulatory capital changes has been in progress since the summer of 2011. These contacts have enabled the Government to respond to concerns that making investors aware of the impact of CRD IV would lead to an unintended tax disadvantage for banks intending to maintain or enhance their Tier 2 regulatory capital.

The measure was first announced by the Financial Secretary to the Treasury in a Written Ministerial Statement on 26 October 2012. HM Revenue & Customs (HMRC) published a Technical Note along with draft legislation on the same date and received constructive responses from interested parties.

Detailed proposal

Operative date

This provision will have retrospective effect on and after 26 October 2012.

Current law

This measure relates to Part 23 Corporation Tax Act 2010 (CTA 2010) which specifies what will be a distribution for corporation tax purposes, and to Part 5 CTA 2010 (Group Relief) which includes rules on group membership.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to exclude loans that form part of a bank's Tier 2 resources (as defined by the Financial Services Authority (FSA) Handbook) from Part 23 CTA 2010.

Consequently, consideration on Tier 2 regulatory capital instruments will not be within the rules which deny a deduction for securities with certain characteristics. The coupon on these loans will not therefore be prevented from being deductible as interest in computing taxable profits.

The new legislation will also make it clear that the 'normal commercial loan' definition in section 162 CTA 2010 will apply to loans that form part of a bank's Tier 2 resources (as defined by the FSA Handbook). So Tier 2 regulatory capital instruments will be capable of being 'normal commercial loans' in relation to CT grouping rules.

These rules will not apply not apply if the loan forms part of a scheme or arrangement, the purpose or one of the main purposes of which is the avoidance of tax.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	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. It complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards.					
Impact on individuals and households	This measure will have no impacts on individuals and households as it relates to Banks who will be subject to CRD IV when it comes into force.					
Equalities impacts	There are no impacts on any group which shares a protected characteristic.					
Impact on business including civil society organisations	This measure only impacts on banks. It provides them with certainty on the tax treatment of Tier 2 regulatory capital instruments but will have no other significant impact on business.					
Operational impact (£m) (HMRC or other)	It is unlikely that there will be any operational impact due to this change.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be subject to ongoing monitoring through receipts and information collected on tax returns. Also, given the relatively limited population likely to be affected by this measure, the impact of the measure will be tracked through ongoing informal consultation with the banks affected and with the regulatory authorities (in particular the FSA).

Further advice

If you have any questions about this change, please contact John Connor on 020 7147 2434 (email: john.connor@hmrc.gsi.gov.uk) or Malcolm White on 020 7147 0565 (email: malcolm.white@hmrc.gsi.gov.uk).

Group debt cap

Who is likely to be affected?

Large groups of companies that are subject to the debt cap. The debt cap affects approximately 1800 large groups and operates by restricting financing expenses.

General description of the measure

This measure will amend Part 7 of the Taxation (International and Other Provisions) Act 2010 (TIOPA), the rules commonly called 'the debt cap'. It will resolve an issue that has arisen on the group treasury company election rules whereby elections are being made by companies that do not have a treasury company function.

Policy objective

The original intention of the group treasury company election was to allow companies that had the treasury function in a group to opt out of the debt cap rules. It was intended to reduce the administrative burdens on these companies. However elections are being made by companies that do not have a treasury function and the amendment is designed to ensure that tax planning is minimised.

Background to the measure

This measure was announced on 11 December 2012.

In November 2012 there was a short period of informal consultation on the measure.

Detailed proposal

Operative date

The measure will have effect for periods of account of worldwide groups commencing on or after 11 December 2012.

Current law

The debt cap rules are contained within part 7 of TIOPA. These rules restrict the amount of interest that large groups can deduct for the purposes of corporation tax. The group treasury company election is in section 316. It allows companies within a group which meet the criteria within that section to make an election the effect of which is that an electing company's financing expenses and financing income are ignored for the purposes of the group's debt cap computation.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to revise the operation of the group treasury company election. It introduces a new criterion that to be a group treasury company a company must have made an election. If, having made an election all or substantially all of a company's activities are treasury activities and all or substantially all of its assets and liabilities relate to such activities, then the company's financing expenses and financing income are included in the election. However, if a company cannot meet substantially the provision then the only financing expenses and financing income included in the election will be those that relate to its treasury activities.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to increase receipts by approximately £40 million per annum from 2013-14. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.					
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 large 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	The measure addresses a tax planning opportunity that allows companies that do not have a treasury function to make a group treasury company election. The measure has limited retrospection in that it will apply to periods of account beginning on or after 11 December 2012. There will be an impact on large groups whose group treasury companies narrowly miss the new criteria for their 2013 accounts. For the controlled foreign company rules this amendment addresses the planning opportunity before their introduction. There should be no impact on the administrative burdens on business as the majority of companies that would make the election can continue to do so. The measure will not have any impact on small or medium businesses or the third sector as it only applies to large groups.					
Operational impact (£m) (HMRC or other)	The measure is not expected to have any operational impact on HM Revenue & Customs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure cannot be monitored through the CT 600 Company Self Assessment return because the information required here is not included on the form. The pool of potential users will be monitored by reference to group treasury company elections for 2010, 2011 and 2012 periods of account.

Further advice

If you have any questions about this change, please contact Fiona Hay on 020 7147 2543 (email: fiona.hay@hmrc.gsi.gov.uk).

HM Revenue & Customs

Amendment to UK group relief rules

Who is likely to be affected?

Companies resident in the European Economic Area (EEA) with loss-making UK permanent establishments that are part of a UK group for group relief purposes.

General description of the measure

The measure provides that, from 1 April 2013, there will be fewer restrictions on when EEA resident companies can surrender losses from their UK permanent establishments as group relief in the UK. The restrictions will be based on actual use of losses in any period, rather than potential future use.

Policy objective

This measure will amend group relief legislation in order to conform to the Court of Justice of the European Union (CJEU) ruling in Philips Electronics UK Ltd (C-18/11), and to ensure that losses are not relieved twice, once as group relief in the UK and then again in another country.

Background to the measure

The CJEU ruling in Philips Electronics UK Ltd was issued on 6 September 2012.

This measure was announced on 11 December 2012.

Detailed proposal

Operative date

This will have effect for losses arising on or after 1 April 2013.

Current law

Section 107 Corporation Tax Act 2010 (CTA 2010) prevents a non-UK resident company from surrendering group relief for a loss made by its UK permanent establishment where that loss (or part of it) is deductible or otherwise allowable against non-UK profits of any person in any period.

Proposed revisions

Section 107 CTA 2010 will be amended to prevent a non-UK resident company that is resident in the EEA from surrendering group relief for a loss made by its UK permanent establishment to the extent that the loss is used against the non-UK profits of any person in any period. Where a loss that has been surrendered is later used against non-UK profits, then the benefit of the UK group relief will be withdrawn to the extent that the loss has been used elsewhere. In both cases the amendments ensure that the losses are not relieved twice, once as group relief in the UK and then again in another country.

Section 107 CTA 2010 will not be amended for non-UK resident companies resident outside the EEA.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. The Office for Budget Responsibility has included these numbers in its forecast.					
Economic impact	This is not expected to have any significant macroeconomic impacts.					
Impact on individuals and households	There is no impact on individuals because this measure only affects EEA resident companies with loss-making UK permanent establishments that are part of a UK group for group relief purposes.					
Equalities impacts	No equalities impacts have been identified because this measure only affects EEA resident companies with loss-making UK permanent establishments that are part of a UK group for group relief purposes.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The number of companies that will be affected by this measure is relatively small; these businesses will incur a negligible additional annual administrative burden as they will need to monitor whether losses surrendered as group relief in the UK are used in another territory in a later period. The full impact of this measure on businesses will be assessed through consultation and a further Tax Information and Impact Note (TIIN) will be published. This negligible additional burden to businesses will be considerably outweighed by the positive impacts of the measure that provides increased opportunities for EEA resident companies to surrender the losses from their UK permanent establishments as group relief.					
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue & Customs (HMRC) in implementing this measure are anticipated to be negligible.					
Other impacts	Small firms impact test: it is expected that small businesses will not be affected by this measure, but we will assess this through consultation and publish a further TIIN to confirm the impact. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC will monitor newly established UK permanent establishments and the value and frequency of their losses where they are part of a UK group, and on known permanent establishments. Behaviour of the groups with existing UK permanent establishments, that are known to be impacted by the change, will also be monitored for unexpected risks to the Exchequer.

Further advice

If you have any questions about this change, please contact Megan Shaw on 020 7147 0212 (email: megan.shaw@hmrc.gsi.gov.uk).

HM Revenue & Customs

Removing inadvertent restriction on corporate tax group loss relief

Who is likely to be affected?

Companies inadvertently restricted from the Group Relief scheme through involvement in certain commercial arrangements with public authorities.

General description of the measure

The measure expands the types of commercial arrangements that are exempt from anti-avoidance rules affecting group loss relief.

Policy objective

This measure will ensure the group loss relief anti-avoidance rules are more effectively targeted for the future. They will continue to restrict access to relief where none is intended while allowing improved access where it is, helping to maintain the fairness and competitiveness of the tax system.

Background to the measure

This measure will be announced on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect for accounting periods ending on or after 1 April 2013

Current law

Section 154 CTA10 prevents access to group loss relief where there are ‘arrangements’ in place meaning that, at some point in the current accounting period or future, one company could cease to be a member of a group. The rule prevents the use of loss relief where it would amount to loss-buying, but is not intended to prevent access where there are legitimate commercial arrangements in place. There are already a range of related exemptions that carve out commercial arrangements from the rule, but they do not prevent all commercial arrangements from being caught.

Proposed revisions

Legislation will be introduced into the Finance Bill to ensure that conditions imposed by a statutory body by which one company will leave a group at a pre-determined date will not prevent claims to group relief. This targeted amendment to the rules will not remove the current loss buying avoidance protection.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impacts	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure is not expected to have any impact on individuals or households.					
Equalities impacts	The measure will have no equality impacts.					
Impact on business including civil society organisations	The measure is expected to have a negligible impact on businesses and civil society organisations. Businesses that are adversely affected by the current legislation will not be able to benefit from the Group Relief scheme. To do so, they will face a negligible one-off cost in familiarising themselves with the appropriate regulations and a negligible increase in on-going administrative burdens from supplying information to HMRC to claim group loss relief.					
Operational impact (£m) (HMRC or other)	The measure will not have any operational impact on HMRC.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through informal communication with taxpayers.

Further advice

If you have any questions about this change, please contact Deonne Rowland on 020 7270 5677 (email: deonne.rowland@hmtreasury.gsi.gov.uk) or Paula Jarnecki on 020 7147 2607 (email: paula.jarnecki@hmrc.gsi.gov.uk).

Controlled foreign companies regime

Who is likely to be affected?

UK resident companies that hold an interest in controlled foreign companies (CFC).

General description of the measure

A package of measures that will:

- extend the scope of the new CFC rules so they apply to profits from all assets leased under finance leases, including hire purchase and similar types of contract;
- limit the amount of double taxation relief (DTR) for UK companies that form part of certain arrangements involving the routeing of a loan from one CFC to another CFC through a UK company;
- ensure that references to the interpretation of certain accounting practices are consistent throughout the new CFC rules; and,
- introduce a minor consequential amendment to the arbitrage anti-avoidance rules.

Policy objective

The new CFC rules, introduced in Finance Act 2012, will better reflect the way that businesses operate in a global economy whilst maintaining adequate protection against artificial diversion of UK profits. The changes introduced by this measure will ensure the new CFC rules work as intended to protect the UK's corporation tax base.

Background to the measure

The new CFC rules were introduced by FA 2012 as part of the corporate tax roadmap.

Detailed proposal

Operative date

The changes to the CFC rules will have effect for CFCs with accounting periods beginning on or after 1 January 2013, which is the commencement date of the new CFC rules as a whole. The new limitation to DTR will apply to UK companies that derive profits from a conduit financing arrangement involving CFCs with accounting periods beginning on or after 1 January 2013. The changes in the new CFC rules to ensure consistent interpretation of generally accepted accounting practice and the consequential change to the arbitrage rules have effect from 1 January 2013.

Current law

The new CFC rules were introduced by FA 2012 and incorporated as Part 9A TIOPA 2010. The rules are anti-avoidance provisions designed to prevent UK tax resident companies artificially diverting UK profits to controlled companies in overseas jurisdictions.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to make the following amendments:

Firstly, the current definition of 'relevant finance lease' (section 371VA TIOPA) will be amended to widen its scope by including making assets available by way of a hire purchase or similar contract. The scope of the new CFC rules will be extended to include profits derived from relevant finance leases of any assets apart from those that are loan relationships.

Secondly, those parts of the new CFC rules that require consideration of accounting treatment where accounts have not been prepared under either UK generally accepted accounting practice or international accounting standards will be made by reference to international accounting standards.

Thirdly, Part 2 of TIOPA will be amended to limit the amount of DTR that can be claimed as a credit by a UK company (or given as a deduction if no claim for credit is made) when one or more UK companies form part of an arrangement whereby a loan is made from one CFC to another CFC that is the ultimate debtor in relation to that loan. Where one or more UK companies form part of a conduit in such an arrangement the DTR by credit or deduction will be limited to the amount of corporation tax that would be due in respect of the UK corporation tax profits that arise from that arrangement.

Finally, a minor consequential change will be made to section 236(4) TIOPA to ensure the arbitrage rules continue to work as intended. The change ensures that the arbitrage rules do not apply merely as a result of the application of another territory's CFC rules that are similar to those within Part 9A TIOPA.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	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 will remove some specific opportunities for corporation tax avoidance. As such it acts to remove a potential competitive imbalance within certain sectors of the economy.					
Impact on individuals and households	The measure is not expected to have any impact on individuals and households					
Equalities impacts	The measure is not expected to have any equalities impact.					
Impact on business including civil society organisations	This measure addresses two substantive planning opportunities. These would constitute an unfair advantage and in removing that there will be no impact on the normal commercial transactions of businesses and civil society organisations.					
Operational impact (£m) (HMRC or other)	The measure is not expected to have any operational impact since the amendments impact on a very small number of companies.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The new CFC regime, including the amendments made within this measure, will be reviewed to ensure they are operating as intended.

Further advice

If you have any questions about these changes, please contact Nick Shepherd on 020 7147 2689 (email: nick.shepherd@hmrc.gsi.gov.uk).

Annual residential property tax

Who is likely to be affected?

Certain companies, partnerships with company members and collective investment schemes (non-natural persons (NNPs)) who own residential dwellings valued over £2 million.

General description of the measure

Companies, partnerships with at least one company member and collective investment schemes (including unit trusts) who own residential dwellings with a value on relevant dates of over £2 million will be liable to an annual tax (to be called annual residential property tax (ARPT)). The tax charge will be based on the band into which the property value falls. Genuine property rental businesses, properties held for charitable purposes and properties run as a commercial business will be eligible to claim a relief from the tax on an annual basis.

Policy objective

The tax was introduced as part of a package of measures to ensure that NNPs holding high value dwellings pay their fair share and to tackle tax avoidance.

Background to the measure

The Government announced at Budget 2012 the introduction, following consultation, of an annual charge for NNPs who own residential dwellings worth over £2 million on 1 April 2012 or on acquisition, construction or conversion if later.

The Government conducted the consultation *Ensuring the fair taxation of high value residential property* between May and August 2012 covering both the annual charge and extensions to capital gains tax.

Detailed proposal

Operative date

The measure will have affect for properties under the ownership of an NNP on or after 1 April 2013.

Current law

Stamp duty land tax (SDLT) is charged under Finance Act 2003 (FA 2003) on the acquisition of a chargeable interest in land. This includes acquisition of residential property. The rate of SDLT depends on the chargeable consideration for the land and increases above various thresholds.

Dwellings which individuals acquire using corporate envelopes can later be disposed of by selling the shares in the company. The purchaser will not be liable to SDLT on the share purchase.

Certain NNPs where the chargeable consideration for their acquisition of the property is greater than £2 million are, since April 2012, charged at a higher rate of 15 per cent under section 55A and Schedule 4A of FA 2003. The only exclusion to this is dwellings acquired by property development companies with a track record of more than two years of development activity.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to further discourage acquisitions of residential dwellings for future SDLT avoidance reasons, and to deal with existing enveloping structures of high value property. ARPT will be payable at different rates according to whether the dwelling is valued at more than £2 million, £5 million, £10 million or £20 million.

The rates will be increased according to the consumer prices index each year.

ARPT will apply to certain NNPs, including companies, who own interests in dwellings which are valued at more than £2 million at a valuation date.

There will be a range of reliefs from ARPT. Dwellings relieved from the tax will include those held by property development companies (whether or not the company has a two year track record) or as trading stock; dwellings held for a property rental business where they are let out to third parties on a commercial basis; dwellings that are conditionally exempt from inheritance tax, regularly opened to the public or used to provide accommodation or other services to the general public on a commercial basis; farmhouses occupied by working farmers; dwellings held by trading companies for the use of employees in the trade; dwellings owned by a charity and held for charitable purposes; and dwellings owned by public or government bodies or for social housing.

The charge will apply if the dwelling is owned on or is acquired after 1 April 2013 or if it is built, or converted from a non-residential property after that date. If the NNP owns the interest in the dwelling for part-only of a tax year, the charge is proportionately reduced.

Joint owners will be jointly and severally liable for the tax.

Whether the dwelling is within the tax, and what rate the tax will be, depends on the band its value fell within at 1 April 2012 if it was owned on that date by the NNP, or its value on acquisition or completion of construction or conversion if afterwards.

The first self assessment return of ARPT for 2013-14 must in most cases be made by 1 October 2013 and payment made by 31 October 2013. Thereafter returns and payments must be made by 30 April each year.

When dwellings are acquired, the NNP will be required to make an ARPT return and payment within 30 days. If the dwelling otherwise newly comes within the charge (for instance because it has been newly constructed or it has had a change of use) the return must be made within 90 days of the relevant date.

An NNP must make a nil-charge return to claim relief from ARPT.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	negligible	+65	+65	+65	+75
	These figures were set out in Table 2.1 of the Budget 2012 as part of the wider package on SDLT enveloping on residential property and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget 2012. In addition, further policy changes made as a result of consultation will be expected to decrease receipts for the annual charge portion of the package by approximately £30 million per annum. This part of the costing is certified by the Office for Budget Responsibility and will be set out in Budget 2013.				

Economic impact	This measure is not expected to have any significant economic impacts.
Impact on individuals and households	No individuals are directly affected as ARPT only applies to NNPs. A small number of beneficiaries of trusts investing via companies, investors in collective investment schemes or owners of shares in some companies (or partners in partnerships) that are purchasing expensive property for non-business purposes will see the value of their interest reduced by ARPT.
Equalities impacts	This measure is not anticipated to impact on groups with protected characteristics any more than on those without such characteristics.
Impact on business including civil society organisations	The number of businesses affected by ARPT will be small because there are relatively few residential properties owned by NNPs over £2 million. As far as possible, genuine property businesses will be excluded from the charge through targeted reliefs. NNPs owning a residential property potentially worth over £2 million will be required to submit a return each year and carry out a valuation once every five years. The total administrative burden of this is expected to be negligible. The measure should not impact on charities who can claim relief from the charge providing the property is used for charitable purposes.
Operational impact (£m) (HMRC or other)	Provisional estimates suggest the IT set up costs are in the region of £770,000, Valuation Office Agency costs up to September 2013 are £500,000 (including a service to check, on request, a taxpayer's view of which band the dwelling falls into) and annual staff costs to be £700,000 - 800,000 (to include enquiry work).
Other impacts	Small firms impact test: many of the companies used to hold residential property worth more than £2 million are special purpose vehicles which will own a single property. These will have no employees. Larger, genuine businesses will where possible be excluded from the charge by claiming a relief. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored and assessed alongside the other measures in the residential property package.

Further advice

If you have any questions about this change, please contact the residential property tax team at budget2013.ARPT@hmrc.gsi.gov.uk

Stamp duty land tax: 15 per cent rate reliefs

Who is likely to be affected?

Certain types of companies, partnerships with company members and collective investment schemes acquiring residential property in the UK for more than £2 million who currently will pay a higher 15 per cent rate of stamp duty land tax (SDLT) on such acquisitions.

General description of the measure

The measure primarily introduces a series of reliefs from the 15 per cent SDLT rate for genuine property businesses purchasing residential property for over £2 million.

Policy objective

The 15 per cent SDLT rate forms part of a package designed to ensure that individuals and companies pay a fair share of tax on residential property transactions and to tackle avoidance through enveloping a property in a corporate wrapper.

This measure aims to ensure that genuine property businesses are relieved from the charge, whilst ensuring that those who acquire and hold property through companies for personal or family occupation will pay their fair share of tax.

Background to the measure

The higher 15 per cent rate was announced at Budget 2012 and was effective from 21 March 2012. The consultation *Ensuring the fair taxation of residential property transactions,* which covered other measures in the residential property package, has informed the introduction of reliefs from the 15 per cent SDLT rate.

Detailed proposal

Operative date

The measure will affect purchases of residential property costing more than £2 million where the effective date of the transaction is on or after the date that Finance Bill 2013 receives Royal Assent and the person or persons acquiring the property are among the companies, partnerships and collective investment schemes to whom the measure applies.

Current law

The current law in Section 55A and Schedule 4A to Finance Act 2003 provides for the higher rate of SDLT to be charged on purchases of residential property costing more than £2 million when purchased by certain companies, partnerships with company members or collective investment schemes, either jointly or solely.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide for a number of reliefs (so that SDLT is charged at 7 per cent); and also amend the rules for the existing relief from the 15 per cent rate provided to property developers. The most significant new relief will provide for relief from the higher rate of SDLT to persons running property rental businesses. The two year trading condition in the current property developer rules is also to be removed.

There will be other reliefs to cover other situations where the property acquired is to be used within certain businesses.

A 'clawback' provision is also to be introduced to ensure that if, within three years of the effective date of the transaction, the property is no longer held for a purpose to which the relief was claimed or is kept for personal or family occupation, additional SDLT will be payable as though the acquisition was taxable at 15 per cent.

There will also be other changes to ensure that, where appropriate and possible, the 15 per cent SDLT rules match those for the annual residential property tax so that a transaction to which the 15 per cent rate of SDLT is charged is also liable to the annual charge.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to reduce receipts by approximately £5 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 2013.					
Economic impact	The changes to the 15 per cent rate rules (which narrow the coverage of an existing tax) are likely to have a small marginal positive impact on demand for the high value property market with knock on positive impacts for property businesses.					
Impact on individuals and households	No individuals (other than where they are joint purchasers and one of the other parties is a defined non-natural person (NNP)) are directly affected as the higher rate charge only applies to NNPs (companies, partnerships with company members and collective investment schemes).					
Equalities impacts	The measure is not anticipated to impact on groups with protected characteristics any more than on those without such characteristics.					
Impact on business including civil society organisations	The number of businesses affected by the higher SDLT rate is small because there are relatively few acquisitions by NNPs of residential property costing more than £2 million each year. Businesses purchasing residential properties costing more than £2 million are already within the scope of SDLT and the reliefs will be administered through the current SDLT regime. The measure should thus give rise to negligible additional administrative burden or compliance costs.					
Operational impact (£m) (HMRC or other)	The impacts on cost and operational resources by these changes will be negligible.					
Other impacts	Small firms impact test: many of the companies used to hold residential property costing more than £2 million are special purpose vehicles which will own a single property. These will have no employees and the measure aims to discourage such companies, subject to those carrying on a business, from purchasing such properties. These companies will also face negligible additional administrative burdens or compliance costs from the measure. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored and assessed alongside the other measures in the residential property package.

Further advice

If you have any questions about this change, please contact the stamp taxes team at budget2013.stamptaxes@hmrc.gsi.gov.uk.

Stamp duty land tax: transfers of rights

Who is likely to be affected?

Persons who acquire land in the UK under arrangements involving a transfer of rights.

General description of the measure

The stamp duty land tax (SDLT) rules for transfers of rights are being reformed to minimise arguments that they can be used for SDLT avoidance.

Policy objective

The transfer of rights rules have frequently featured in attempted avoidance of SDLT. The objective of the proposed reform is to make the rules more clearly robust against attempted avoidance while retaining the commercial benefits of the rules. This measure is part of the wider Government programme for tackling SDLT avoidance and making the tax system fairer.

Background to the measure

This measure was announced at Budget 2012. A consultation document was published on 17 July and the formal consultation period closed on 9 October. A consultation response document was published on 11 December 2012 alongside draft legislation.

Detailed proposal

Operative date

The new rules will apply to transactions with an effective date on or after Royal Assent to Finance Bill 2013.

Current law

The primary legislation for SDLT is in Part 4 of the Finance Act 2003 (FA 2003). The transfer of rights rules are at section 45 and section 45A.

In a typical transfer of rights, a person (the original vendor) enters into an agreement with the ‘transferor’ for the sale and purchase of UK land which is to be completed by a conveyance. The transferor then enters into another transaction (the transfer of rights) with another person (the transferee) as a result of which the transferee can call for a conveyance of that land. The current law achieves two broad outcomes where there is a transfer of rights. The transferee is charged tax on a single land transaction which is an amalgam of the transfer of rights and the ultimate acquisition of the land. Any acquisition by the transferor is disregarded as long as it is completed at the same time and in connection with the acquisition by the transferee.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend and supplement the transfers of rights rules in Finance Act 2003. The new rules will generally produce the same overall SDLT outcome as the current rules in normal commercial transactions, but will be more robust against attempted avoidance.

The position for the transferee will remain very similar to now: the transferee will be charged to SDLT on the aggregate of its purchase price for the land and any separate sum paid for the transfer of rights agreement. However anti-avoidance measures will include a minimum consideration rule for transactions where the transferor and transferee are connected or act on non-arm's length terms, to ensure the full price paid to the vendor is charged to SDLT.

The transferor will be regarded as making an acquisition for SDLT purposes and will need to make a return. This contrasts with the current position where the transferor's acquisition may be disregarded. The transferor will be able to claim full relief against any SDLT in normal cases where it assigns its rights or enters into a sub-sale transaction with no SDLT avoidance purpose.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 impact of any changes will be limited to individuals who undertake a transfer of rights. Under these proposals, they will have to make a land transaction return containing a claim for relief; currently no such return or claim is necessary. The Government expects only small numbers of individuals to be affected (other than those attempting to avoid tax).					
Equalities impacts	None of the policy changes proposed is expected to have an impact on any people with protected characteristics.					
Impact on business including civil society organisations	The impact of any changes will be limited to businesses and organisations involved in a transfer of rights. Under these proposals, they will have to make a land transaction return containing a claim for relief; currently no such return or claim is necessary. It has been very difficult to ascertain how many businesses and organisations are likely to be affected. Our best estimate is that the number of additional returns each year is likely to be of the order of 1,000. The overall administrative burden is considered negligible.					
Operational impact (£m) (HMRC or other)	The operational impact on HM Revenue & Customs is not expected to be significant.					
Other impacts	Small firms impacts test: this measure will apply to small firms in the same way that it does to other persons. The possible impact on small firms was queried during consultation but no impacts were identified. The overall impact on small firms is considered to be negligible in terms of administrative and compliance costs. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through 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 Jeremy Schryber on 020 7147 2788 (email: jeremy.schryber@hmrc.gsi.gov.uk).

HM Revenue & Customs

Real estate investment trusts investing in real estate investment trusts

Who is likely to be affected?

UK real estate investment trusts (REITs)(tax advantaged vehicles introduced to encourage investment in the property sector) which invest in other UK REITs.

General description of the measure

The measure will allow the income from UK REITs investing in other UK REITs to be treated as income of the investing REIT's tax exempt property rental business. The property income distribution (PID) that a UK REIT receives from another UK REIT in which it invests will be tax exempt. For the purpose of the balance of business test, the investment by a REIT in another REIT will be included as an asset of the investing REIT's property rental business.

Policy objective

The measure is aimed at providing three benefits to the REIT sector: investment diversification, cash management flexibility and tax simplification. The combined impact of allowing REITs to diversify and better manage their cash assets within a simplified tax regime is expected to help support the REIT business environment and help remove potential barriers to further future investment activity.

Background to the measure

At Budget 2012 the Government announced that it was to undertake a formal consultation on reforms to the REIT regime to consider the tax treatment of REITs investing in REITs and to explore the potential role social housing REITs could play to support the social housing sector. The consultation on the measure took place between 4 April 2012 and 27 June 2012.

For the REITs investing in REITs aspect of the consultation, there was consensus that introducing this measure would generate positive benefits both for the REIT industry and wider Government objectives.

Detailed proposal

Operative date

The measure will have effect for accounting periods beginning on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

The legislation is within part 12 Corporation Taxes Act 2010 (CTA 2010).

A REIT is exempt from corporation tax (CT) on its profits from a property rental business (section 534 CTA 2010). It is required to distribute 90 per cent of its profits (section 530 CTA 2010) by way of a property income distribution (PID). A PID is treated in the hands of investors as income from property and taxed accordingly (section 548 CTA 2010).

If a REIT invests in another REIT then the PID income received by the investor REIT is taxed as income from property on which the main rate of CT will be paid and it is not treated as part of the investor REIT’s tax exempt property rental business. Consequently, a REIT investing in a REIT is subject to tax on the PID and can pay this taxed income out as an ordinary dividend, not a PID. The investment is not within the tax exempt property rental business for the purpose of the balance of business test.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to ensure that the property income distribution (PID) that a UK REIT receives from another UK REIT in which it invests will be treated as income of the investing REIT's tax exempt property rental business; that the investment by a REIT in another REIT will be included as an asset of the investing REIT's property rental business for the purpose of the balance of business test; and that the investing REIT must distribute 100 per cent of the PID it receives from investing in another REIT to its investors.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure would have no impact on individuals and households.					
Equalities impacts	The measure does not have a direct equalities impact as it focuses on institutional 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 no impact on businesses or civil society organisations. The measure will allow existing REITs to diversify their investments and make more productive use of their cash holding.					
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 020 7147 2565 (email: allana.sheil@hmrc.gsi.gov.uk).

Lease premium relief: effective duration of a lease

Who is likely to be affected?

Individuals, partnerships and companies that carry on trades or property businesses and pay or receive lease premiums on leases granted after the operative date.

General description of the measure

This measure limits the availability of lease premium relief where leases are of more than 50 years duration.

By removing relief where a long lease is treated as a short lease for tax purposes, the regime will be simplified. An imbalance where the recipient of this type of lease premium is tax exempt and the payer is chargeable to tax will be removed. Revenue will be protected and HM Revenue & Customs' (HMRC) costs reduced.

Policy objective

This measure is designed to simplify a complex element of the lease premium rules and protect tax revenue.

Background to the measure

In 2011 the Office of Tax Simplification (OTS) recommended the lease premium relief regime as an area which could benefit from simplification.

The Government announced at Budget 2012 that it would consult on an informal basis on the potential implications of amending a complex element of lease premium relief rules concerning the tax treatment of long leases as shorter leases. The informal consultation ran from April 2012 to June 2012.

Detailed proposal

Operative date

The measure will have effect for leases granted on or after 1 April 2013 for companies and on and after 6 April 2013 for individuals and partnerships.

Current law

The current law taxes a lease premium payment, made on granting a lease of less than 50 years, on the recipient landlord and relieves it on the tenant where that tenant is a trader or a subsidiary landlord. The premium would otherwise be a capital payment for tax purposes. Where the payment relates to a lease of more than 50 years, a premium is also treated as being within the regime in certain specific circumstances relating to the expected length of the lease. The legislation also treats work required to be carried out by a tenant as a premium in certain circumstances.

Chapter 4 of Part 4 Corporation Tax Act 2009 (CTA 2009) and Chapter 4 of Part 3 Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) cover lease premiums.

Section 216 CTA 2009 and section 276 ITTOIA 2005 define a 'short-term lease' as a lease whose effective duration is 50 years or less.

Section 217 CTA 2009 and section 277 ITTOIA 2005 apply if a premium is required to be paid under a short-term lease or under the terms subject to which a short-term lease is granted. The company is treated as receiving a proportion of the premium as a property business receipt for the accounting period for which the lease is granted.

Section 218 CTA 2009 and section 278 ITTOIA 2005 contain the rules for treating expenditure on required work as a premium.

Sections 231 and 232 CTA 2009 and sections 291 and 292 ITTOIA 2005 describe the way in which relief for premiums paid (and similar) is given where the tenant is carrying on a property business.

Sections 62 and 63 CTA 2009 and sections 60 and 61 ITTOIA 2005 cover the situation where the tenant is not carrying on a property business but is trading.

Section 243 CTA 2009 and section 303 ITTOIA 2005 set out three rules that need to be applied to determine the effective duration of a lease.

Rule 1 applies (a) if the terms of the lease, or any other circumstances, make it unlikely that the lease will continue beyond a date before the end of the term for which the lease was granted, and (b) the premium was not substantially greater than it would have been had the term been one ending on that date. In these circumstances the lease is treated as ending on the earlier date.

Section 244 CTA 2009 and section 304 ITTOIA 2005 state that the rules in s243 and s303 respectively apply by reference to the facts known or ascertainable at the time of the grant of the lease and that it is assumed that the parties act as if they were at arm’s length.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend sections 61 ITTOIA and 63 CTA 2009 and sections 292 ITTOIA and 232 CTA 2009.

From the operative date relief will no longer be available to a trader or intermediate landlord that pays a lease premium on a lease that is only deemed to be short because of the operation of the rule 1 in section 243 CTA 2009.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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	This measure is not expected to have any economic impacts.					
Impact on individuals and households	There is no impact on individuals or households because this is a change that affects businesses only.					
Equalities impacts	No specific group has been identified as being adversely affected.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The measure is designed to amend a complex element of the lease premium rules and the number of businesses affected is unknown. The impact on administrative burden and one-off costs are expected to be negligible.					
Operational impact (£m) (HMRC or other)	Initial HMRC operational impact is estimated to be less than £2 million resource savings. Includes a saving of 25 per cent of Valuation Office Agency specialist technical team resource.					

Other impacts	Small firms impact test: an informal consultation was held on the possible impact on small businesses and no responses were received indicating that there is such an impact. 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 020 7147 2565 (email: allana.sheil@hmrc.gsi.gov.uk) or Brian Stokes on 020 7147 2546 (email: brian.stokes@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp duty land tax: leases simplification

Who is likely to be affected?

Businesses and individuals who enter into leases on which stamp duty land tax (SDLT) is chargeable.

General description of the measure

These changes abolish the rules on abnormal rent increases and simplify the reporting requirements where a lease continues after the expiry of its fixed term or an agreement for lease is substantially performed before the actual lease is granted.

Policy objective

This measure serves the Government's objective of simplifying the tax system. The changes will streamline the reporting requirements that apply to specific lease arrangements, and so reduce the related costs for both businesses and individuals.

Background to the measure

The Government announced in Budget 2012 that HM Revenue & Customs (HMRC) would conduct an informal consultation on simplifying the complex SDLT rules that apply to certain lease arrangements. Consultation meetings were held during the summer and this measure reflects the proposals discussed at the meetings.

Detailed proposal

Operative date

The amendments will have effect on and after the date on which Finance Bill 2013 receives Royal Assent. The abolition of the rules on abnormal rent increases will apply to any increases on or after that date. The changes to the rules on fixed term leases will apply where the period of extension begins on or after that date. The amendments concerning substantial performance will apply where the effective date of the actual lease is on or after that date.

Current law

Schedule 17A to the Finance Act 2003 contains special rules that apply to leases.

Paragraph 3 applies where a fixed term lease continues after the end of the fixed term, either under the terms of the lease or by operation of law. The original lease is initially treated as extended for a period of one year, and, if it continues after that, as extended for two years and so on. If any additional tax is due in respect of the extended lease, or if tax is due where none was payable previously, an SDLT return must be submitted, and any tax due paid to HMRC within 30 days of the first day of the period of extension.

Paragraph 12A applies where, before a lease is granted, an agreement for lease is entered into and that agreement is substantially performed. The agreement is treated as the grant of a notional lease, beginning on the date of substantial performance. If the transaction is notifiable, a return has to be submitted, and any tax due paid, before the end of 30 days after the date of substantial performance. When the actual lease is granted, the notional lease is treated as surrendered and the actual lease is treated as if it were granted in consideration of the surrender. A second return is required for the actual lease, with relief being available for any period of overlap between the notional and actual leases. Paragraph 19 contains similar rules for leases in Scotland.

The rules on abnormal rent increases are at paragraphs 14 and 15. They impose an additional SDLT charge where there is a rent increase after the first five years of the term of a lease and this increase is 'abnormal'. Broadly speaking, an increase is abnormal if the rent doubles, or more than doubles, after the fifth year. HMRC must be notified each time there is an abnormal increase.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend paragraph 3, Schedule 17A to the Finance Act 2003 to provide that:

- where a new lease is granted within one year of the expiry of the original lease, the new lease will be treated as if it were granted on the day following the expiry of the original lease; and,
- where a new lease is not granted within one year of the expiry of the original lease, notification of any additional tax due will not be required until 30 days after the end of the period of extension.

Amendments to paragraphs 12A and 19 will provide that the notional and actual leases will be treated as a single lease:

- granted on the date the agreement was substantially performed,
- for a term which begins with the date of substantial performance and ends at the end of the term of the actual lease; and,
- in consideration of the total rent payable over the term of the single lease (and any other consideration given).

Paragraphs 14 and 15 will be abolished.

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><td>2017-18</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">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">These changes are not expected to have a significant effect on individuals and households as very few residential leases are subject to SDLT on the rent.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The potential for equalities impacts has been considered and none have been identified.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">These changes will simplify the SDLT provisions that apply to certain lease transactions, reducing the cost for businesses of complying with the rules. Approximately 22,000 businesses each year are expected to benefit from these changes. 13,000 of them will benefit with an average reduction in ongoing administrative burdens of £150 per business because they will no longer be required to complete the complex calculations to determine whether their rent increase is 'abnormal', while 9,000 businesses per year will benefit with an average reduction in ongoing administrative burdens of £53 per business because they will fill in at least one less return.</td></tr>
</table>

Approximately 5,500 businesses will incur one-off costs of familiarising themselves with new legislation. This is estimated to be around £330,000 for the whole business population.

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	£330k	N/A
Average Annual Costs	N/A	N/A
Total Costs (PV)	£330k	N/A
Compliance Benefits		
One-off Benefit	N/A	N/A
Average Annual Benefit	£2.4m	5
Total Benefit (PV)	£11.3m	N/A
Net Benefit (NPV)	£11.0m	N/A

Impact on Administrative Burden (included in Net Benefit)		
Increase	Decrease	Net Impact
0	£2.4m	-£2.4m

Operational impact (£m) (HMRC or other)	This measure will simplify the SDLT rules and therefore should result in fewer enquiries to HMRC. However, these savings are not expected to be significant.
Other impacts	Small firms impact test: these changes will benefit all businesses to which the specific leases provisions apply, regardless of size. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be subject to ongoing monitoring of information collected from land transaction returns and regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact on Jane Ewart on 0207 7147 3795 (email jane.ewart1@hmrc.gsi.gov.uk).

Combined bingo

Who is likely to be affected?

Bingo operators who may wish to promote games of combined bingo in conjunction with operators outside of the United Kingdom.

General description of the measure

This measure removes the requirement in relation to combined bingo for the bingo to be played entirely in the United Kingdom.

Policy objective

This measure will encourage UK bingo promoters to grow their business and expand their customer base by amending bingo duty legislation to modify the restrictions and allow UK bingo promoters to link with overseas operators to offer 'combined' games of bingo.

Background to the measure

This measure was announced at Budget 2012 and HM Revenue & Customs (HMRC) held an informal consultation with representatives from the bingo industry during the summer.

Detailed proposal

Operative date

This measure will have affect for any combined bingo that is played in accounting periods that begin on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

Combined bingo is a game of bingo played simultaneously in more than one place and promoted by more than one person. The current law on combined bingo is contained in section 20A of the Betting and Gaming Duties Act 1981. This makes provision to prevent double-counting of receipts but, as an anti-avoidance measure, this provision only applies where the combined bingo is played entirely in the United Kingdom.

Proposed revisions

Legislation to be introduced in Finance Bill 2013 will amend section 20A to allow the current administrative arrangements for combined bingo to apply without the condition that the combined bingo is played entirely within the UK.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Removing the requirement that combined bingo is played entirely in the UK will have no direct impact on individuals and households as only licensed bingo operators are affected. However by removing this restriction larger jackpot prizes may be offered for games of combined bingo which may indirectly benefit those individuals who participate.					
Equalities impacts	No impacts have been identified on any group with protected characteristics.					
Impact on business including civil society organisations	This measure will potentially affect any licensed bingo operators who organise games of combined bingo and choose to extend those games to include participation by non-UK operators. However as the number of businesses that may be affected is believed to be negligible and no additional on-going annual cost or administrative burden are being imposed, the overall impact on business is also expected to be negligible.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HMRC.					
Other impacts	Small firms impact test: Although this activity is optional small firms may be affected by this measure. The Government however is satisfied that the impact will be negligible and any impacted firms will have the capacity to understand and implement the change. Competition assessment: This measure does not have a negative effect on competition. 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 Brian O'Kane on 0161 827 0325 (email: brian.okane@hmrc.gsi.gov.uk).

HM Revenue & Customs

Treatment of herbal smoking products

Who is likely to be affected?

Manufacturers and importers of herbal smoking products (for example herbal cigarettes, herbal rolling mixture and herbal shisha) will be directly affected. Distributors and consumers of herbal smoking products will be indirectly affected.

General description of the measure

This measure changes the tax treatment of herbal smoking products, so that in future they will be treated as if they contained tobacco. Herbal smoking products will therefore become liable to tobacco products duty.

Policy objective

This change is being made to bring UK legislation into line with the European Directive 2011/64/EC on the structure and rates of excise duty on manufactured tobacco, which indicates that herbal smoking products can only be exempted from excise duty when they are used exclusively for medical purposes. The current exemption granted to all herbal smoking products in the UK provides such products with an unfair advantage over their tobacco counterparts.

Background to the measure

The measure was announced at Budget 2012 and a consultation was conducted during April, May and June 2012.

Detailed proposal

Operative date

The change will take effect on and after 1 January 2014.

Current law

The liability to tobacco products duty is determined in the UK by section 1 of the Tobacco Products Duty Act 1979 (the Act). This Act also sets the requirements for fiscal marks on tobacco products in section 8. The duty rates applicable to product types affected (cigarettes, hand-rolling tobacco, other smoking tobacco) are set out in a schedule to the Act.

Tobacco products are further defined by the Tobacco Products Description of Products Order 2003 (the Order) Articles 4 and 7.

The Tobacco Products Duty Regulations 2001 (the Regulations) further refine the requirements for fiscal marks in Article 23.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove the references in section 1 of the Act which currently exempt herbal smoking products from the duty but will retain an exemption for products which are used exclusively for medical purposes. HM Revenue & Customs (HMRC) will accept the granting of a marketing licence for the product from the Medicines and Healthcare Products Regulatory Authority (MHRA) as evidence of medical purpose and will consider whether this is the exclusive purpose of the product on a case-by-case basis. Without such a licence all herbal smoking products will be liable to tobacco products duty at the same rate as their tobacco counterparts.

Secondary legislation will be introduced to remove residual references to herbal smoking products within the Order.

Secondary legislation will also amend the Regulations to exclude non-tobacco products from the fiscal marks requirements, to ensure that although herbal smoking products will be liable for duty, they will not be required to bear fiscal marks. This is because the costs to the trade would be disproportionate to the risk of fraud and fiscal marks are primarily an anti-fraud measure.

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><td>2017-18</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. Any impact will be set out at Budget 2013.</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">Smokers of herbal products would face an increase in the price of herbal smoking products.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The change will make herbal water-pipe mixture (commonly known as herbal shisha) liable to tobacco duty. The change may therefore have a proportionately higher impact on ethnic groups that are more likely to smoke shisha. However, herbal shisha is a minority product even in the shisha market, and the risk of infraction and evasion would outweigh this associated impact.

There may be a difference between business and consumers in this respect in that the ethnic mix of consumers may be different from that of traders.</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.

A small number of manufacturers and importers of herbal smoking products will be affected by this measure. They will face one-off costs from familiarisation with new legislation and from putting in place a process to calculate and record the duty that they are liable for. Manufacturers will be required to apply for registration and comply with the necessary requirements.

Manufacturers and importers of herbal smoking products will face a negligible increase in ongoing administrative burdens because they will now have to submit monthly returns.

This measure is expected to have no impact on civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">This measure will have a negligible operational cost for HMRC.</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 the Excise and Customs Helpline on 0845 010 9000.

HM Revenue & Customs

Vehicle excise duty: tax disc display waiver

Who is likely to be affected?

This measure will affect vehicle owners who pay for or make eligible requests for nil rate vehicle excise duty (VED) tax discs, including vehicle dealers who pay to renew an existing trade licence tax disc.

General description of the measure

The measure provides a 14 day waiver on vehicle owners displaying a newly issued tax disc.

Policy objective

The Government's aim is to secure reductions in its tax disc postage costs to new and existing vehicle owners, including motor traders.

Background to the measure

Budget 2012 announced that the Government would reduce tax disc postage costs by extending the display grace period to 14 days.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 33 of the Vehicle Excise and Registration Act 1994 provides a five working days waiver on the requirement to display a vehicle's tax disc, when registered vehicle keepers have applied for a tax disc ahead of their existing disc's expiry or ahead of a statutory off-road notification for their vehicle expiring.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove the five working days waiver and replace it with a 14 day waiver that applies to all situations in which tax discs must be displayed except for the first issue of a trade licence tax disc. Defunct references to annual off-the-road declarations will also be removed, consistent with the deregulatory policy of once only indefinite declaration.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 impact on individuals and households is expected to be a negligible change in the waiting time for a tax disc, when applying for a tax disc for a new vehicle through a motor dealer, or when applying for a vehicle's next tax disc by phone or over the internet. Tax disc applicants will still have the choice to receive their disc immediately at the Post Office.					

Equalities impacts	This measure does not have equalities impacts on any protected groups.
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. There will be a negligible one-off cost for businesses in familiarising themselves with the change in policy. There will be no change in on-going costs as the processes for businesses to licence their vehicles remains the same.
Operational impact (£m) (HMRC or other)	The Driver and Vehicle Licensing Agency (DVLA) will save at least £1.5 million a year in reduced postage costs.
Other impacts	Small firms impact test: the impact is expected to be positive but negligible. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored and assessed alongside the DVLA's broader programme of efficiency reforms.

Further advice

If you have any questions about this change, please contact Jason Donovan on 01792 786860 (email: Jason.Donovan@dvla.gsi.gov.uk).

HM Revenue & Customs

Carbon price floor

Who is likely to be affected?

UK generators of fossil-fuel based electricity, including combined heat and power (CHP) operators and auto-generators; those supplying such generators; and electricity utilities.

General description of the measure

The Government is announcing changes and further details about the carbon price floor (CPF) alongside publication of draft legislation. These changes will come into effect from the start of the CPF on 1 April 2013. This measure is designed to clarify how the CPF will operate with regards to: the tax point and taxable person; non-CHP generators (including auto-generators and exempt unlicensed suppliers) and stand-by generators; and CHP stations.

Policy objective

The CPF is designed to provide an incentive to invest in low-carbon power generation by providing greater support and certainty to the carbon price in the UK's electricity generation sector.

The changes to the tax point create certainty and simplify the administration of the carbon price support (CPS) rate for coal. They also provide clarification about who is liable to pay the tax where the owner of the input fuel and the generator are not the same person. The changes relating to the taxation of non-CHP generators and CHPs remove anomalies in tax treatment and ensure a continued benefit from maximising efficiency under the CHP Quality Assurance (CHPQA) Programme.

Background to the measure

Budget 2011 announced that, following consultation, the Government would introduce a CPF from 1 April 2013. Supplies of coal, gas and liquefied petroleum gas (LPG) used in most forms of electricity generation would become liable to newly created CPS rates of climate change levy (CCL), which would be different from the main CCL rates levied on consumers' use of these commodities (and electricity). The amount of fuel duty reclaimable on oil used in electricity generation would be adjusted to establish new CPS rates of fuel duty.

Finance Act 2011 contained the initial primary legislation, including the CPS rates of CCL for 2013-14.

Budget 2012 announced some changes, including that supplies of fossil fuels to CHP stations would be exempt from the CPS rates where the fuel is used to generate good quality heat. It also announced the CPS rates for 2014-15 and indicative rates for 2015-16 and 2016-17. Legislation was included in Finance Act 2012.

The Autumn Statement on 5 December 2012 announced that, subject to the outcome of discussions with the European Commission over State aid, Northern Ireland will be exempt from the CPF.

Detailed proposal

Operative date

The CPS rates of CCL, including the changes outlined above, will have effect for supplies of coal, gas or LPG made to generators on or after 1 April 2013. The CPS rates of fuel duty will apply in relation to any claim for relief on oil used to generate electricity on or after 1 April 2013, irrespective of when that oil was supplied to the generator.

Current law

Schedule 6 to Finance Act 2000 (Schedule 6) contains CCL's primary legislation and exempts from the levy supplies of electricity, solid fuels, LPG and gas used for the generation of electricity. Schedule 6 was amended by section 78 of, and Schedule 20 to, Finance Act 2011 and by section 207 of, and Schedule 32 to, Finance Act 2012 to provide for the CPF provisions in respect of gas, coal and LPG.

The Climate Change Levy (General) Regulations 2001 (SI 2001/838) (the general regulations) govern the administration of CCL.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) (the 2005 regulations) enable generators who use oil to generate electricity to reclaim the fuel duty paid on the oil when it leaves the refinery. They also contain details of the relief from fuel duty for oils used in a CHP plant to generate electricity.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the changes to Schedule 6 made by Finance Acts 2011 and 2012. In the interests of transparency and clarity, the legislation will be consolidated into a new schedule.

Two statutory instruments will be laid in spring 2013 and come into force on 1 April 2013:

- *The Climate Change Levy (General) (Amendment) Regulations 2013* will amend the general regulations to enable HM Revenue and Customs (HMRC) to administer the CPS rates of CCL, including the reliefs.
- *The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendment) Regulations 2013* will amend the 2005 regulations to adjust the amount of fuel duty that can be reclaimed by those generating electricity using oils (in effect creating CPS rates of fuel duty). The changes will also ensure that oils used in a CHP to produce heat will continue to be fully reclaimable.

<u>Tax point and taxable person</u>

The changes clarify when a supply takes place for the purposes of the CPS rates of CCL and who has to register and account for those rates (the taxable person) to HMRC:

- The supply of coal, natural gas or LPG to a generator with a generating capacity above 2 megawatts (MW) will continue to be exempt from main rates of CCL when the fuel is to be used for generating electricity. However, a supply will be deemed to take place for the purposes of the CPS rates of CCL (the deemed supply) upon delivery of the fuel to the generating station or site of CHP scheme.
- The taxable person will be the owner of the generating station in the case of a non-CHP generator and the operator in the case of a CHP generating station.
- Coal or LPG delivered to a generating station before 1 April 2013 will not be taxable as a result of these changes.

- Delivery of natural gas for CPS purposes will occur when the gas passes through the meter into the generating station or CHP. Delivery of coal and LPG will occur when the fuel passes the entrance to the generating station or CHP (in the case of coal at the weighbridge).
- Where coal slurry is mixed with coal prior to delivery to the generating station and this is evidenced, an adjustment will be permitted to the calorific value of the supply to achieve an effective exemption from tax for the coal slurry.

Non-CHP generators (including auto-generators and exempt unlicensed suppliers) and stand-by generators

The changes clarify how supplies will be taxed when made to (and by) non-CHP generators and to stand-by generators:

Non-CHP generators using coal, gas or LPG

- Those that have a generating capacity of 2MW or lower will:
    - o not be liable to the CPS (or main) rates of CCL on their input fuels used to generate electricity that is exported to the grid; that electricity will remain liable to CCL when supplied by a utility; and
    - o continue to be charged the main rates of CCL on their input fuels used to generate electricity that is self-supplied or supplied directly to an end consumer (i.e. not through a utility); the electricity will remain exempt from CCL.
- Those with a generating capacity above 2MW will be liable to pay:
    - o the CPS rates of CCL on the deemed supply of their input fuels used to generate electricity; and
    - o CCL on self-supplies of electricity and on electricity supplied direct to a non-domestic end consumer. If the electricity is exported to the grid it will remain liable to CCL when supplied by the utility.
- When calculating generating capacity, account must be taken of all generators operated by the same person or any connected person (excluding stand-by generators and CHPs).
- Fuel that is used in stand-by generators will continue to be subject to the main rates of CCL, and there will be no liability to account for CCL on electricity outputs. A stand-by generator is a generating station which is designed and used to provide an emergency electricity supply to a building in the event of a failure of the building's usual electricity supply. This does not include any generator supplying electricity to the grid.

Non-CHP generators using oils

- A generating capacity threshold will not apply to supplies of oil used in electricity generation.
- Oil used to generate electricity will continue to be subject to the main rates of fuel duty, unless the electricity is exported to the grid, in which case the amount of duty that can be reclaimed on the oil will be adjusted so that the amount is equivalent to the relevant CPS rate of fuel duty.
- The electricity arising from generation using oil will remain exempt from CCL if it is self-supplied or supplied directly to an end consumer. It will remain liable to CCL if it is exported to the grid and supplied by a utility.

CHP stations

The changes clarify how supplies to (and by) CHPs will be taxed:

- Supplies of coal, gas or LPG (excluding deemed supplies) to CHP stations registered under the CHPQA Programme that are used to generate outputs that are good quality, will continue to be exempt from the main rates of CCL.
- The operator of a CHP with a generating capacity above 2MW will be liable to account for the CPS rates of CCL on the proportion of deemed supplies of coal, gas or LPG used to generate electricity.
- When calculating the generating capacity for a CHP no account will be taken of other stations operated by the same person or any connected person. The generating capacity will be specific to each individual CHP scheme.
- CHP stations registered under the CHPQA Programme which burn oils will continue to be able to claim relief on oils used to generate outputs that are good quality. This relief will be scaled back by the amount of the CPS rate in relation to the quantity of oil used to generate electricity.
- The proportion of the fuel input that is used to generate electricity is to be calculated using the established boiler displacement method.
- Output electricity from a good quality CHP will remain outside the scope of CCL when subject to a self or direct supply. Such supplies will remain partially exempt if the CHP does not meet good quality standards. The position for indirect supplies of electricity (those made via the Grid) was announced at Budget 2012.

Summary of impacts

This summary focuses on the changes being announced today.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	These changes only directly affect businesses, as domestic generators are not subject to the CPF or CCL. The impact of the measure on wholesale electricity prices will be negligible; therefore any impact on household electricity bills will be minimal.					
Equalities impacts	The proposed changes are not expected to have an impact on any equalities group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Businesses with an auto-generator with a generating capacity above 2MW will be charged CCL for the electricity that they supply to themselves. This will result in additional continuing administrative costs to them from having to register for CCL and make returns. This is expected to increase annual administrative burdens by between £917 and £1,400 per business. In addition, there will be a one-off registration cost of £18 per business. For CHP plants, the threshold for which they will not be liable for CPS rates of CCL will be based upon their generating capacity at the scheme level rather than at the person level. This will remove around 450 CHPs					

	owned by around 20 businesses from these rates. This will result in the businesses affected not having to register for the CPS rates of CCL or make returns for these CHPs. This is expected to result in an annual administrative saving of between £917 and £1,400 per business. There will also be a one-off saving from not having to register for CCL of £18 per business. Businesses with auto-generators with a generating capacity below 2MW will not be exempt from paying CCL rates on the gas, coal and LPG used to generate electricity for their own use. This represents a continuing annual saving of £50 per auto-generator as they do not need to submit information to claim the exemption.
Operational impact (£m) (HMRC or other)	The additional costs and savings for HMRC in implementing these changes are anticipated to be negligible.
Other impacts	Carbon assessment: restoring the tax benefits associated with membership of the CHPQA, and proceeding with the exemption from the CPS rates for inputs used for non-electricity outputs will incentivise CHP. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The Government will consider how best and when to evaluate the overall policy against its objective to encourage investment in low-carbon power generation. The impact of the changes set out in this note will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about these changes, please contact the Excise and Customs Helpline on 0845 010 9000.

HM Revenue & Customs

VAT: reduced rate energy saving materials in charity buildings

Who is likely to be affected?

Businesses in the construction sector who install energy saving materials (ESM) and charities that use buildings solely for a non-business use such as a village hall or similar.

General description of the measure

The reduced rate for the installation of ESM in buildings used solely for a relevant charitable purpose is to be withdrawn.

Policy objective

This measure is a response to the European Commission's position on the UK's reduced rate of VAT on the installation of ESM in residential accommodation and 'charitable buildings'.

The Commission considers that there is no legal basis for a reduced rate of VAT for ESM. The UK disagrees but accepts that this VAT relief can only apply to housing and does not extend to 'charitable' buildings which are not housing. This measure therefore announces the Government's intention to withdraw this VAT relief in relation to charitable buildings in 2013 to ensure that UK legislation fully complies with EU law.

Background to the measure

The UK applies a reduced rate of VAT to the installation of ESM in various types of building. The Commission has initiated legal proceedings against the UK on the basis that this reduced rate is not allowed in EU law.

Whilst the Government does not agree with the all the arguments put forward by the EU, it has reluctantly accepted that in applying the reduced rate for charitable buildings, the UK is applying the provisions too widely. Consequently, at Budget 2012, the Government announced its intention to withdraw this reduced rate from charitable buildings as part of Finance Bill 2013 and informed the Commission of this.

The subsequent publication of the Commission's Reasoned Opinion indicates that it intends to proceed with the infraction against the UK in any event. The Government will continue to defend the remainder of the reduced rate.

Detailed proposal

Operative date

The measure will have effect on the installation of ESM supplied on and after 1 August 2013

Current law

The reduced rate for the installation of ESM is legislated for in Group 2 of Schedule 7A to the Value Added Tax Act 1994.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Group 2 to exclude all reference in Items 1 and 2 to "a building intended for use solely for a charitable purpose".

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure will affect only those individuals and households who hire out or make use of charitable buildings and will have the costs of installation passed on to them. The impact will be negligible and will diminish over time.					
Equalities impacts	No impacts have been identified on any groups sharing protected characteristics.					
Impact on business including civil society organisations	One-off compliance costs have been considered and are expected to be negligible. Only a small number of businesses, some of which are likely to be small businesses, are estimated to routinely work on the installation of ESM; these are expected to incur small costs from familiarisation with the new guidance and additional bookkeeping. A further 100,000 businesses who provide construction services may incur very minimal familiarisation costs.					
Operational impact (£m) (HMRC or other)	The changes are not expected to have an impact on the operations of HM Revenue & Customs.					
Other impacts	Small firms impact test: there will be a minimal affect on some small businesses as a result of this measure. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure may be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact: John Egerton on 020 7147 0238 (email: john.egerton@hmrc.gsi.gov.uk).

VAT: road fuel scale charges

Who is likely to be affected?

VAT-registered businesses who use road fuel scale charges (RFSCs) to account for VAT on private use of road fuel purchased by the business.

General description of the measure

VAT law and practice on RFSCs will be streamlined and the process for the annual updating of the charges will be simplified. There will be minor changes to the way partially exempt businesses account for private use of business fuel.

Policy objective

Future amendments of the RFSCs will be taken out of the Budget process and HM Revenue & Customs (HMRC) will be able to publish them alongside the relevant guidance in a single place achieving reductions in burdens on small businesses and reduced costs for HMRC and HM Treasury.

The law will be updated to incorporate two extra statutory concessions which cannot be retained. A third extra statutory concession relating to private use of fuel by partially exempt businesses, which also cannot be retained but which cannot be incorporated in law, will be withdrawn and affected businesses will need to reflect this in their VAT calculations. UK law will be brought into line with EU law, making it more secure without changing the effect of current UK law.

Background to the measure

The measure was announced at Budget 2012 and followed by a consultation during the summer.

Detailed proposal

Operative date

Supplies of fuel to staff or family at below open market value (OMV) will be valued at OMV on and after the date that Finance Bill 2013 receives Royal Assent.

To prevent forestalling the OMV legislation will take effect retrospectively from 11 December 2012 (date of exposure of draft legislation) insofar as fuel is used after the new law comes into force. So supplies of fuel made between 11 December 2012 and Royal Assent to Finance Bill 2013 at below OMV will be valued at OMV to the extent that the actual use of the fuel is after the date of Royal Assent.

The annual revalorisation of RFSCs, previously a budget measure, will automatically be calculated by HMRC independent of the Budget process following Royal Assent.

Current law

The current UK law on the application of RFSCs is contained in sections 56 and 57 of the VAT Act 1994 (VATA1994). The table of charges is set out in section 57 and is updated annually via secondary legislation. This law works alongside three concessions published in HMRC Notices and Guidance.

The law, together with the concessions, gives businesses three options of accounting for VAT on road fuel applied to private use:

1) Claim no input tax on road fuel and declare no deemed supplies;

2) Maintain accurate mileage records so that business and private motoring can be identified and use them to claim only VAT on road fuel used in business journeys, charge staff accurately for the fuel they use privately or calculate deemed supplies accurately; or

3) Claim all input tax on road fuel and declare RFSCs.

Whilst this implements EU law and the UK's derogation on deemed supplies of road fuel, sections 56 and 57 of VATA 1994 in isolation are ultra vires the EU Directive and the concessions are necessary to correct this. However, the concessions are not permissible under the guidance given to HMRC in the case of *Regina v. Her Majesty's Commissioners of Inland Revenue (Respondents) ex parte Wilkinson* and must be brought within the legislation or withdrawn.

Proposed revisions

Sections 56 and 57 of VATA 1994 will be repealed and deemed supplies of road fuel will fall back into the standard rules establishing deemed supplies in Schedule 4 of VATA 1994. The RFSCs will be an optional way of valuing deemed supplies of fuel and will be introduced in Schedule 6, the Valuation: Special Cases schedule, with the table set out in an HMRC notice. HMRC will be required to update the table annually, to a set formula, by an SI required to be made under Schedule 6.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	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 economic impacts.					
Impact on individuals and households	There is no impact on individuals because the measure only applies to VAT registered businesses.					
Equalities impacts	This measure has no equality impacts on the protected characteristics in the Equality Act 2010.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses that are partially exempt as they will need to make minor adjustments to their VAT calculations to reflect the private use of road fuel.					
Operational impact (£m) (HMRC or other)	The additional savings for HMRC in implementing this change are anticipated to be negligible.					
Other impacts	Small firms impact test: it is anticipated that the impact on small businesses will be limited to those that are partially exempt for VAT and that the impact for those businesses will be negligible. This measure legislates to preserve the status quo. 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 Phil Mattacks on 020 7147 0538 (email: phil.mattacks@hmrc.gsi.gov.uk).

HM Revenue & Customs

General Anti-Abuse Rule

Who is likely to be affected?

Users and promoters of abusive tax avoidance schemes.

General description of the measure

The measure will counteract tax advantages arising from abusive tax avoidance arrangements. The General Anti-Abuse Rule (GAAR) will apply to income tax, corporation tax (including amounts treated as corporation tax), capital gains tax, inheritance tax, petroleum revenue tax and stamp duty land tax. It will also apply to the annual residential property tax due to be enacted with effect from 1 April 2013. Separate legislation will be introduced later to apply the GAAR to National Insurance contributions (NICs).

Policy objective

The measure supports the Government's objective of promoting fairness in the tax system by deterring taxpayers from entering into abusive schemes that might succeed under current law. The GAAR will provide that tax advantages arising from such arrangements are counteracted on a just and reasonable basis.

Background to the measure

An independent study led by Graham Aaronson QC recommended the introduction of a general anti-abuse rule targeted at artificial and abusive tax avoidance schemes. The Government announced at Budget 2012 that it accepted the recommendation.

A consultation ran from 12 June to 14 September. The Government's response was published on 11 December 2012.

Detailed proposal

Operative date

The measure will apply to abusive tax arrangements entered into on or after Royal Assent to Finance Bill 2013.

Current law

The GAAR will provide an additional means for HM Revenue & Customs (HMRC) to tackle abusive tax avoidance schemes. No changes are proposed to current tax rules except to the extent needed to fit with the new legislation. All forms of tax avoidance (including both abusive tax avoidance to which the GAAR may apply, and tax avoidance that does not fall within the meaning of abusive tax avoidance that is the target of the GAAR) will continue to be challenged and counteracted using existing means.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 whereby the GAAR will provide for the counteraction of tax advantages arising from tax arrangements that are abusive. Counteraction by HMRC must follow certain procedural requirements: counteraction must first be notified by a designated HMRC officer and, unless having considered representations made by the taxpayer a designated HMRC officer decides that counteraction ought not to apply, the arrangements must be referred to an Advisory Panel, to be established by the Commissioners for HMRC for the purpose, for its opinion(s).

Counteraction will be on a just and reasonable basis and may take a number of forms, appropriate to the particular tax in question. Where counteraction by HMRC has taken place, it will be possible for taxpayers to claim such consequential relieving adjustments as are just and reasonable.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to increase receipts. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013. 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 impact on individuals will be on those participating in abusive avoidance schemes.					
Equalities impacts	The GAAR will have no direct equality impacts. However the GAAR's aim of promoting fairness within the tax system will indirectly affect equality between taxpayer groups (both individual and corporate) as the GAAR will mainly affect those who are more inclined to consider entering into abusive tax avoidance schemes.					
Impact on business including civil society organisations	The GAAR will only impact on businesses participating in abusive schemes that give them an unfair advantage over businesses undertaking normal commercial transactions. This measure will have no impact on businesses and civil society organisations who are undertaking normal commercial transactions.					
Operational impact (£m) (HMRC or other)	The impact on HMRC's costs is expected to be limited. There will be a cost of providing administrative support to the GAAR Advisory Panel and producing guidance but, in the longer term, there is a possibility of cost savings when abusive avoidance is deterred or countered more effectively.					
Other impacts	<u>Small firms impact test</u>: small firms will only be affected by the GAAR to the extent that they participate in abusive tax avoidance schemes. It is expected that a negligible number of small firms will be affected. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored through regular communication with affected taxpayers and practitioners, intelligence via disclosure/other sources of attempts to circumvent the measure and by the number of cases authorised for counteraction under the GAAR with a separate record of cases successfully litigated using a GAAR challenge.

Further advice

If you have any questions about this change, please contact Carolyn Comben on 020 7147 0086 (email: carolyn.comben@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation tax and income tax: changes to rules for manufactured payments

Who is likely to be affected?

Companies and others that enter into stock loans and repos of shares and securities and that pay and receive manufactured payments.

General description of the measure

The measure will simplify the rules for taxing and relieving manufactured payments. For manufactured overseas dividends (MODs), the requirement to deduct income tax from payments and entitlement to double taxation relief (DTR) on receipts will be abolished.

Policy objective

Most manufactured payments are made and received by banks and other financial traders, and would fall to be taxed as ordinary trading expenses and receipts in the absence of detailed rules. Simplifying the rules for taxing and relieving payments recognises that the majority of the current rules are no longer necessary. As the complexity of these rules has given rise to avoidance schemes, simplifying them will also reduce avoidance opportunities. The measure supports the Government's objective of promoting fairness in the tax system.

Background to the measure

A written ministerial statement on 15 September 2011 announced legislation (enacted in section 22 Finance Act 2012) to block the latest in a series of avoidance schemes involving manufactured overseas dividends. At the same time it was announced that a consultation document would be issued after Budget 2012 on proposals to make wider changes to the tax rules on manufactured payments as part of the programme of reviewing High Risk Areas of the tax system.

The consultation document *Proposed changes to tax rules on manufactured payments* was issued on 27 March 2012, with a closing date for comments of 22 June 2012.

Following the responses to the consultation (a summary of responses was issued on 11 December 2012), the Government is legislating all the changes proposed in the consultation document, with a commencement date of 1 January 2014.

Detailed proposal

Operative date

The new rules will apply to manufactured payments that are representative of dividends or interest paid on or after 1 January 2014.

Current law

Manufactured payments are payments representative of dividends and interest on shares and securities that are paid under contracts or other arrangements for their transfer. Manufactured payments are routinely paid in the financial markets under stock lending or repo transactions. A manufactured payment is a compensation payment made by the temporary holder of the shares or securities to the original owner to reflect the fact that the original owner does not receive the real dividend or interest. The rules regarding taxing and relieving manufactured payments are found in the following legislation:

Corporation tax: the rules for taxing and relieving manufactured dividends are in Part 17 of the Corporation Tax Act 2010.

Income tax: the rules for taxing and relieving manufactured payments are in Chapters 1-3 of Part 11 of the Income Tax Act 2007.

Deduction of tax from payments of MODs: the current rules for both companies and income tax payers are at sections 922 to 925F Income Tax Act 2007 and in Regulations, in particular the Income Tax (Manufactured Overseas Dividends) Regulations 1993 (SI 1993/2004).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to make the following changes:

Corporation tax: there will be no special rules for taxing and relieving manufactured dividends paid and received by financial traders. For non-traders, receipts of manufactured dividends will be treated as the real dividends of which they are representative, and payments of manufactured dividends will not be deductible. No changes are being made to the rules for payments representative of interest.

Income tax: the recipient of a manufactured payment will be treated as receiving the real dividend or interest of which the payment is representative. A payer of a manufactured payment will obtain a deduction for the payment only if it is made for the purposes of a trade.

Deduction of tax from payments of MODs: As a result of the abolition of the rules requiring deduction of tax from MODs the recipient will lose any corresponding entitlement to DTR. This will not affect any entitlement arising where foreign tax has actually been deducted from the MOD.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. 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 proposed legislation will not impact individuals and households as it affects only large companies and financial institutions that enter into repo and stock lending transactions.					
Equalities impacts	The proposed legislation is not expected to have any impact on any protected equality group.					
Impact on business including civil society organisations	There are approximately 100 businesses that enter into or administer stock loans and repos of shares and securities where there is a payment and/or receipt of a manufactured divided. There will be a negligible but beneficial reduction in ongoing administrative burden upon businesses as they will no longer be required to submit form SX1 to HM Revenue & Customs. They will face negligible one-off costs in familiarising themselves with the change in legislation. This measure is expected to have no impact on civil society organisations.					

Operational impact (£m) (HMRC or other)	No operational impact is expected.
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 Geoff Heaton on 020 7147 2577 (email: geoff.heaton@hmrc.gsi.gov.uk) or Chris Murricane on 020 7147 2818 (email: chris.murricane@hmrc.gsi.gov.uk).

HM Revenue & Customs

High-risk areas of the tax code: the taxation of unauthorised unit trusts

Who is likely to be affected?

Unauthorised unit trusts (UUTs) and their investors.

General description of the measure

The measure will enable HM Treasury to introduce new tax rules in Regulations for UUTs and their investors.

Policy objective

This measure supports the Government's objective of closing the tax gap by enabling the introduction of rules to prevent UUTs being used for avoidance. The rules will do this by defining and providing different treatment for:

- ‘exempt UUTs’ (EUUTs), that is those UUTs whose investors are all entities that would be wholly exempt from capital gains tax or corporation tax on chargeable gains (other than by reason of residence); and,
- ‘non-exempt UUTs’ (NEUUTs), that is those UUTs whose investors include one or more non-exempt investor.

The rules for EUUTs will be simplified, and will reduce burdens for them and their investors.

Background to the measure

The Government announced in *Tackling Tax Avoidance* at Budget 2011 that UUTs would be included in the review of high risk areas of the tax code. An initial consultation document was published in June 2011, and a second consultation document was published in May 2012.

A summary of responses to the second consultation was published on 11 December 2012.

Detailed proposals

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent. The measure provides powers for HM Treasury to make regulations, which will provide for commencement as follows:

- For EUUTs preparing annual accounts to an account year ending on or before 31 October 2013, 2014-15 will be a transition tax year and the full effect of the new rules will apply from the 2015-16 year onwards;
- For EUUTs preparing annual accounts to an account year ending after 31 October 2013, 2013-14 will be a transition tax year and the full effect of the new rules will apply from the 2014-15 year onwards; and,
- NEUUTs will be brought within the charge to corporation tax (CT) from the end of the 2013-14 tax year. This is except where grandfathering provisions apply in the case of NEUUTs with one or more exempt investors as at 24 May 2012. Grandfathering will remain in place for those NEUUTs until appropriate reliefs can be introduced to

prevent exempt investors being adversely affected, after which such NEUUTs will have the opportunity to restructure prior to being brought within the charge to CT from a prescribed date.

Current law

The current legislation is set out in the Income Tax (Trading and Other Income) Act 2005, the Income Tax Act 2007 and the two Corporation Tax Acts (2009 and 2010).

Income arising to the trustees of a UUT is regarded as income of the trustees and not of the unit holders (investors). Income tax is chargeable at the basic rate and not at the trust rate or other rates such as the dividend ordinary rate or savings rate.

Trustees are treated as making a 'deemed distribution' to the unit holders representing the gross amount of the unit holders' income after the deduction of basic rate income tax. The trustees account to HM Revenue & Customs (HMRC) for the tax deemed to have been deducted and receive relief for the gross deemed distributions to the unit holders against the trust income.

Unit holders are treated as receiving their proportionate share of a UUT's distributable income as 'deemed payments'.

UUTs whose investors consist only of entities that would be wholly exempt from capital gains tax or corporation tax on chargeable gains (otherwise than by reason of residence) are themselves exempt from tax on chargeable gains, and are commonly referred to as exempt UUTs (a term that will be defined in the new rules).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide powers for new rules for UUTs and their investors in Regulations.

The existing rules for EUUTs and their investors will broadly retain their current structure but changes will be made to simplify the rules and reduce administrative burdens. This will be done by simplifying the calculation of income and the basis of tax filing by EUUTs and removing the requirement for trustees to deduct tax from deemed payments to investors.

Rules will also be introduced to address the current cliff-edge that affects EUUTs where an existing investor loses its own exempt status or an ineligible investor is admitted inadvertently, so that minor and inadvertent breaches are dealt with in a more proportionate way. A UUT that wishes to benefit from these changes will be required to apply to HMRC to receive approval as an EUUT.

The new rules will provide different treatment for NEUUTs. They will be brought within the charge to CT. Unit holders will no longer be deemed to receive distributions of income and distributions from NEUUTs will be treated in the same way as corporate dividends. This is subject to grandfathering as noted above.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. This measure supports the Exchequer in its commitment to protect revenue.					

<table>
<tr><td>Economic impact</td><td>The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td>It is not expected that there will be any significant impact on individuals and households generally, as very few individuals invest in UUTs. The proposals would contribute to closing the tax gap where UUTs are used by individuals for tax avoidance purposes but it is not possible to quantify that impact on the basis of available data.</td></tr>
<tr><td>Equalities impacts</td><td>The measure targets tax avoidance behaviours rather than particular types of individual or business. There is no evidence to suggest that the measure will have any adverse equalities impacts for any particular groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td>
This measure is expected to have some impact for those UUTs that apply to be approved EUUTs, and significant positive impact for tax exempt civil society organisations such as pension funds and charities investing in them.
There will be an overall increase in costs of approximately £50,000 in EUUTs' on-going annual administrative costs. This is after taking account of savings in admin burdens for EUUTs (and for those advising them) due to removing the requirement to withhold tax on deemed distributions and simplification of the tax rules, as well as costs for some EUUTs who will need to prepare audited accounts for the first time due to this measure.
Tax exempt recipients of distributions from EUUTs will no longer have to make an application to HMRC to recover tax, freeing them (and the EUUT) of an administrative burden. This is expected to save those investors £800,000 in annual costs of making those claims.
For NEUUTs with more than one exempt investor there will be one-off reorganisation costs. Some EUUTs will incur one-off costs arising from work required to prepare final trustee income pool computations. These one-off implementation costs are estimated to be approximately £1.4 million.
<table>
<tr><th></th><th>Cost</th><th>Time Period (yrs)</th></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£1.4 million</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£0.2 million</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£2.1 million</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>£0.9 million</td><td>5</td></tr>
<tr><td>Total Benefit (PV)</td><td>£3.8 million</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£1.7 million</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>£0.2 million</td><td>£0.9 million</td><td>-£0.7 million</td></tr>
</table>
</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td>There are resource implications in the HMRC directorates with policy responsibility for the legislation, and HMRC's Anti-Avoidance Group and operational teams in supporting the work.</td></tr>
</table>

	These will arise from providing guidance and advice to customers affected by the changes, and in dealing with applications for approval as EUUTs. There will be resource savings from removing the need to process tax repayment claims from exempt investors. Overall there is not expected to be any increase in resource requirement.
Other impacts	<u>Small firms impact test:</u> small firms will be affected to the extent that they form part of the population of affected trustees and trust administrators that have corporate form. However, as nearly all UUTs are expected to be approved EUUTs it is expected that they would benefit from the simplification and burden reduction effects of the measure. It is not possible to quantify this for small firms specifically but the resulting savings are included in the total noted under 'impact on business' above. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be assessed through monitoring information collected on tax returns and applications for approval as exempt UUTs to ensure that the proposed legislation is working in the way intended. HMRC and HM Treasury will also continue to liaise with industry from time to time to discuss the implementation of the proposed new rules as part of ongoing engagement with industry.

Further advice

If you have any questions about this change, please contact Wayne Strangwood on 020 7147 2545 (email: wayne.a.strangwood@hmrc.gsi.gov.uk).

Disclosure of Tax Avoidance Schemes

Who is likely to be affected?

Businesses who market, design or give advice about tax avoidance schemes and businesses and individuals who either use tax avoidance schemes, or are potential users of tax avoidance schemes.

General description of the measure

The measure will revise and extend the Disclosure of Tax Avoidance Schemes (DOTAS) regime to improve the information HM Revenue & Customs (HMRC) receives about both the detail of tax avoidance schemes, and the customers who use them.

Policy objective

This measure supports the Government's objectives for tackling tax avoidance and promoting fairness in the tax system. It does so by supporting HMRC's anti-avoidance strategy, which consists of preventing avoidance before it happens, detecting it early where it persists and countering it effectively by HMRC operational challenge. DOTAS is a key element of the detection strand of the strategy and also contributes to prevention.

Background to the measure

The measure was announced at Budget 2012 and was included in the consultation document *Lifting the Lid on Tax Avoidance* published on 23 July 2012.

The consultation closed on 15 October 2012 and a Summary of Responses was published on 11 December 2012 on the HMRC website.

There will be a further consultation on the draft secondary legislation in 2013.

Detailed proposal

Operative date

Regulation making powers will come into force on the date that Finance Bill 2013 receives Royal Assent.

Current law

DOTAS consists of a mix of primary and secondary legislation.

Part 7 Finance Act 2004 (Part 7) (consisting of sections 306 to 319) provides for certain persons to provide HMRC with information in relation to tax avoidance schemes falling within certain descriptions. Section 98C Taxes Management Act 1970 provides for penalties for persons who fail to provide the information required by Part 7.

The descriptions of schemes required to be disclosed to HMRC are prescribed in three sets of regulations, of which the most important (and the set affected by this measure) is the Tax Avoidance Schemes (Prescribed Descriptions of Arrangements) Regulations 2006, SI 2006/1543 (the Descriptions Regulations). The Descriptions Regulations prescribe the descriptions of schemes required to be disclosed in relation to income tax, capital gains tax and corporation tax. These descriptions are commonly referred to as 'hallmarks'.

The Tax Avoidance Schemes (Information) Regulations 2012, SI 2012/1836 (the Information Regulations) prescribe the information to be provided under Part 7 and the time limits for providing it. The Information Regulations consolidate earlier regulations which contained information powers.

Section 316 of Part 7 provides that HMRC may specify the form and manner in which the information is to be provided. HMRC does this in its published guidance.

Section 132A of the Social Security Administration Act 1992 provides for regulations to extend DOTAS tax legislation to National Insurance contributions (NICs).

The National Insurance Contributions (Application of Part 7 of the Finance Act 2004) Regulations 2012, SI 2012/1868 (the NICs Regulations) extend DOTAS tax legislation to NICs (in some cases with modifications) to the extent that it applies to income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to revise Part 7 to include two new information provisions that will be implemented through secondary legislation. Both concern the periodic information that promoters are required to provide to HMRC about clients (client lists).

The first provision concerns a requirement for the client to provide the promoter with information that can be subsequently included on the promoter's client list. HMRC will discuss with promoters the consequential changes required to the client list system.

The second provision is an information power that will enable HMRC to seek further information from a promoter where the client is an intermediary rather than the end user of the scheme.

The Information Regulations will be amended to prescribe the information to be provided under the new Part 7 provisions and the time limits for providing it. They will also be amended, using existing Part 7 provisions, following further consultation on draft regulations, to extend the information HMRC obtains about a disclosed scheme and scheme users.

The Descriptions Regulations will be amended, following further consultation on draft regulations, to revise and extend the hallmarks.

The NICs Regulations will be amended so that changes to tax legislation, to the extent they apply to income tax, will be extended to NICs and come into force at the same time.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. 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 only impact on those individuals and households who sell or use tax avoidance schemes. The main impacts on those individuals would be to report the use of a disclosed avoidance scheme to HMRC, normally by completing a box on the tax return, and to provide certain information to the scheme promoter.					
Equalities impacts	Analysis of persons reporting the use of a disclosable avoidance scheme indicates that the individuals affected will be predominantly males with an income in excess of £100,000. It is not expected that the policy would impact adversely or disproportionately on other equality groups.					

Impact on business including civil society organisations	HMRC receives disclosures of schemes from between 50 and 100 promoters (businesses) a year. The measure is not expected to increase that number significantly. It will impose some additional reporting obligations on those firms who are required to disclose, which will result in a negligible increase in ongoing administrative burdens. Businesses will face negligible one-off costs in familiarising themselves with the new regulations. There will also be a negligible impact on civil society organisations.
Operational impact (£m) (HMRC or other)	Dealing with additional scheme disclosures and reporting of information will have negligible impact on HMRC.
Other impacts	<u>Small firms impact test:</u> businesses of any size develop, market and use tax avoidance schemes. The Government expects this measure will have little, if any, impact on small businesses either in absolute terms (considering the overall effect on them) or in relative terms (considering the effect on specific businesses). Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC monitors the information it receives from promoters and users of disclosed tax avoidance schemes. HMRC checks that information for completeness and accuracy and seeks out non-compliance through a combination of monitoring of the market, intelligence, engagement with promoters and information from HMRC's compliance work. HMRC uses that information to inform DOTAS policy development.

Further advice

If you have any questions about this change, please contact Lesley Hamilton on 020 7147 2564 (email: lesley.hamilton@hmrc.gsi.gov.uk) or Philippa Staples on 020 7147 2444 (email: philippa.staples@hmrc.gsi.gov.uk).

HM Revenue & Customs

Abolition of income tax relief for patent royalties

Who is likely to be affected?

Individuals and other persons subject to income tax rules who claim relief for payments of patent royalties.

General description of the measure

The measure will introduce legislation to abolish the relief for payments of patent royalties.

Policy objective

This measure will support fairness in the tax system by protecting the Exchequer from potential loss of tax as a result of avoidance arrangements exploiting the relief. It will support HM Revenue & Customs' (HMRC) anti-avoidance strategy to protect revenues and deter and counter tax avoidance.

Background to the measure

The measure was announced on 5 December 2012.

Detailed proposal

Operative date

The measure will have effect for payments made on or after 5 December 2012.

Current law

Payments of patent royalties by individuals and other persons are relievable against other income of the same year in accordance with Chapter 4 of Part 8 of the Income Tax Act (ITA) 2007. The relief applies only to payments which are not deducted in calculating income tax liability from any source (for example, a trade).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Part 8 of ITA to abolish the relief.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013. 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 proposed change will impact only a small number of individuals and households who pay patent royalties other than as part of a trade or profession. The amount of additional administrative burden is thought to be negligible.					
Equalities impacts	The proposed change is not expected to have a disproportionate impact on any protected equality groups.					
Impact on business including civil society organisations	The measure is expected to impact on a handful of businesses that market avoidance and tax planning arrangements exploiting the relief, by closing such opportunities. The businesses will need to understand the effect of the changes to advise the small number of their clients that may be affected, but the Government believes that the change will not otherwise impact on their business operation. Overall, the impact to business and civil society organisations is expected to be negligible.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any significant additional costs or savings for HMRC or other public sector delivery organisation.					
Other impacts	<u>Small firms impact test:</u> Small firms are unlikely to be affected as patent royalties paid as part of a trade are deductible in computing the profits of that trade. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC will monitor income tax returns and avoidance disclosures to ensure that the legislation operates as intended.

Further advice

If you have any questions about this change, please contact Judith Diamond on 020 7147 3422 (email: judith.diamond@hmrc.gsi.gov.uk).

Bank levy amendments

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

This measure will put beyond doubt that foreign bank levies do not qualify as a deduction for UK corporation tax (CT) purposes. It will also make clear that where a claim for Bank Levy Double Taxation Relief has yet to be made relief will not be available as a deduction against UK CT if such a claim is made.

Policy objective

These changes will ensure equal treatment of bank levies whether they are raised by the UK or another State. They also ensure that relief may either be given via credit or a deduction but not both.

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.

Regulations concerning relief against double taxation in respect of the French and German bank levies were made on the 21 February 2012.

Detailed proposal

Operative date

The measure will have effect in relation to periods of account beginning before 1 January 2013 where claims for Bank Levy Double Taxation Relief in respect of those periods are made on or after 5 December 2012 and for periods of account beginning on or after 1 January 2013 otherwise.

Current law

A deduction for the UK Bank Levy is specifically denied by paragraph 46 Schedule 19 to the Finance Act 2011. Bank Levy Double Taxation Relief is governed by Part 7 of Schedule 19 to the Finance Act 2011.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to put beyond doubt that foreign bank levies will not be an allowable deduction for UK CT purposes. Legislation will also be introduced in Finance Bill 2013 to make clear that a deduction for UK CT purposes is not available where the expenditure relates to an equivalent foreign levy and a claim has been made for Bank Levy Double Taxation Relief in respect of that levy for the period in question.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	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 economic impacts.					
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 an impact on any of the protected equality groups.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. The measure clarifies that foreign bank levies do not qualify as a deduction for UK corporation tax purposes and will not create an additional administrative burden.					
Operational impact (£m) (HMRC or other)	There is not expected to be any operational impact from these proposals.					
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 firms impact test: The banks, building societies and banking groups affected by the Bank Levy are not considered to be small firms. 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. The Bank Levy will be reviewed in 2013 to make sure it is operating efficiently.

Further advice

If you have any questions about this change, please contact Anthony Fawcett on 020 7147 0654 (email: anthony.c.fawcett@hmrc.gsi.gov.uk) or Andrew Parkes on 020 7147 3427 (email: andrew.parkes@hmrc.gsi.gov.uk).

Corporation tax: mismatch schemes, property return swaps and manufactured payments

Who is likely to be affected?

Companies using avoidance schemes involving tax mismatches, property return swaps and manufactured payments.

General description of the measure

The measure blocks three avoidance schemes: a scheme using a partnership to avoid the group mismatch legislation, a scheme exploiting the property total return swaps legislation; and a scheme involving manufactured payments and loan write-offs.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system. The measure does this by preventing loss of tax through three avoidance schemes. It provides:

- that a tax advantage will be denied where a single company is involved in a mismatch scheme;
- that the property return swaps legislation will not apply where connected companies enter a swap, or where avoidance is involved, and that in other cases the capital gain for tax purposes will be limited by reference to the actual return made by a company; and,
- that manufactured payments will be taxed when a benefit is received in any form.

Background to the measure

This measure was announced on 5 December 2012.

No formal consultation is planned.

Detailed proposal

Operative date

The changes to the property return swaps legislation and the new tax mismatch legislation will apply to accounting periods beginning on or after 5 December 2012, with a period of account to be treated as beginning on that date.

The legislative changes to the manufactured payments legislation will apply in relation to dividends or interest paid on or after 5 December 2012.

Current law

Group mismatch schemes:
Section 938A Corporation Tax Act 2010 (CTA 2010) provides that losses and profits from group mismatch schemes are not to be brought into account as debits or credits for the purposes of Part 5 or Part 7 of the Corporation Tax Act 2009 (CTA 2009). Group mismatch schemes are defined in section 938B CTA 2010 which refers to a relevant tax advantage, and that advantage is defined in section 938D as an economic profit or loss that arises as a result of asymmetries in the way different members of the scheme group bring or do not bring amounts into account.

Property return swaps:
Section 641 CTA 2009 provides that certain derivative contracts are to be taxed on a chargeable gains basis including those covered by section 650 CTA 2009 (property based total return swaps). Section 650 defines the swaps which fall within that category and section 659 CTA 2009 sets out what part of the return from those swaps is to be charged as a capital gain. The credits and debits which are charged in that way are given by a formula which defines the capital return by reference to the percentage change in the capital value index used in the swap.

Manufactured payments:
Section 812 CTA 2010 provides that where a stock lending arrangement exists, but no provision is made for manufactured payments to be made which represent dividends or interest, then a manufactured payment is deemed to be made to the lender.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to make the following changes:

Mismatch scheme:
New sections 938O to 938V CTA 2010 will provide that a profit or loss is not to be brought into account where one company creates an economic profit as a result of asymmetries in the way it brings or does not bring debits and credits into account.

Property return swap:
Section 643 CTA 2009 will be amended so that contracts between connected persons cannot fall within that section. Section 650 will be amended so that contracts between connected persons, or contracts with the purpose of securing a tax advantage, cannot fall within that section. Section 659 will be amended so that capital returns will be calculated by reference to the actual return on the contract.

Manufactured payments:
Section 812 CTA 2010 will be amended so that where a stock lending arrangement exists and a provision is made so that the lender receives other benefits, including the release of a liability to pay any amount, as well as payments representing the dividend interest, then a manufactured payment is deemed to be made.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	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 impact.					
Impact on individuals and households	No impact is expected as these are avoidance schemes which are only used by companies					
Equalities impacts	No equalities impacts are expected.					
Impact on business including civil society organisations	This measure addresses avoidance using contrived schemes involving loan relationships and derivatives. These schemes constitute an unfair advantage and in removing that there will be no impact on the normal commercial transactions of businesses and civil society organisations. There will be no additional administrative burden on businesses undertaking normal commercial transactions.					
Operational impact (£m) (HMRC or other)	No operational impact is expected.					
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 020 7147 2818 (email: chris.murricane@hmrc.gsi.gov.uk) or Geoff Heaton on 020 7147 2577 (email: geoff.heaton@hmrc.gsi.gov.uk)

Withdrawing a notice to file a self assessment return

Who is likely to be affected?

Individuals, partnerships and trustees who are within the self assessment (SA) regime.

General description of the measure

This measure will allow HM Revenue & Customs (HMRC) to withdraw a notice to file a SA tax return in certain circumstances.

Policy objective

This measure supports the Government's objective of a fairer tax system. It will increase transparency and certainty for individuals and provide safeguards for both the individual and HMRC.

Background to the measure

This measure was announced at Budget 2012. HMRC has consulted on this measure: *Withdrawing a notice to file a Self Assessment Return* was published in May 2012.

A response document was published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

Following the introduction of the new late filing penalties, HMRC is, where appropriate, using its discretionary powers of collection and management to withdraw the notice to file a SA return and also using 'Special Reduction' to cancel any penalty due.under paragraph 16 to Schedule 55 Finance Act 2009. This approach enables HMRC to ensure that penalties are not levied where it is agreed that a SA return is not needed.

However this approach does not offer a long term solution. As the new penalties bed in the special circumstances required for 'Special Reduction' to apply will no longer exist.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to create a statutory power which will be used to improve the experience of individuals, partnerships and trustees by relieving them of the obligation of completing a SA return if HMRC agree they no longer need to be in SA for that year.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 impact.					
Impact on individuals and households	This measure would only impact on those individuals who meet the appropriate conditions so that they do not need to file a SA return. It would improve the individual's experience as it would release them from the administrative burden of completing a SA return for the year in question, and for later years unless their circumstances changed and they again needed to be in SA.					
Equalities impacts	Equality has been considered and there are no adverse impacts from introducing this measure on particular groups with different protected characteristics. It does not increase the incidence of taxation or place any new burdens on any particular group.					
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 result in changes to existing HMRC processes and IT systems depending on the extent to which the process is automated. It will have a negligible operational impact and the costs will be absorbed within existing business budgets.					
Other impacts	Small firms impact test: this measure will not lead to any additional burdens or compliance costs for small businesses. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be monitored and assessed as part of a wider evaluation of penalties.

Further advice

If you have any questions about this change, please send an email to tap@hmrc.gsi.gov.uk or contact Angela Roach on 020 7147 0002.

Securing compliance with real time information: penalties

Who is likely to be affected?

All employers (including pension providers and secondary contributors) operating Pay As You Earn (PAYE) who are required to make returns under real time information (RTI).

General description of the measure

This measure will introduce new penalties for RTI designed to encourage compliance with the information and payment obligations, whilst ensuring those who do not comply do not gain a significant advantage. The measure includes new late filing penalties for RTI returns, changes to the current late payment penalties to ensure they can be charged in-year, and to the inaccuracy penalties so they can be charged in a way that minimises the burden on employers and HM Revenue & Customs (HMRC).

This note should be read in conjunction with the RTI tax information and impact note (TIIN) which can be found on the HMRC website.

Policy objective

RTI requires employers operating PAYE to report information on employees' pay and deductions in real time. This will improve the quality of the PAYE information received by HMRC and so will, over time, bring benefits to employers, employees and HMRC. This data will be shared with the Department for Work & Pensions (DWP), allowing it to adjust Universal Credit payments in real time and contribute to the Government's objective of making work pay.

RTI is being designed to integrate with payroll processes, so making it as easy as possible for employers to meet their new obligation to tell HMRC about payments they make to their employees on or before the date the payments are made. Employers will continue to pay over to HMRC the sums deducted from their employees under the PAYE system monthly or quarterly. As with penalties across all tax regimes, these penalties are designed to encourage employers to comply with their legal obligations.

The RTI penalties build on existing models to ensure penalties are comparable across taxes and taxpayers, whilst taking account of the specific requirements of RTI. These models are designed to deliver fair, proportionate and effective penalties that deter non-compliance but do not create needless burdens for either employers or HMRC.

Background to the measure

This measure was announced at Budget 2012 and was subject to formal consultation for 12 weeks ending 6 September 2012.

A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The new late filing penalties and most of the changes to the late payment penalties will apply on and after 6 April 2014. One change to the late payment penalties and the changes to the inaccuracy penalties will have effect from the date when Finance Bill 2013 receives Royal Assent.

Current law

The current late filing penalties for PAYE are at section 98A Taxes Management Act 1970.

Late filing of an Employer Annual Return (P35 and P14s) attracts a penalty of £100 for each month or part month a return is late, and where the employer (PAYE scheme) has more than 50 employees the penalty rises by £100 for each batch, or part batch, of 50 employees. If the return is still outstanding at 12 months, then a further penalty not exceeding the amount due for the year but unpaid at 19 April can be applied.

The current law for PAYE late payment penalties is at section 107 and Schedule 56 to Finance Act 2009.

Under this model the employer's first failure to pay on time in a tax year does not count as a default so does not attract a penalty; 1,2 or 3 defaults during the tax year attract a penalty of 1 per cent of the amount of tax comprising those defaults; 4, 5 or 6 defaults attract a penalty of 2 per cent; 7, 8 or 9 defaults attract a penalty of 3 per cent; and 10 or more defaults attract a penalty of 4 per cent. If any amount is unpaid at the 6 or 12 month points a further penalty of 5 per cent of the unpaid amount arises.

The law for penalties for submitting inaccurate information is at section 97 and Schedule 24 to Finance Act 2007.

This requires HMRC to charge penalties for careless or deliberate inaccuracies on returns and other documents. The size of the penalty is determined by the amount of tax understated or overclaimed, the behaviour that led to the inaccuracy, and the nature and extent of any disclosure made by the taxpayer. Penalties assessed under Schedule 24 must refer to the tax period to which they relate.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to set out a new model for late filing penalties for RTI. Penalties will apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme so that different-sized penalties will apply to micro, small, medium and large employers. Filing defaults will apply each month and will depend on returns not being received. There will be one unpenalised default each year, with all subsequent defaults attracting a penalty. Penalties will be charged quarterly, and subject to the usual reasonable excuse and appeal provisions. The late filing penalty model includes an additional tax-geared penalty to apply, in appropriate cases, where a return is outstanding for three months or more. Regulations will be used to set the penalty rates, including any escalation in size for subsequent defaults.

Legislation will make the changes to the late payment penalty model to ensure it works effectively for RTI. The main changes will ensure penalties are based on the number of late payments relating to each tax year; ring-fence each penalty so that if further defaults arise earlier penalties do not have to be recalculated; and permit a penalty to be amended once it has been issued, rather than it having to be withdrawn and reissued. The Government may use regulations to apply a relief from late payment penalties if the sums paid by the employer do not exactly match the figures shown as deducted on the RTI returns for the relevant period.

Legislation will amend the inaccuracy penalties. The assessment provision will be amended to allow a tax year to be treated as a tax period for the purposes of Schedule 24 to Finance Act 2007. This change will reduce the number of separate penalty assessments that have to be issued where errors are found.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 will not directly impact individual employees; the late filing penalties are designed to encourage employers to provide timely information to HMRC. This information will then be used by DWP to support the operation of Universal Credit.					
Equalities impacts	Penalties are only applicable where there has been a failure to comply with legal obligations. The impact of the RTI obligations along with plans to mitigate the effects on protected equality groups have been published separately in the overarching RTI TIIN. It is possible that certain employers will find it more difficult to comply with the RTI filing obligation than others. In particular, some care and support employers (who are likely to be disabled and/or elderly) may be unable to file electronically. RTI includes the option of monthly paper filing for this group. The late filing and late payment penalty models both include an initial unpenalised default. The late filing penalty model includes smaller penalties for small employers, and applies only one penalty each month regardless of the number of returns due. Late payment penalties are based on the size of the late payment. These features should mitigate the impact of the penalties on smaller employers who pay their employees more frequently than monthly. In addition all employers can appeal against a penalty, and if they have a reasonable excuse for not meeting an obligation the associated penalty will be cancelled. The Government is also looking to support people online through the RTI communications programme. Many care and support employers may well be among those who opt to use the online system and therefore it will be no more burdensome for them to operate RTI than for other employers. The Government will continue to look at how best it can help the digitally excluded comply with RTI and have set up a working group with external representatives to consider these matters in more detail. There are no impacts on other protected equality groups.					
Impact on business including civil society organisations	This measure should have no impact on compliant employers or civil society organisations as penalties only affect those who fail to comply with their legal obligations. HMRC expect all employers to pay their tax in full and on time. However, we are aware that some employers currently use their PAYE deductions to ease their cashflow, paying over less than they should each month or quarter and making up the difference before the end of the tax year. If these employers wish to avoid late payment penalties under RTI they will need to pay over the full amount deducted each month on time. Therefore this measure may have an impact on the cashflow of some employers.					

Operational impact (£m) (HMRC or other)	There will be implementation and IT costs for HMRC with the new late filing penalty regime and updated late payment and error penalties for RTI. In making these proposals the Government has been mindful of the impact on both external customers and HMRC resources. When the final design is agreed, further work will be done, using HMRC's analysts' predictions of workloads and volumes, to quantify the operational impact.
Other impacts	<u>Small firms impact test:</u> The impact on small employers has been considered as part of the policy development process. Following consultation a late filing penalty model has been designed that includes: • a lower penalty for small employers; • an initial unpenalised default for all employers irrespective of size; and, • a system that only assesses one late filing penalty each month regardless of how many returns an employer needs to file. These features should particularly assist weekly payers and so help keep any late filing penalties proportionate for small employers. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored and assessed as part of the wider evaluation of the RTI programme.

Further advice

If you have any questions about this note please contact Stephanie Allistone on 020 7147 2394 for late filing and late payment penalties, and Pete Woodham on 020 7147 2573 for inaccuracy penalties (email : TAP@hmrc.gsi.gov.uk).

HM Revenue & Customs

UK-Swiss Confederation Taxation Cooperation Agreement: remittance basis

Who is likely to be affected?

Individuals who are resident but not domiciled in the UK and who are taxed on the remittance basis and have assets in Switzerland.

General description of the measure

This measure ensures that the policy objectives behind the original agreement are delivered in full. It will ensure that appropriate mechanisms are in place to ensure that levies received by HM Revenue & Customs (HMRC) under the agreement are not treated as taxable remittances where they are made by non-UK domiciled individuals resident in the UK.

Policy objective

The measure supports the Government's objective of addressing the long running problem of offshore tax evasion. The UK-Swiss Confederation Taxation Cooperation Agreement is due to come into effect on 1 January 2013 and is expected to raise significant sums for the UK Exchequer.

Background to the measure

The Government published this measure on 11 December 2012.

It will not be subject to formal consultation.

Detailed proposal

Operative date

The legislation will come into effect on the date that the UK-Swiss Confederation Taxation Cooperation Agreement comes into force. This is expected to be 1 January 2013.

Current law

Schedule 36 to Finance Act 2012 was introduced to bring into effect the necessary changes to UK law to allow implementation of the UK-Swiss Confederation Taxation Cooperation Agreement.

Where an individual who is taxed on the remittance basis makes a payment under the agreement using their untaxed foreign income and gains, that payment would under existing rules be treated as a taxable remittance under section 809L ITA 2007.

Where amounts are levied under the agreement, the legislation provides that UK residents will cease to be liable to UK tax on the underlying income and gains. This includes UK residents who are not domiciled in the UK who are taxed on the remittance basis.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the position outlined above so as to ensure that where levies are made under the terms of the agreement, those levies are not treated as remittances for UK tax purposes.

Where the levy relates to the past and the non-domiciled individual has opted for the self-assessment method of calculation, this measure will ensure that the levy itself will not constitute a taxable remittance to the UK.

These changes allow 45 days for the non-domiciled individual to inform their paying agent of the nature of any remittance. This will allow the correct amount of levy to be deducted and then transferred to the UK without that levy constituting a taxable remittance.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. This measure relates to the UK-Swiss Confederation Taxation Cooperation Agreement and the Exchequer impacts for the agreement 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	This measure is expected to have a negligible impact on individuals and households. The changes being made will impact only on individuals not domiciled in the UK who hold relevant assets in Switzerland and choose not to disclose those assets to HMRC under the terms of the UK-Swiss Confederation Taxation Cooperation Agreement.					
Equalities impacts	No impacts based on race, gender disability or other equality groups are anticipated.					
Impact on business including civil society organisations	This measure is not expected to have any impact on businesses or civil society organisations, as it only affects individuals.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs / savings for HMRC.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be kept under review through regular communication with the relevant customer fora and stakeholder groups.

Further advice

If you have any questions about this change, please contact David Lewis on 020 7147 2403 (email: david.e.lewis@hmrc.gsi.gov.uk).

Implementation of the UK-US Agreement to improve International Tax Compliance and to implement FATCA

Who is likely to be affected?

Anyone carrying on a business as a financial institution in the United Kingdom (UK). This includes companies, trustees, partnerships and authorised operators of funds.

General description of the measure

The measure implements the UK's international obligations under an Intergovernmental Agreement (IGA) entered into with the United States (US).

In 2010 the US introduced legislation to combat tax evasion by US persons. These provisions, known as the Foreign Account Tax Compliance Act (FATCA), require financial institutions outside the US to pass information about the accounts of US persons to the US tax administration, the Internal Revenue Service. Any financial institution that fails to comply with the US legislation is subject to a 30 per cent US withholding tax on any US source income.

UK data protection law currently precludes financial institutions from complying with the US requirements. However under the IGA, the UK has agreed to introduce legislation which will enable UK financial institutions to provide the data the US requires without breaching data protection restrictions. This is ensured by requiring the financial institutions to first pass the information to HMRC, who will then exchange it with the US, under the terms of the IGA as supplemented by existing tax information exchange arrangements. As a consequence, the US has agreed to carve out UK institutions from the US legislation and as part of the Agreement the US has agreed a simpler and less burdensome approach to compliance by the financial institutions and agreed to provide the UK with reciprocal data in respect of UK persons with US accounts.

The UK legislation that implements the UK's international obligations in the IGA will set out the reporting requirements on financial institutions, including the due diligence procedures they need to apply to identify and then report relevant account information.

Policy objective

There are two main policy objectives for this measure: to enhance HMRC's compliance activities (stemming from the additional data); and to assist UK financial institutions by addressing the legal issues preventing them from complying with the US legislation as well as reducing their compliance costs. Addressing the legal issues and providing a mechanism for UK financial institutions to supply the US with information it requires for its tax compliance purposes removes the threat of a 30 per cent withholding tax which would have had a significant negative impact on UK business - potentially leading to reduced lending and increased costs to customers.

Background to the measure

On 12 September 2012 the UK and the US signed an IGA which this measure implements.

HMRC launched a public consultation on 18 September on the practical implementation of the IGA. The consultation closed on 23 November 2012. The response to this consultation will be published on 18 December 2012.

Detailed proposal

Operative date

The measure will have effect after the date that Finance Bill 2013 receives Royal Assent.

Current law

Current law does not allow financial institutions to pass FATCA information either direct to the US or to HMRC on a voluntary basis, nor does it enable HMRC to require it.

Proposed revisions

Finance Bill 2013 will include a power to make regulations under which financial institutions will be required to identify prescribed information using specified due diligence procedures, and return that information annually to HMRC.

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><td>2017-18</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>+5</td><td>+55</td><td>+25</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">This measure will reduce the costs for financial sector companies in providing the information required by the US and alleviate the risk of suffering the 30 per cent withholding tax imposed by the US. By helping mitigate some of the most significant impacts of FATCA, the IGA will support lending in the sector, help keep customer costs down and thereby support economic growth.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">None except for impacts on those who evade tax.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">There are no impacts on any group which share protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">FATCA imposes new burdens on UK businesses in order to provide information relating to their US citizen customers to the IRS, but this measure will reduce both the number of businesses affected and numbers of accounts that need to be reviewed and, as compared with complying with FATCA itself, will significantly cut the costs of compliance for UK businesses.

The initial registration process is eased for UK businesses, making it quicker and easier for them to register with the IRS for FATCA purposes. The required due diligence processes in UK legislation will contain relaxations and alternative processes that will enable business to develop more tailored processes as they can build on existing business models and relationships with third party service providers. A new reporting process which will not commence until 2015 (in respect of data for 2013 and 2014), will be introduced to address the data protection issues that prevent UK business from complying with FATCA. This will enable UK businesses to report information to HMRC who will pass it onto the IRS thereby removing the withholding tax risk.</td></tr>
</table>

	Businesses will still incur the one-off costs already imposed by the US regulations as they will still need to familiarise themselves with the new rules, undertake a detailed risk assessment, acquire new IT systems, and establish internal systems to allow them to comply with their obligations. There remain on-going costs for these businesses, as they will still need to collect and report information on an annual basis. However, the removal of a large number of financial products from the scope of reporting and through obtaining exclusions for a large number of smaller financial entities will significantly reduce the overall costs incurred. HMRC will continue to consult with businesses to determine the level of these costs as part of the evaluation of the impact of this policy. These will feed into a full analysis of costs, once the business design for this policy has been finalised. At that time a revised tax information and impact note will be published.
Operational impact (£m) (HMRC or other)	Additional information exchange will impose increased costs on HMRC who need to collect and exchange the additional tax information as well as receive and process significantly more information.. While HMRC will build on the infrastructure already required to fulfil their existing agreement with the US, there will still be additional costs imposed. Furthermore, setting up a new team and new IT to ensure information is used effectively will also require additional investment. A full analysis of the ongoing impacts for HMRC will be established once the business design for this policy has been finalised and the impact fully evaluated.
Other impacts	<u>Small firms impact test</u>: the US provisions generally do not provide relaxations from the reporting requirements based on the size of a firm. To address a disproportionate administrative burden being placed on small UK financial institutions, the Government has from the start of this policy process consulted with small firms (and will continue to do so). As a result the Government has negotiated further exemptions and easements around reporting and registration for a large number of affected small businesses and reduced the number of reportable accounts that need to be reviewed. These should reduce the impact of FATCA on small firms significantly. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected as a result of the data exchange agreement with the US.

Further advice

If you have any questions about this change, please contact Malcolm White on 020 7147 0565 (email: malcolm.white@hmrc.gsi.gov.uk) or Neil Higgins on 020 3300 9109 (email: neil.higgins@hmrc.gsi.gov.uk).

Data-gathering from merchant acquirers

Who is likely to be affected?

Merchant acquirers.

General description of the measure

The measure will provide HM Revenue & Customs (HMRC) with a power to require merchant acquirers to provide bulk data about business taxpayers, in order to identify those who do not declare their full sales.

Policy objective

This measure will significantly improve HMRC's data-gathering to support more effective risk assessment of businesses and to create a fairer, more level playing field. Merchant acquirers process credit and debit card payments for merchants and retailers. The data that will be provided, covering the monthly totals paid to merchants, is expected to be of significant value in identifying businesses that do not declare their full sales, and activity in the hidden economy. It will enable compliance interventions to be better targeted on those who are underpaying tax, as part of HMRC's efforts to close the tax gap.

Background to the measure

Schedule 23 to Finance Act 2011 introduced a new framework for HMRC's data-gathering powers with effect from 1 April 2012, following two formal consultations. No formal public consultation on the detail of this current measure has taken place, but HMRC has been in direct consultation with those most affected in the industry.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent. The Government intends to put the necessary secondary legislation in place by autumn 2013, after which HMRC will issue notices requiring data from merchant acquirers.

Current law

Merchant acquirers are not explicitly specified as data-holders in Schedule 23 to Finance Act 2011 and due to their contractual arrangements, do not fall within any other categories of data-holder specified in Schedule 23.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Schedule 23 to Finance Act 2011 by adding merchant acquirers as a category of data-holders. This will allow HMRC to issue a notice to merchant acquirers requiring them to provide data.

Secondary legislation made under paragraph 1(3) of Schedule 23 will specify the relevant data that HMRC can require merchant acquirers to provide. This will be information about credit and debit card sales made by retailers, and the retailers' name, address, VAT number if available, and bank account details. It will not identify the details of the credit or debit card holder, just the total sales made by particular businesses in each month. These will be used by HMRC to cross check against VAT registrations and business income declared on tax returns.

The safeguards in Schedule 23 Finance Act 2011, including the right of appeal, will apply to notices issued to merchant acquirers as they do to all other types of data-holder.

These proposals will provide HMRC with third party information of a high quality, in a form that can be used effectively. By connecting this with data already held, HMRC expects to be able to carry out compliance checks that are more accurately targeted on the areas of highest risk, and which can be concluded more quickly. This should result in a higher yield from checks that require less time.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 economic impacts.					
Impact on individuals and households	The measure is not expected to have any impact on individuals or households. HMRC will not be gathering data relating to card holders.					
Equalities impacts	The measure is not expected to have an equalities impact.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. Merchant acquirers will incur an additional administrative burden in providing HMRC with information. There will also be a negligible one-off cost to businesses as they familiarise themselves with this policy. Businesses not declaring their full income, or trading in the hidden economy, can expect to face greater scrutiny as a result of this measure, but this will have no impact on businesses undertaking normal business transactions.					
Operational impact (£m) (HMRC or other)	The data will enable HMRC to improve its compliance work in identifying businesses suppressing their income or operating in the hidden economy. The overall HMRC operational impacts are considered as negligible and will be managed within the existing resources.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored by HMRC, making use of the data obtained under the proposed legislation.

Further advice

If you have any questions about this change, please contact George Margesson on 020 7147 3069 (email: george.margesson@hmrc.gsi.gov.uk).

Overpayment relief: limiting the effect of prevailing practice and timing of loss mistakes

Who is likely to be affected?

Taxpayers claiming overpayment relief where tax overpaid has been levied contrary to EU law or where losses have been understated.

General description of the measure

This measure amends legislation to confirm that where tax was levied contrary to EU law, overpayment relief will not be affected by any prevailing practice. It also amends the four year time limit for overpayment relief claims to make clear that the four years run from the period to which the mistake relates.

Policy objective

The policy objective is to ensure that overpayment relief is fully compliant with EU law so that persons who have paid tax levied contrary to EU law know they must apply for relief through an overpayment relief claim. The measure also makes clear that all claims to overpayment relief arising from a mistake in a return run from the period in which the mistake in a return arose.

Background to the measure

This measure puts in statute the treatment of overpayment relief claims for tax levied contrary to EU law that was previously set out in Revenue & Customs Brief 22/10. The second part of the measure clarifies the claims period for overpayment relief.

Detailed proposal

Operative date

These changes will have effect for claims received on and after the end of the six month period following Royal Assent to Finance Bill 2013

Current law

This measure affects the overpayment relief provisions in Schedule 1AB to Taxes Management Act 1970 (TMA) (income and capital gains tax), Schedule 18 to Finance Act 1998 (FA 1998) (corporation tax), Schedule 2 to Oil Taxation Act 1975 (OTA 1975) (petroleum revenue tax) and Schedule 10 to Finance Act 2003 (FA 2003) (stamp duty land tax). These provisions allow repayments or reductions in assessments if taxpayers have overpaid or been over assessed to direct tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove the restriction for claims where the overpaid or over assessed tax has been paid in accordance with the practice generally prevailing for claims where the tax has been levied contrary to EU law. For claims to overpayment of income tax, capital gains tax, corporation tax and petroleum revenue tax the time limits for claims where a person has been assessed as liable to pay an amount of tax will run from the period to which the return containing the mistake relates.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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	This measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure amends the legislation in line with published guidance and what we consider to be current practice. Accordingly this measure is not expected to have any significant impact on individuals or households.					
Equalities impacts	No equalities impacts are expected.					
Impact on business including civil society organisations	This measure amends the legislation in line with published guidance and what we consider to be current practice. We expect a small number of businesses could be affected by the time limit measure which could reduce claims for over assessed tax. However, the overall impact on business or civil society organisations is not expected to be significant.					
Operational impact (£m) (HMRC or other)	Operational impacts are considered to be negligible and may allow scope for some small administrative saving.					
Other impacts	Small firms impact test: there will be a negligible impact on businesses, some of which will be small firms. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored as relevant litigation clarifies the likely risks.

Further advice

If you have any questions about this change, please contact Adrian Wilsdon on 020 7147 2359 (email: adrian.wilsdon@hmrc.gsi.gov.uk) or Nick Mosley on 03000 572 490 (email: nick.mosley@hmrc.gsi.gov.uk).

Criminal investigations: powers of HM Revenue & Customs

Who is likely to be affected?

This measure only applies to persons under investigation for suspected tax fraud.

General description of the measure

HM Revenue & Customs (HMRC) has criminal asset recovery powers under the Proceeds of Crime Act 2002 (POCA) but some of these powers in respect of former Inland Revenue (IR) functions can only be exercised by the police on HMRC's behalf. This presents a potential loss of revenue to the Exchequer where HMRC are unable to exercise the powers during a search where the police are not present. This measure aims to correct this anomaly by bringing those powers in-house.

Policy objective

This measure continues previous work to deliver an integrated statutory framework by aligning HMRC's criminal investigation powers across regimes and across the UK.

Background to the measure

When the IR and HM Customs and Excise (C&E) merged in 2005 legislation in the Commissioners for Revenue and Customs Act 2005 (CRCA) prevented the automatic transfer of powers from one regime to another.

Following the HMRC Powers Review, most of the powers were harmonised when the Police and Criminal Evidence Act (PACE) replaced former IR and C&E powers in England, Wales and Northern Ireland (FA 2007), and by amendments to the Criminal Law (Consolidation) (Scotland) Act 1995 for Scotland. The POCA powers were not included in the Powers Review.

The measure was announced at Budget 2012.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

The POCA cash search and seizure powers are contained within sections 289 and 294. The investigatory powers for England and Wales and Northern Ireland are sections 345 (production orders), 352 (search and seizure warrants), 363 (customer information orders), and 370 (account monitoring orders). In Scotland the corresponding investigatory powers are sections 380 (production orders), 387 (search warrants), 397 (customer information orders), and 404 (account monitoring orders).

The restriction on the use of these powers by HMRC for former IR functions is contained within CRCA section 7. Consequently the powers have to be exercised by the police on HMRC's behalf in relation to former IR functions.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to enable officers of HMRC to use these powers for former IR functions.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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	This measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This measure harmonises HMRC's powers across its functions. There will be no increase in the number or scope of HMRC investigations; therefore there will be no additional impact on individuals and households.					
Equalities impacts	This measure transfers powers from the police to HMRC. It will not affect the number of people under investigation for suspected fraud. It will not therefore have any impacts on protected equality groups.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations as it only applies to individuals.					
Operational impact (£m) (HMRC or other)	The additional costs or savings for HMRC in implementing this change are anticipated to be negligible. In a small number of suspected tax fraud cases the police will no longer need to act on behalf of HMRC. The rationalisation of tax fraud investigations may generate a small benefit in terms of reduced policing effort.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

As this measure corrects a residual operational anomaly the impact will be monitored as part of ongoing HMRC compliance activity.

Further advice

If you have any questions about this change, please contact Alinda Howland on 020 7147 0511 (email: alinda.howland@hmrc.gsi.gov.uk) or contact Andrew Watson on 020 7147 2461 (email: andrew.p.watson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Powers to detain goods

Who is likely to be affected?

Individuals and businesses involved in smuggling goods into the United Kingdom and diverting them onto the UK market without payment of the correct amount of duty.

General description of the measure

The new measure will make explicit provision for the detention of things on reasonable grounds to suspect that they may be liable to forfeiture.

Policy objective

This measure will strengthen HM Revenue & Customs' (HMRC) powers to detain goods on reasonable grounds pending investigation of their duty status. It will also clarify the law in respect of our powers and put beyond doubt our ability to detain goods that officers suspect are liable to forfeiture.

This measure will also provide statutory safeguards and allow the goods to remain in place when detained, minimising disruption to businesses.

Background to the measure

The proposal was originally announced in August 2011 when HMRC issued a consultative document entitled *Modernising Customs and Excise Law*. It was then announced, in more detail, at Budget 2012.

Detailed proposal

Operative date

The measure will take effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

The Customs & Excise Management Act (CEMA) 1979, s139 and Schedule 3 to that Act. sets out the provisions to allow goods to be seized and detained. It also sets out the circumstances where the power can be exercised by other, including police officers and the coastguard.

The Finance Act 1994, sections 9 and 10 allow for a penalty to be effected if goods, detained in situ, are removed. Section 10 allows for the tribunal to take any reasonable excuse into account. This would apply irrespective of whether the goods were in fact liable to forfeiture. The penalty will be 'duty geared' to the equivalent amount of 100 per cent of the duty. Those liable to a penalty will be able to appeal if they have a reasonable excuse.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 139 of CEMA and insert a new Schedule to provide for the detention of things on reasonable grounds to suspect that they may be liable to forfeiture.

The legislation will also introduce statutory safeguards by way of time limits and an appeal mechanism. The proposed safeguards include an initial period of detention of 30 days. At the end of the 30 day period, the thing will be deemed to be seized as liable to forfeiture. The rights of appeal under Schedule 3 of CEMA will then be engaged.

This measure will also allow the things to be detained and, with the agreement of a person responsible, remain at the place where it is first detained rather than being removed and detained elsewhere. An amendment will be made to the Finance Act 1994, section 9 to legislate for a civil penalty, equivalent to 100 per cent of the duty value of the goods, for the removal of detained goods without authority. This would apply irrespective of whether the goods were in fact liable to forfeiture and will be an appealable decision.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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	There will be no significant economic impact.					
Impact on individuals and households	There is no significant impact on compliant individuals and householders. Those who feel that the detention is not lawful can engage the appeal mechanism. The civil penalties are also appealable.					
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	There is no significant impact on compliant businesses, including civil society organisations. Those who feel that the detention is not lawful can engage the appeal mechanism. The civil penalties are also appealable.					
Operational impact (£m) (HMRC or other)	Costs will be negligible with only minimal spend on communications to business and the general public. This measure will support the Alcohol and Tobacco Strategies. The loss to the Revenue of non-payment of duty on beer and spirits was estimated to have an upper limit of £5 billion over a five year period.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

It is acknowledged that careful monitoring is needed to ensure broad equity of treatment. This will be done through well established appeal provisions, which will apply and will, by being brought within the Tribunal & Magistrates' domain, be fully subject to judicial oversight. The Magistrates Court will not condemn goods if they believe that the seizure is illegal. The Tribunal has power to quash or vary a penalty if they think HMRC has been unreasonable or if there was a reasonable excuse for the failure.

Further advice

If you have any questions about this change, please contact Karen Rourke on 01702 361934 (email: karen.rourke@hmrc.gsi.gov.uk).

Customs penalties: fines on ships

Who is likely to be affected?

Responsible officers of ships (including masters and boatswains) and shipping lines.

General description of the measure

The measure increases the level of the financial penalties that can be imposed by HM Revenue & Customs (HMRC) under section 143 of the Customs and Excise Management Act 1979 (CEMA). Section 143 applies to ships of 250 tons register and over, where a responsible officer has been complicit or negligent in respect of customs or excise offences committed on board their ship.

Policy objective

This measure creates an effective deterrent to smuggling by ships' crews and thereby contributes to HMRC's strategic objectives to maximise revenue flows.

Background to the measure

The maximum level of the penalties has been the same since 1952 and their real value has been eroded by inflation.

This measure was included in the customs law modernisation consultation document published in August 2011 and attracted very little attention.

The measure was announced at Budget 2012.

Detailed proposal

Operative date

The measure will have effect from the date that Finance Bill 2013 receives Royal Assent and will apply to offences committed on and after Royal Assent of the Finance Bill.

Current law

Under section 141 CEMA, ships of less than 250 tons register, if used for smuggling, are liable to forfeiture.

Section 142 of CEMA provides that larger ships are liable to forfeiture only if the smuggling was substantially the object of the voyage or if the ship failed to bring to when properly summoned to do so by a vessel in Her Majesty's service.

Section 143 of CEMA provides for the imposition of financial penalties where vessels of 250 tons or more have been used in connection with customs or excise offences but, by virtue of section 142, may not be forfeited. To trigger such a penalty a responsible officer of the ship must have been involved in the offence, either by his own act or through neglect. This could include cases where:

- members of the crew have brought on board, concealed or landed excise goods in such quantities that the master or other responsible officer must have turned a blind eye to the activity or been negligent in his supervision of the crew; and,
- excise goods are issued to crew members from the duty-free ship's stores, in quantities exceeding what would be consistent with on-board use.

Section 143(1) of CEMA currently provides for a non-appealable penalty, not exceeding £50.

Section 143(3) provides for a penalty of up to £500, if £50 would be inadequate. The higher penalty can only be imposed by a magistrate and requires HMRC to bring 'condemnation' proceedings.

In practice, such cases do not go before the magistrates because they are always settled out of court.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to replace the two penalties with a single penalty of up to £10,000 (being the current equivalent of £500 in 1952). As with the former £500 maximum penalty, the process for imposing the penalty will be by way of condemnation proceedings before a magistrate. The legislation will also provide for future changes to the maximum penalty to be made by secondary legislation.

Amendments will also be made to the definition of responsible officer in section 143 to add bosuns, remove ‘the serang’ and ensure that persons ‘acting as’ any of the listed persons are included.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 have no impact on the compliant. It will though provide a more effective deterrent to smugglers of revenue goods and encourage responsible officers and shipping lines to exercise more robust controls on their staff.					
Equalities impacts	There are no impacts on the protected characteristics in the Equality Act 2010.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. Businesses will face one-off costs in familiarising themselves with the new legislation. There are no changes in ongoing administrative burdens. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be no operational impact on HMRC. The current fines are issued by the UK Border Force. The larger fine should have a deterrent effect and may reduce their workload.					
Other impacts	Small firms impact test: Testing has been carried out and there is no impact on compliant small firms. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The UK Border Force keep records of the penalties that are imposed under section 143 and will review these regularly to monitor the impact of this measure.

Further advice

If you have any questions about this change, please contact Anne Treadaway on 020 7147 0337 (email: anne.treadaway@hmrc.gsi.gov.uk).

Customs powers: definition of goods

Who is likely to be affected?

All those involved in importing and exporting goods into or from the UK.

General description of the measure

This measure amends the current definition of ‘goods’ in section 1 Customs and Excise Management Act 1979 (CEMA) to make clear that it includes containers. This will ensure that items such as packages of commercial documents, containers containing live animals and containers containing human remains are within the scope of the Commissioners’ powers as they apply to ‘goods’.

Policy objective

This measure puts beyond doubt that officers' powers to search, examine and require information include any container. The strengthening of these powers contributes to the reduction of the tax gap.

Background to the measure

The proposal was included in the customs law modernisation consultation document published in August 2011 and attracted very little attention.

The measure was announced at Budget 2012.

Detailed proposal

Operative date

The measure will have effect on and after the Royal Assent of the Finance Bill 2013.

Current law

Many customs powers in CEMA relate to ‘goods’. This is defined in CEMA s1 as including ‘stores and baggage’. This is not an exhaustive definition and in a number of areas questions have arisen as to whether something is or is not ‘goods’.

Key sections are:

s28(1) (powers of access etc.);
s77(1) and (2) (information powers);
s159 (powers to examine and take account of goods); and,
s163 (power to search vehicles).

It is not clear currently whether the powers extend to items such as commercial documents, human remains, live animals and empty containers.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to clarify the definition in CEMA s1 by replacing 'baggage' with 'containers'.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	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 have no impact on the compliant.					
Equalities impacts	There are no impacts on the protected characteristics in the Equality Act 2010.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. Businesses will face one-off costs in familiarising themselves with the new legislation. There are no changes in ongoing administrative burdens. This measure is expected to have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	There will be no operational impact on HM Revenue & Customs. The current fines are issued by UK Border Force. The larger fine should have a deterrent effect and may reduce their workload.					
Other impacts	Small firms impact test: there is no impact on compliant small firms. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

There will be ongoing monitoring of challenges to our measure to assess its effectiveness.

Further advice

If you have any questions about this change, please contact Anne Treadaway on 020 7147 0337 (email: anne.treadaway@hmrc.gsi.gov.uk).

Tax amendments arising from the introduction of the Personal Independence Payment and the Armed Forces Independence Payment

Who is likely to be affected?

People who, from 1 April 2013, will be in receipt of either of the Personal Independence Payment (PIP) or the Armed Forces Independence Payment (AFIP) in addition to parents, guardians and carers of children and dependant adults in receipt of PIP and businesses that purchase cars for hire to disabled persons.

General description of the measure

These measures add references to newly introduced welfare benefits to existing tax legislation so that they are included as criteria for the receipt of certain reliefs and support.

Policy objective

The Government is reforming the welfare system by introducing the new Universal Credit. As part of these reforms, the Department of Work & Pensions (DWP) is introducing PIP and the Ministry of Defence (MoD) is introducing AFIP, both with effect from 1 April 2013.

As a result of the changes, tax legislation needs to be amended to include references to these new benefits so that new and continuing recipients and claimants of the tax reliefs and supports are both eligible for the same reliefs and supports. Amendments are being made to the income tax exemption for employer-supported childcare for disabled children; capital allowances (CA), insurance premium tax (IPT) and to VAT.

Background to the measure

The Welfare Reform Act 2012 introduced the new PIP benefit which will be phased in gradually with effect from 1 April 2013.

HM Revenue & Customs (HMRC) announced tax changes consequential to the introduction of PIP in Budget 2012.

The MoD announced the introduction of the new AFIP benefit (for armed forces personnel injured in action since 2006) in summer 2012.

Detailed proposal

Operative date

The measures in relation to CA, IPT & VAT will have effect on and after 1 April 2013. Changes to the definition of a disabled child for employer-supported childcare will take effect on and after the date that Finance Bill 2013 receives Royal Assent.

Current law

<u>Income tax exemption for employer supported childcare for disabled children:</u> the income tax exemption for employer supported childcare normally lasts until the end of the first week in September following the child's 15th birthday. For disabled children, the tax exemption is extended until the first week in September following the child's 16th birthday. Section 318B(3) of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) sets out a number of criteria by which a child may be regarded as disabled. Section 318B(3)(a) refers to disability living allowance (DLA) being payable to the child as one of those criteria.

CA: the Capital Allowances Act 2001 provides certain benefits where cars are hired to disabled persons in that such cars can be treated as short life assets (SLA). The SLA regime enables tax allowances to be brought into line with the actual depreciation of plant or machinery when an item is scrapped or sold with eight years of its acquisition. This may provide an advantage compared with assets which cannot be treated as SLAs. The definition of a “disabled person” for capital allowances purposes is based on the receipt of certain types of allowances, including DLA.

IPT: Paragraph 3 of Part 1 of Schedule 7A to the Finance Act 1994 allows IPT exemption for premiums received under insurance contracts providing cover in relation to motor vehicles leased by disabled drivers who are in receipt of the mobility component of the DLA.

VAT reduced rate: note 6(2) to Group 3 of Schedule 7A to the Value Added Tax Act 1994 (VATA) allows a reduced rate of VAT at 5 per cent for supplies of grant funded installation of heating equipment or security goods or connection to a gas supply if the recipients of the supplies are in receipt of the DLA.

VAT zero rate: item 14 of Group 12 of Schedule 8 to the VATA provides for the zero rating of supplies of the letting on hire of a motor vehicle to disabled persons who are in receipt of the DLA. Additional references to DLA are made in the Notes 6(b) and 7(a) to Group 12.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to effect the following changes:

Income tax exemption for employer supported childcare for disabled children: Section 318B(3)(a) ITEPA will be amended to include a reference to PIP as well as the existing reference to the DLA.

CA: Legislation will be introduced in Finance Bill 2013 to extend the definition of a disabled person for capital allowances purposes to include reference to recipients of PIP or AFIP with effect from 1 April 2013.

Secondary legislation will be introduced as follows:

IPT: an affirmative Treasury Order made under section 71 of the Finance Act 1994, to make the necessary consequential amendments to Paragraph 3 of Part 1 of Schedule 7A to the Finance Act 1994 to include references to PIP and AFIP.

VAT reduced rate: a negative Treasury Order under section 29A(3) VATA to make the necessary consequential amendments to Note 6(2) to Group 3 of Schedule 7A VATA to include references to PIP and AFIP.

VAT zero rate: a negative Treasury Order under section 30(4) VATA to make the necessary consequential amendments to Item 14 of, and Notes 6(b) and 7(a) to, Group 12 of Schedule 8 VATA to include references to PIP and AFIP.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	These measures are expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	These measures are not expected to have any significant economic impacts.					

Impact on individuals and households	Income tax exemption for employer supported childcare: it is estimated that some 50 individuals who would have received relief beyond their disabled child's 16th birthday will not do so as a result of the change from DLA to PIP. For a basic rate taxpayer receiving vouchers the impact would be £17.60 a week. CA: CA can only be claimed on qualifying expenditure incurred by business. The amendment to the definition of a disabled person for capital allowances purposes therefore should have no direct impact on households. IPT & VAT: Some individuals who could have qualified for or are currently receiving DLA will no longer receive DLA and may not qualify for PIP. In these cases those affected will no longer be eligible to receive the benefit of the reductions, zero rates and exemptions.
Equalities impacts	These measures will have an effect upon some disabled individuals as part of the Government's wider reform of the welfare system. Some disabled individuals who could have qualified for or are currently receiving DLA will no longer receive DLA and may not qualify for PIP. Such individuals will no longer be eligible to receive the benefit of reliefs and supports affected by these measures. Those armed forces personnel who may be affected will now qualify for the separate AFIP and will be entitled to the benefit of these measures. It is expected that as part of the overall changes to the welfare system, approximately 500,000 disabled individuals will no longer receive either DLA or PIP. HMRC are not able to analyse more precisely how individuals may be affected. No other equality impacts for these measures are anticipated.
Impact on business including civil society organisations	Overall, these measures are expected to have a negligible impact on business and civil society organisations.
Operational impact (£m) (HMRC or other)	The changes are not expected to have an impact on HMRC's operations.
Other impacts	Small firms impact test: impacts on small firms have been considered and these are anticipated to be negligible. Other impacts have been considered and none have been identified.

Monitoring and evaluation

These measures will be monitored and assessed by the relevant departments (DWP and MoD) as part of their evaluation of the Government's package for welfare reform.

Further advice

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

IPT- Helen West 020 7147 0602 (email: helen.west@hmrc.gsi.gov.uk).

VAT Reduced Rate - John Egerton 020 7147 0238 (email: john.egerton@hmrc.gsi.gov.uk).

VAT Zero Rate - Michelle Stokell 020 7147 3967 (email: michelle.stokell@hmrc.gsi.gov.uk).

Employer supported childcare for disabled children - Su McLean-Tooke 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

CA - Andrew Donaldson 020 7147 2282 (email: andrew.s.donaldson@hmrc.gsi.gov.uk)

Vehicle Excise Duty disability exemption

Who is likely to be affected?

People of working age (16-65) that are currently receiving the mobility components of the Disability Living Allowance (DLA).

General description of the measure

From April 2013 this measure provides tax support through an exemption from Vehicle Excise Duty (VED) to working age people receiving the enhanced mobility element of Personal Independence Payment (PIP), and tax support through a 50 per cent discount on VED to recipients of the standard mobility element of PIP.

Policy objective

The Government's aim is to ensure that the tax system provides support for people with serious mobility impairments to lead full, active and independent lives.

Background to the measure

At Spending Review 2010, the Government committed to reform DLA for working-age individuals by introducing an objective assessment (i.e. a medical gateway). Introducing a medical gateway brings working age DLA into line with other benefits. The new benefit is called Personal Independence Payment.

PIP was legislated for within the Welfare Reform Bill. From April 2013, PIP will be introduced for new claims in Merseyside, North West England, Cumbria, Cheshire and North East England, and will be rolled out nationwide from June 2013.

For existing claimants, there will be no automatic transfer from DLA to PIP. The Department for Work and Pensions will write to claimants early in 2013 setting out the reassessment process.

Detailed proposal

Operative date

The measure will have effect on and after 8 April 2013.

Current law

Schedule 2 of the Vehicle Excise and Registration Act 1994 confers exemption from paid rates of VED to people in receipt of the higher mobility component of DLA.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Schedule 2 of the Vehicle Excise and Registration Act 1994 to confer exemption from paid rates of vehicle excise duty (VED) on receipt of enhanced mobility PIP and to amend Schedule 1 of the Act to confer a 50 per cent discount on receipt of standard mobility PIP.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to have little impact on revenue. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This policy increases the number of disabled people eligible for tax support, as under DLA only those on the higher mobility component are eligible. Around 1 million working age people are currently eligible for the VED exemption. Some of these people could move from exemption to instead being eligible for 50 per cent discounted rates of VED. It is expected that the discounted rates will provide new support to additional people for the first time. Further information on the expected number of PIP claimants is being published by the Department for Work and Pensions. Individuals receiving the full exemption will benefit by an amount between nil and £475 per annum, depending upon the tax class of their vehicle. The average benefit for those receiving a 50 per cent discount is expected to be around £85.					
Equalities impacts	This policy increases the number of disabled people eligible for tax support, as under DLA only those on the higher mobility component are eligible. Existing pensioners on standard mobility DLA will not be reassessed for PIP and are not eligible for additional mobility reassessments in DLA once over 65. Some people may have continued access to the percentage discount when retaining payment of a working age PIP award into a future retirement.					
Impact on business including civil society organisations	Overall, this measure is expected to have a negligible impact on business and civil society organisations. The negligible one-off costs are time spent familiarising with the fact that not all those claiming mobility element of the benefit will be entitled to the VED exemption. The negligible ongoing cost is of the process for those drivers involved in paying VED for the first time. The Motability charity supplies cars to mobility impaired drivers under hire purchase agreements financed by surrendered payments of higher mobility component DLA. Motability annually applies in bulk for Vehicle Excise Duty exemption on behalf of its customers, aiding efficient tax administration and reducing claimants' burdens. This tax relief process will be maintained for people that surrender enhanced mobility PIP to finance a Motability car.					
Operational impact (£m) (HMRC or other)	The Driver and Vehicle Licensing Agency administers VED on behalf of the exchequer. Introducing the rates discount will require changes to tax systems at a one-off cost of between £5 million and £10 million. A substantial volume of the exemption applications will continue to be processed in bulk in partnership with Motability.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package for welfare reform.

Further advice

If you have any questions about this change, please contact Andy West on 020 7270 4697 (email: andy.west@hmtreasury.gsi.gov.uk).

Vulnerable beneficiary trusts

Who is likely to be affected?

Those setting up, administering or benefiting from a trust where the beneficiary is in receipt of the care component of disability living allowance (DLA).

General description of the measure

This measure change the tax legislation relating to vulnerable beneficiary trusts ensuring that the tax benefits for these trusts are appropriately targeted following the introduction of the Welfare Reform Act (WRA) 2012.

Policy objective

The current tax definition of a vulnerable beneficiary relies in part on whether they are in receipt of DLA. The WRA 2012 begins the replacement of DLA with the Personal Independence Payment (PIP) and this measure ensures that the definition remains the same as far as possible.

Additionally, the qualifying conditions that limit how trustees can apply the trust capital and income are being harmonised to make the rules easier to understand and use.

Background to the measure

HM Revenue & Customs (HMRC) consulted on changes relating to vulnerable beneficiary trusts from 17 August to 8 November 2012.

Detailed proposal

Operative date

The measure will have effect from 8 April 2013. Transitional arrangements will be provided where a trust ceases to be a qualifying vulnerable beneficiary trust by reason only of the revised income and capital conditions.

Current law

A qualifying vulnerable beneficiary includes, amongst others, a person in receipt of DLA by virtue of entitlement to the care component at the higher or middle rate.

Two different conditions limit how the capital in a vulnerable beneficiary trust is applied and one of two different conditions limits the application of income.

For capital, the trust must ensure that either not less than half the property that is applied during the relevant person’s lifetime is applied for that person’s benefit; or if any of the settled property is applied while the relevant person is living (or, where applicable, is under the relevant age) it is applied for the benefit of the relevant person.

For income, the trust must ensure either that the relevant person is entitled to not less than half of the income arising from the settled property; or that no such income may be applied for the benefit of any other person; or that during the relevant person’s lifetime (or relevant period, as applicable) either that that person is entitled to all of the income arising from any of the settled property; or that no such income may be applied for the benefit of any other person.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend, for the purposes of vulnerable beneficiary trusts, the definition of a qualifying person to include those in receipt of PIP by virtue of entitlement to the daily living component at either the standard or enhanced rate.

Legislation will also be introduced in Finance Bill 2013 to harmonise the capital and income rules so that the capital or income is applied for the benefit of the vulnerable beneficiary. However, trustees will be able to apply small amounts of income and capital without having to prove that it is for the benefit of the vulnerable beneficiary. Secondary legislation will confirm this amount to be the lower of £3,000 or 3 per cent of the trust fund each year. There will be no roll-over of unused amounts.

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><td>2017-18</td></tr>
<tr><td>-</td><td>nil</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. Any impact will be set out at Budget 2013.</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">For some new trusts established from April 2013 the change in definition may have a direct impact on the settlor and trustees and an indirect impact on the beneficiary. To the extent that the beneficiary meets the current qualifying conditions but not the replacement conditions there will be a negative impact; inheritance tax may become payable for those affected by the change, and capital gains tax and income tax advantages may be unavailable. The number of these trusts set up each year which will be affected by the change will be very few in number. Transitional arrangements will ensure there is no impact where existing trusts fail to meet the new income and capital conditions.

There is a potential positive impact for those able to benefit from the provision allowing trust funds to be used in a restricted way without affecting the tax status of the trust.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The consultation asked what adverse impacts the then proposals would have on the equality groups and how they could be mitigated.

Two protected characteristics affected by this measure were identified: disability and age.

This measure mitigates the impacts by:

• extending the definition of a vulnerable beneficiary to include all trusts with beneficiaries in receipt of the daily living component of PIP at the standard or enhanced rate: the expected number of claimants in 2015-16 is expected to be approximately 1,230,000 compared to a projected 1,310,000 claimants of the DLA care component at the middle or higher rate;

• maintaining the mental incapacity test; and,

• maintaining eligibility for beneficiaries in receipt of attendance allowance.</td></tr>
</table>

	There are no other envisaged impacts affecting groups which share protected characteristics.
Impact on business including civil society organisations	This measure is not expected to impact on businesses or civil society organisations, because it only relates to individuals and trusts.
Operational impact (£m) (HMRC or other)	None of any significance. HMRC will be applying one set of criteria rather than another and the number of claimants to be checked is expected to be broadly similar.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored by tracking the number of trusts claiming the vulnerable beneficiary election relief against CGT or income tax.

Further advice

If you have any questions about this change, please contact Usman Nizami on 020 7147 0046 (email: usman.nizami@hmrc.gsi.gov.uk).

HM Revenue & Customs

Childcare: changes to the value of the exemption for employer-supported childcare

Who is likely to be affected?

Additional rate taxpayers who joined an employer supported childcare scheme on or after 6 April 2011.

General description of the measure

The measure increases the tax exempt amount for employer supported childcare (childcare vouchers or directly contracted childcare) from £22 per week to £25 per week for additional rate taxpayers who joined such a scheme on or after 6 April 2011.

Policy objective

The measure will ensure that once the additional rate of income tax is reduced from 50 per cent to 45 per cent, the value of tax relief available for employer supported childcare continues to be aligned to the value received by basic rate taxpayers who joined a scheme on or after 6 April 2011.

Background to the measure

In Finance Act 2012, the Government reduced the additional rate of income tax from 50 per cent to 45 per cent. This comes into effect from 6 April 2013.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2013.

Current law

Sections 270A and 318A of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provide for limited tax relief where employers provide support through qualifying childcare vouchers or directly contracted childcare. These sections specify that taxpayers liable to the additional rate of income tax who are in receipt of employer supported childcare (childcare vouchers or directly contracted childcare) having joined a scheme on or after 6 April 2011 are entitled to an exempt amount of £22 per week.

Proposed revisions

Legislation will be introduced by Treasury Order to increase the maximum weekly amount which can be subject to tax relief for additional rate taxpayers to £25 with effect from 6 April 2013. There is no change for additional rate taxpayers who continue to be members of an employer-supported childcare scheme (providing childcare vouchers or directly contracted childcare) of which they were members before 6 April 2011. They will continue to be eligible for a tax exempt amount of £55 per week.

Section 318D of ITEPA provides the power to vary the exempt amount and qualifying conditions.

Changes will also be made to the Social Security (Contributions) Regulations 2001 which sets out the value of the National Insurance disregard for childcare vouchers.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure equalises maximum amounts of tax relief available before and after the tax rate change. A few thousand individuals may gain small amounts (less than £1 a week) as a result of rounding effects and adjustments to National Insurance contributions.					
Equalities impacts	No equalities impacts are expected.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. A small number of employers providing childcare support through salary sacrifice will have to handle one-off requests to increase childcare voucher amounts and salary deductions. This will require a simple administrative change for the estimated 6,000 employees affected.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HM Revenue & Customs.					
Other impacts	Small firms impact test: Impact on any small firms affected by this measure will be negligible. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 0207 147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

Capital allowances: first year tax credits for energy saving or environmentally beneficial plant or machinery

Who is likely to be affected?

Companies within the charge to corporation tax that make a loss in a period in which they invest in certain designated energy-saving or environmentally beneficial plant or machinery.

General description of the measure

These first-year tax credits came into effect in 2008 for a period of five years and were due to end on 31 March 2013. The measure extends the scheme for a further five years to 31 March 2018.

Policy objective

Enhanced capital allowances (ECAs) can be claimed to increase the quantum of losses available to carry forward, but the cash-flow benefit of the ECA is lost if the enhanced losses cannot be utilised against profits for a number of years. First-year tax credits were introduced to address this limitation to the effectiveness of ECAs.

Evidence suggests that initial take-up of the relief was low, but data on take-up is available only for the first two years, when business awareness of the credits is also likely to have been low. Consequently, allowing the availability of credits to lapse on the basis of limited data would be premature. Extending the scheme for a further five-year period will allow evidence of take-up to accrue and for an informed decision on the scheme's future to be made at the end of that period.

Background to the measure

First-year tax credits were introduced in Finance Act 2008 for an initial period of five years ending on 31 March 2013. The Government announced its intention to extend this period at Budget 2012.

There has been no consultation.

Detailed proposal

Operative date

The measure will have effect for expenditure incurred on or after 1 April 2013.

Current law

First-year tax credits (as defined in Schedule A1 Capital Allowances Act 2001 (CAA 2001)) were introduced in 2008 for a period of five years, ending on 31 March 2013. They are designed to further encourage investment in energy-efficient and environmentally beneficial plant or machinery (as defined in sections 45A and 45H CAA 2001) by allowing companies within the charge to corporation tax to surrender tax losses attributable to these ECAs, for a cash payment from Government (a first-year tax credit).

Proposed revisions

Secondary legislation will be introduced to extend the availability of first-year tax credits for a further period of five years, to 31 March 2018.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	This measure is not expected to have any significant economic impacts.					
Impact on individuals and households	First-year tax credits may only be claimed by companies so there will be no impact on individuals and households.					
Equalities impacts	As first-year tax credits are only available to companies there is not expected to be any impact on groups with protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have negligible impact on businesses. The scheme is only of relevance to certain loss making companies and is simply an option for those that decide to use it. The rules remain the same as they were on introduction in 2008, so there are no new one-off costs associated with the need for businesses to familiarise themselves with a new initiative. The extension will have no impact on civil society organisations.					
Operational impact (£m) (HMRC or other)	The extension of the first-year tax credit scheme will not increase HMRC's processing or compliance resource needs.					
Other impacts	<u>Small firms impact test:</u> First-year tax credits support the ECA regime for environmentally beneficial technologies by making investment in designated products and technologies more attractive to loss making companies. Although companies of all sizes may claim the benefit of first-year tax credits, it is only where a company has losses that cannot be utilised in any other way that they may benefit from tax credits, for example companies starting up who may not have other profits to absorb any arising losses. As larger companies are more likely to be able to set losses against other profits (particularly those companies in a group situation), it is smaller companies that are more likely to claim first-year tax credits. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

There are specific boxes on the corporation tax return to enable companies to claim first-year tax credits. The take-up of the regime will therefore be monitored and evaluated using tax return information.

Further advice

If you have any questions about this change, please contact Nick Williams on 020 7147 2541 (email: nicholas.williams@hmrc.gsi.gov.uk).

HM Revenue & Customs

VAT: small cable-suspended passenger transport systems

Who is likely to be affected?

Operators of small cable-suspended passenger transport systems in the UK.

General description of the measure

The measure will introduce a 5 per cent reduced rate of VAT for small cable-suspended passenger transport systems.

Policy objective

This measure makes the tax system fairer by providing VAT relief for the cable-suspended transportation of passengers, more closely in line with the VAT treatment of public transport.

Background to the measure

This measure was announced in Budget 2012, and a consultation document entitled *Reduced VAT rate for small cable-suspended transport systems* was published on 17 July 2012 together with draft legislation.

Transport of passengers by small cable-suspended systems, which do not have vehicles with a carrying capacity of ten or more people, is currently standard rated (20 per cent). As far as possible under EU law, this measure brings the VAT treatment of these systems more closely in line with public transport (which is zero rated).

Detailed proposal

Operative date

This measure will have effect on supplies made on or after 1 April 2013.

Current law

UK law currently provides a zero rate of VAT for the transport of passengers in any vehicle, ship or aircraft designed or adapted to carry not fewer than 10 passengers (VAT Act 1994, Schedule 8, Group 8, Item 4(a)). The zero rate does not apply to small cable-suspended transport systems because the vehicles (each chair, gondola etc.) have a capacity of fewer than 10 people.

EU law provides for a reduced VAT rate, of not less than 5 per cent, to be applied to the transport of passengers (Directive 2006/112, Annex III, Category 5).

Proposed revisions

Secondary legislation will introduce a new Group 13 to Schedule 7A, by Treasury Order, to come into force after Budget 2013. This will provide for the reduced 5 per cent rate for small cable suspended transportation systems.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	Individuals using cable-suspended systems may benefit from lower prices, but only if operators choose to pass on the VAT reduction.					
Equalities impacts	No equality groups have been identified as being impacted by this change.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact as it will affect fewer than 10 businesses. There will be no impacts on civil society organisations. Businesses may benefit from increased patronage if they choose to pass on the VAT reduction, or from increased profits if not. There will be one-off costs for businesses in changing their accounting systems to accommodate the new VAT rate, but no ongoing annual costs.					
Operational impact (£m) (HMRC or other)	There will be no significant impact on HM Revenue & Customs (HMRC) costs.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be evaluated after three years, at which time stakeholders and other respondents to the consultation will be asked for an analysis of any benefits the reduced rate has brought; for details of any administrative burdens arising from its operation; and whether there is a case for its continuation.

At the same time, HMRC will carry out its own assessment of the effect on tax revenues.

Further advice

If you have any questions about this change, please contact Colin Scott-Morton on 020 7147 0483 (email: colin.scott-morton@hmrc.gsi.gov.uk).

Income tax higher rate threshold for 2014-15 and 2015-16

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

In 2014-15 and 2015-16, the 'higher rate threshold', the level of income after which taxpayers begin to pay the 40 per cent higher rate of tax, will increase by 1 per cent in 2014-15 and 2015-16, to £41,865 and £42,285 respectively.

The higher rate threshold is the sum of the personal allowance and the basic rate limit. Based on the Office for Budget Responsibility's (OBR) forecast for Retail Price Index (RPI) inflation (to which the personal allowance and the basic rate limit, and hence the higher rate threshold, would have been indexed), the effect of this measure is likely to be that the higher rate threshold will be £865 and £1,615 lower in 2014-15 and 2015-16 respectively than would be expected had the personal allowance and basic rate limit been subject to indexation.

The National Insurance contributions (NICs) upper earnings limit and upper profits limit will continue to be aligned with the level of the higher rate threshold by separate regulations.

Policy objective

This measure, announced at Autumn Statement 2012 is part of a wider fiscal consolidation package, which aims to contribute to tackling the fiscal deficit and support public services.

Background to the measure

This measure announces the Government's intention to increase the higher rate threshold, the level at which individuals start to pay higher rate tax, by 1 per cent in tax years 2014-15 and 2015-16. The higher rate threshold is the sum of the personal allowance and the basic rate limit.

For 2011-12, the personal allowance was increased by £1,000 to £7,475. For 2012-13, the personal allowance was increased by £630 to £8,105. Budget 2012 announced that the personal allowance would increase to £9,205 in 2013-14. Autumn Statement 2012 announced a further increase of £235 to £9,440 in 2013-14.

The basic rate limit was reduced from £37,400 to £35,000 in 2011-12. For 2012-13, the basic rate limit was reduced by £630 to £34,370. It was announced at Budget 2012 that for 2013-14 the basic rate limit would be reduced to £32,245. Autumn Statement 2012 announced that it will be set at £32,010 for 2013-14.

The table below shows the relative changes in the personal allowance, basic rate limit and higher rate threshold since 2007-08.

£	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Personal Allowance	5,225	6,035	6,475	6,475	7,475	8,105	9,440
Basic Rate Limit	34,600	34,800	37,400	37,400	35,000	34,370	32,010
Higher Rate Threshold	39,825	40,835	43,875	43,875	42,475	42,475	41,450

Detailed proposal

Operative date

The measure will take effect on and after 6 April 2014.

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2012 provides for income tax and sets the main rates for 2013-14.

Section 10 of the Income Tax Act 2007 (ITA) provides that an individual's income is taxable at the basic rate of income tax up to a limit. Section 2 of FA 2012 sets the basic rate limit at £34,370 for 2012-13.

Section 4, FA 2012 made changes to the main income tax personal allowances. From 2013-14, there are still three main personal allowances, but availability will be by reference to date of birth rather than age in the tax year. From 2013-14, the personal allowance provided by section of 35 ITA, currently available to people aged under 65, will be available to people born after 5 April 1948.

Proposed revisions

Legislation will be introduced in future Finance Bills to set the basic rate limit and personal allowance for those born after 5 April 1948 for 2014-15 and 2015-16 at the relevant levels to provide that the higher rate threshold is £41,865 in 2014-15 and £42,285 in 2015-16.

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><td>2017-18</td></tr>
<tr><td>-</td><td>-</td><td>+295</td><td>+875</td><td>+1105</td><td>+1085</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">Changes to the higher rate threshold could affect individuals' employment decisions and their disposable incomes. The overall impact on work incentives is ambiguous as affected individuals may choose to work more in order to maintain their post-tax incomes. The higher rates of tax will tend to weigh on consumption, but it is expected that the macroeconomic impact will be small.

Final impacts on employment (and hours worked) are also dependent on other measures relating to personal tax and NICs as well as aggregate labour demand and the performance of the wider economy.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">No one pays more income tax in cash terms as a result of the 1 per cent increase in the higher rate threshold in 2014-15 and 2015-16.

Based on the OBR forecast for Retail Price Index (RPI) inflation, the effect of this measure is likely to be that the higher rate threshold will be £865 and £1,615 lower in 2014-15 and 2015-16 respectively than would be expected had the personal allowance and basic rate limit been subject to indexation.</td></tr>
</table>

	Individuals earning more than £41,865 will pay more tax compared with indexation, and some will be brought into higher rate tax. In 2014-15, around five million individuals lose from this measure. The typical loss is £87 for employees (whose higher rate income is also liable for NICs). The average loss among the five million is £115, as some higher rate taxpayers do not pay additional rate NICs (e.g. pensioners or those with significant investment income) and losses for the self-employed are also higher. In 2015-16, 5.3 million individuals lose an average of £211. In 2014-15, 319,000 individuals gain an average of £62. These are individuals who have deductions from taxable income, e.g. pension contributions that make them additional rate NIC payers but basic rate taxpayers. In 2015-16, 374,000 individuals gain an average of £95. Around 400,000 individuals will be brought into higher rate tax by 2015-16 as a result of this measure. Those brought into higher rate tax will face an increase in their marginal tax rate. A larger group of 4.8 million existing higher rate taxpayers, will face a small increase in their average tax rate, but will not face an increase in their marginal rate.
Equalities impacts	This measure will have a larger impact on males. Men are expected account for 74 per cent of higher rate taxpayers in 2014-15. The change is also expected to have the biggest impact on those born after 5 April 1948 as this group accounts for 92 per cent of total higher rate taxpayers. From this measure, 2014-15 estimated impacts are: • five million individuals lose an average of £115, of which 3.7 million (74 per cent) are male and 1.3m (26 per cent) are female. Average losses do not differ significantly between males and females. 4.6 million (92 per cent) were born after 5 April 1948 (£110 average loss) and 0.4 million (8 per cent) were born before 5 April 1948 (£172 average loss). • 217,000 individuals brought into higher rate tax, of which 138,000 (64 per cent) are male and 79,000 (36 per cent) are female, and 200,000 (92 per cent) were born after 5 April 1948 and 17,000 (8 per cent) were born before 5 April 1948.
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)	The impact on HM Revenue & Customs (HMRC) will be minimal.
Other impacts	Small firms impact test: this change is expected to have a negligible impact on small firms. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk).

Capital gains tax: annual exempt amount

Who is likely to be affected?

Individuals, trustees and the personal representatives of deceased persons who have capital gains.

General description of the measure

This measure sets the annual increase in the capital gains tax (CGT) annual exempt amount (AEA) at 1 per cent for 2014-15 and 2015-16.

Policy objective

This measure forms part of the package of measures to limit increases in personal tax thresholds.

Background to the measure

The decision to keep the AEA at its 2011-12 level of £10,600 for the year 2012-13 was announced at Autumn Statement 2011.

Budget 2012 announced that any automatic indexation of the AEA would switch from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The AEA will therefore rise in line with the CPI in 2013-14.

The decision to set the annual increase in the AEA at 1 per cent in 2014-15 and 2015-16 was announced on 5 December 2012.

Detailed proposal

Operative date

The measure will have effect for the tax years 2014-15 and 2015-16.

Current law

Section 3 of the Taxation of Chargeable Gains Act 1992 (TCGA) provides that individuals pay CGT only on their chargeable gains (net of allowable losses and all other reliefs) that exceed the AEA for the tax year. Unless Parliament determines otherwise, the AEA increases automatically in line with inflation each year and HM Treasury is required to make an Order specifying the increased amount. The AEA is currently set at £10,600 for 2012-13.

Proposed revisions

Legislation will be introduced in a future Finance Bill to set the annual increase in the AEA at 1 per cent for 2014-15 and 2015-16, overriding the automatic indexation provided for by section 3(3).

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-	nil	+5	+5	+5
	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 impacts	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	It is expected that this measure will bring some additional individuals into scope of CGT and will increase CGT bills for those affected. Administrative burdens on individuals are likely to be small as a significant proportion of those affected are likely to be within the Self Assessment system already and some will arrange their disposals in order to remain below the AEA.					
Equalities impacts	The gender split for CGT payers has been relatively stable over time, with men making up around 60 per cent of those filing a tax return that includes a capital gain and women making up around 40 per cent. Those aged between 45-50 and 55-60 years are most likely to file a return that includes a capital gain. A change in the AEA rate 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. A small number of self employed people will pay CGT who otherwise would have been exempt. They will face small one-off costs in familiarising themselves with the regulations and face a small increase in their administrative burdens because they will need to calculate their CGT liability and submit an appropriate tax return.					
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact on HM Revenue & Customs.					
Other impacts	Small firms impact test: the impact on small firms has been considered and it is expected to affect those self employed people who will no longer be exempt and will now pay CGT. There will be one-off costs associated with familiarising themselves with the regulations and ongoing burdens because they will need to calculate their CGT liability and submit an appropriate tax return. These costs are however expected to be negligible. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

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

Further advice

If you have any questions about these changes, please contact Usman Nizami on 0207 147 0046 (email: usman.nizami@hmrc.gsi.gov.uk).

Inheritance tax: nil-rate band

Who is likely to be affected?

Individuals, trustees and the personal representatives of deceased persons.

General description of the measure

This measure provides for an inheritance tax (IHT) nil-rate band of £329,000 applicable for 2015-16. This represents a 1 per cent increase rounded up to the nearest £1,000.

Policy objective

This measure forms part of the package to limit increases in personal tax thresholds, in this case the IHT nil-rate band.

Background to the measure

The threshold below which estates are not liable for IHT, the nil-rate band, was frozen at Budget 2010 at its current level, £325,000. The current freeze will expire in April 2015.

Detailed proposal

Operative date

The measure will have effect for the tax year 2015-16.

Current law

Section 7 of the Inheritance Tax Act 1984 (IHTA 1984) provides for rates of IHT to be as set out in the table in Schedule 1 to the Act. Section 8 provides that where the increase in the indexation measure for September of a given year is higher than that for the previous September, then a new table shall apply to chargeable transfers made on or after 6 April in the following year. The substituted table increases the amounts in the table by the indexed increase rounded up to the nearest £1,000.

The current table provides that the nil-rate band is £325,000. Section 8(3) to Finance Act 2010 provides for the nil-rate band to be frozen at £325,000 up to and including 2014-15; and section 208 of Finance Act 2012 specifies that the indexation measure to be used is the consumer prices index (CPI) for the purposes of chargeable transfers made on or after 6 April 2015.

Proposed revisions

Legislation will be introduced in a future Finance Bill to provide for the nil-rate band, for 2015-16 to be £329,000 overriding the indexation provided for in section 8 of IHTA 1984.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-	-	+15	+30	+35
	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	This measure will affect only a small number of individuals and households as the base of estates that fall within the charge to IHT is fairly small (it is estimated for 2009-10 that there will have been approximately 16,000 estates left on death paying IHT). In addition to those estates already liable to IHT having to pay marginally more tax, we expect approximately 1,000 additional estates to be become taxpaying estates. There will also be an increase in the administrative burden for those estates which are now required to complete the full IHT400, rather than the shorter IHT205 return. It is estimated that the difference in costs for individuals in completing the IHT400 and IHT205 returns is approximately £160 per return. Approximately 1,000 additional estates are expected to become taxpaying as a result of the measure and this is a good proxy for the number of estates which will now need to complete the IHT400 rather than the IHT205. There will be no increase in administrative burden for those estates which were already tax paying.					
Equalities impacts	The Government has no evidence to suggest that the measure will have any adverse equalities impacts					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. There will be an increase in the administrative burden for personal representatives or advisors providing support to estates that will seek their support as a result of having to complete the longer IHT400 return. There will be a negligible one off cost to businesses as they familiarise themselves with the measure.					
Operational impact (£m) (HMRC or other)	The additional costs for HMRC in implementing this change are anticipated to be negligible. This represents the additional cost for HMRC to process the longer IHT400 return rather than the IHT205 for those estates which were previously non taxpaying.					
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.

Further advice

If you have any questions about these changes, please contact Usman Nizami on 0207 147 0046 (email: usman.nizami@hmrc.gsi.gov.uk).

Fuel duty rates

Who is likely to be affected?

Businesses producing and importing, and consumers of, hydrocarbon oils and alternative fuel products.

General description of the measure

This measure cancels the 3.02 pence per litre (ppl) fuel duty increase that was due to take effect on 1 January 2013. The Autumn Statement also announced that the 2013-14 increase will be deferred from 1 April 2013 to 1 September 2013. All subsequent increases, over the remainder of the parliament will also take effect on 1 September each year.

Policy objective

This measure will ease the burden on motorists and businesses.

Background to the measure

The Government announced on 26 June 2012 that the 3.02ppl increase due to take effect on 1 August 2012 would be deferred until 1 January 2013.

Detailed proposal

Operative date

The change will have effect on and after 1 January 2013.

Current law

Excise duty rates are contained in the Hydrocarbon Oil Duties Act 1979 (HODA): section 6 contains the rates for hydrocarbon oils; section 8 contains the rates for road fuel gases; section 11 contains rebated rates for heavy oils; section 14 contains the rebated rate for light oil used as furnace fuel; and section 14A contains the rebated rate for certain biodiesel.

Proposed revisions

Secondary legislation will be introduced to negate the effect of the increase from 1 January 2013. The effect will be to maintain the duty liability on all fuels at current levels.

Budget 2013 will announce the amount of the 1 September 2013 increase in line with the fair fuel stabiliser, with legislation being introduced in Finance Bill 2013.

	Duty rate £ per litre, current and after 1 January 2013
Unleaded petrol	0.5795
Heavy Oil	0.5795
Biodiesel	0.5795
Bioethanol	0.5795
Light oil (other than unleaded petrol or aviation gasoline)	0.6767
Aviation gasoline (Avgas)	0.3770
Light oil delivered to an approved person for use as furnace fuel	0.1070
Marked gas oil	0.1114
Fuel oil	0.1070
Heavy oil other than fuel oil, gas oil or kerosene used as fuel	0.1070
Kerosene to be used as motor fuel off-road or in an excepted vehicle	0.1114
Biodiesel for non-road use	0.1114
Biodiesel blended with gas oil for non-road use	0.1114
Road fuel natural gas (NG), including biogas	0.2470 £/kg
Road fuel gas other than NG - eg. liquified petroleum gas (LPG)	0.3161 £/kg

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><td>2017-18</td></tr>
<tr><td>-890</td><td>-1640</td><td>-1625</td><td>-1715</td><td>-1420</td><td>-1465</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. These figures include the cost of deferring the fuel duty increase in August 2012 to January 2013, which reduces receipts by approximately £550 million in 2012-13. More details can be found in the policy costings document published alongside the Autumn Statement.</td></tr>
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Economic impact	This measure will lower the price of fuel compared with previously announced policy. As a result of this lower price, fuel consumption and the number of miles driven will increase relative to previous expectations. These effects are included in estimating the Exchequer impact. Fuel is a major business input for the UK economy. Cancelling the duty increase will support businesses with the cost of fuel.
Impact on individuals and households	Cancelling the January 2013 increase will benefit all motorists and help maintain household costs at a lower level. Compared to the policy announced in June 2012, it is estimated that cancelling the January increase will mean that a typical motorist will save £40 per year.
Equalities impacts	No impacts are expected on groups sharing protected characteristics.
Impact on business including civil society organisations	This change will benefit businesses (including small businesses) where fuel is part of ongoing running costs. Compared to the policy announced in June 2012, it is estimated that cancelling the January increase will mean that a typical haulier will save £1,200 per year. The impact on businesses is negligible in terms of administrative and compliance costs.
Operational impact (£m) (HMRC or other)	Cancelling the fuel duty increase will have no operational impacts for HM Revenue & Customs.
Other impacts	Carbon assessment: cancelling the January 2013 increase could mean that carbon dioxide (CO_2) emissions are around 0.3MtCO_2 higher per year than was expected under the previous policy. Small firms impact test: small businesses benefit where fuel is part of ongoing running costs. The impact is negligible in terms of administrative and compliance costs. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Excise and Customs helpline on 0845 010 9000.

HM Revenue & Customs contacts

HM Revenue and Customs
100 Parliament Street,
Westminster
London
SW1A 2BQ

HM Treasury contacts

HM Treasury
1 Horse Guard’s road,
Westminster
London
SW1A 2HQ

Tel: 020 7270 5000

This document can be found in full on our websites at:
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ISBN 978-1-84532-914-3
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