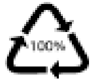
HM Revenue & Customs

HM TREASURY

Overview of Legislation in Draft

06 December 2011



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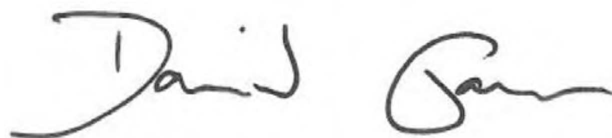
Foreword

This time last year I confirmed the final shape of our plans for improving the way we make tax policy. I set out proposals for a more predictable and stable tax system, and a policy cycle that allows proper time for scrutiny of draft legislative proposals. This new process has been praised by the professional tax bodies, advocacy groups and in Parliament.

The enactment of Finance Bill 2011 completed the first full cycle of policy making under the new approach. Over the last year we demonstrated our commitment with the publication of the Overview of Tax Legislation and Rates at Budget 2011, the routine inclusion of Tax Information and Impact Notes and a renewed belief in the value of consultation. I am now looking forward to seeing the changes we have made becoming a further established part of how we develop tax policy.

We are now publishing draft legislation for Finance Bill 2012, which will be available for technical consultation until 10 February 2012. The majority of these measures were announced in Budget 2011, with views sought on policy over the summer. The draft legislation reflects the outcomes of these consultations and we are also publishing response documents alongside.

Furthermore, the Tax Professionals Forum has completed an assessment of our progress against the aims we set out for improving tax policy, and their report will be available on HM Treasury website. I continue to welcome their engagement and I look forward to hearing how we can make further improvements to the tax policy making process.



David Gauke MP

Exchequer Secretary to the Treasury

1 Introduction

1.1 The Government is committed to improving the way that tax policy is developed, communicated and legislated. One of the most significant features of this new approach is a commitment to confirm the vast 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 is intended to give taxpayers more certainty about future tax changes and allow more time for pre-legislative scrutiny.

Consulting on draft clauses

1.2 The Government is today publishing draft clauses for Finance Bill 2012.[1] The final contents of the Bill will be subject to confirmation at Budget 2012.

1.3 The Government seeks comments on the draft clauses and draft explanatory notes published alongside this document, and would welcome comments to ensure that the draft legislation works as intended. Consultations on policy have already been completed where appropriate and the draft legislation reflects the Government's policy decisions in light of responses received.

1.4 If you wish to comment on any of the draft clauses published today, please use the contact details provided at the end of the relevant explanatory note. Please send comments by Friday 10 February 2012, when consultation on the draft legislation will close.

1.5 This document provides supplementary information to the draft legislation for Finance Bill 2012, including:

- confirming the majority of measures to be included in Finance Bill 2012; and
- setting out, for each measure, what the legislation seeks to achieve, why the Government is undertaking the change and a summary of the expected impacts of the change in a Tax Information and Impact Note (TIIN).

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[1] Available on the HM Treasury website and the HMRC website.

2 Overview of measures

2.1 This section provides a brief description of the measures for which draft legislation was published on 6 December 2011. The majority of measures are for inclusion in Finance Bill 2012; some are to be enacted through regulations; and in some cases, an update is provided for measures where draft legislation will not be published today.

Personal tax

2.2 **Income tax rates and thresholds (including personal allowance)** – Legislation will be introduced to set rates and thresholds for income tax as announced in Budget 2011 and confirmed at the Autumn Statement. Details of these rates and thresholds were published on 29 November 2011. A TIIN for these changes was published at Budget 2011.

2.3 **Seed Enterprise Investment Scheme** – As announced in Budget 2011, and following further consultation in summer 2011, legislation will be introduced providing for a new tax relief to encourage investment in new early stage companies carrying on, or preparing to carry on, a new business in qualifying trades.

2.4 **Capital gains tax holiday** – As announced in the Autumn Statement, to complement SEIS there will be a capital gains tax (CGT) holiday for assets disposed of in 2012/13 where the gains are reinvested in SEIS shares in the same year. Legislation implementing this will be published in draft for consultation in January 2012.

2.5 **Enterprise Investment Scheme and Venture Capital Trusts: better focus** – As announced in Budget 2011, legislation will be introduced for both the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) so that acquiring shares in another company will not be a qualifying activity. In addition, legislation will also be introduced excluding receipt of Feed-in Tariffs (FITs) from being a qualifying activity (with certain exceptions) and introducing a new disqualifying purpose test for both schemes.

2.6 **Enterprise Investment Scheme and Venture Capital Trusts: simplification** – Following consultation in 2011, legislation will be introduced in Finance Bill 2012 to make simplifications to the EIS and to VCTs.

2.7 **Enterprise Investment Scheme and Venture Capital Trusts: increases to thresholds** – As announced in Budget 2011, and following further consultation in 2011, legislation will be introduced increasing the amount that an investor may subscribe for shares under the EIS. Subject to State aid approval, legislation will be introduced to increase the thresholds for both the EIS and VCTs for shares issued on or after 6 April 2012.

2.8 **Reform of the taxation of non-domiciled Individuals** – As announced at Budget 2011, and following consultation over the summer, legislation will be introduced to make changes to the taxation of non-domiciled individuals who elect to be taxed on the remittance basis. A response to the consultation on non-domicile taxation was also published on 6 December 2011 and is available on the HM Treasury website.

2.9 **Capital gains tax: foreign currency bank accounts** – Following responses to the consultation on non-domicile taxation, legislation will be introduced to remove

from CGT gains and losses on withdrawals of funds from bank accounts denominated in a foreign currency. Such gains will be exempt from CGT and such losses will not be allowable where they arise to individuals (both non-domiciled and domiciled), trustees and personal representatives of deceased persons. People will no longer have to calculate gains and losses on every withdrawal from such accounts. This change will take effect for withdrawals on or after 6 April 2012.

2.10 Statutory residence test – In Budget 2011, the Government announced its intention to introduce a statutory residence test in Finance Bill 2012. Following consultation over the summer, the Government has decided to allow further time to finalise the detail of the test. The test will now be introduced with effect from 6 April 2013 and legislated in Finance Bill 2013. Draft legislation will be published around Budget 2012.

2.11 Inheritance tax nil rate band: switch to CPI – Legislation will be introduced to provide that the inheritance tax (IHT) nil rate band (NRB) will rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2015-16. Automatic indexation of the NRB using the CPI will still be subject to override if Parliament determines a different amount should apply. The NRB will remain frozen at its current rate of £325,000 up to and including 2014-15.

2.12 Capital gains tax: annual exempt amount: – Legislation will be introduced in Finance Bill 2012 to allow for the CGT annual exempt amount (AEA) to rise in line with the CPI instead of the RPI from 2013. Automatic indexation of the AEA using the CPI will still be subject to override if Parliament determines a different amount should apply. The legislation will also set the AEA for 2012-13, keeping it at the 2011-12 level of £10,600.

2.13 Single Payment Scheme and capital gains tax roll-over relief – As announced at Budget 2011, legislation will be introduced to preserve the availability of roll-over relief in relation to rights to payments for farmers under the EU Single Payment Scheme following changes to the scheme in 2009. The legislation will have retrospective effect from 1 January 2009 and will also allow for future changes of this sort to be legislated through secondary legislation.

2.14 International military headquarters, EU forces, etc – As announced on 6 December 2011, legislation will be introduced to provide the tax treatment required by the EU Status of Forces Agreement.

2.15 Armed Forces: Continuity of Education Allowance – As announced on 6 December 2011, legislation will be introduced to exempt from income tax payments of Continuity of Education Allowance to service personnel in the Armed Forces.

2.16 Security enhanced cars – As announced on 6 December 2011, following representations legislation will be introduced to ensure that certain individuals provided with security enhanced cars are not unfairly impacted by the abolition of the £80,000 cap on the cash equivalent of the benefit on company cars.

2.17 Champions League final 2013: tax relief – As announced on 6 December 2011, legislation will be introduced to effect an exemption from UK taxation for money earned by non-resident footballers and team officials in relation to the Champions League final 2013, which will be held in the UK.

2.18 Qualifying time deposits – As announced in Budget 2011, and following informal consultation during summer 2011, legislation will be introduced to require

deduction of income tax at source from interest paid on qualifying time deposits made on or after 6 April 2012.

2.19 Employer asset-backed pension contributions – Following the announcement at Budget 2011 and consultation over the summer, legislation was published at the Autumn Statement to make changes to the tax rules with immediate effect to ensure no excessive relief can arise for new asset-backed pension contribution arrangements.

Philanthropy and charities

2.20 Gifts of pre-eminent objects – As announced at Budget 2011, and following consultation over the summer, legislation will be introduced to provide donors of pre-eminent objects with a reduction in their UK tax liability based on a percentage of the value of the object they are donating. A summary of responses to the consultation was published on 6 December 2011 and is available on the HM Treasury website. Detailed draft guidance on how this scheme will operate was also published on 6 December 2011 and is available on the Department of Culture Media and Sport website.

2.21 Inheritance tax: reduced rate for estates leaving 10 per cent or more to charity – As announced in Budget 2011, and following consultation over the summer, legislation will be introduced to provide for a reduction in the rate of IHT where 10 per cent or more of a deceased person's net estate is left to charity. A summary of responses to the consultation was also published on 6 December 2011 and is available on the HMRC website.

2.22 In-year repayments of tax to charities – As announced at Budget 2011, legislation will be introduced to put on a statutory footing the practice by which HMRC makes repayments of tax, other than Gift Aid, on claims by certain charities outside a tax return.

2.23 Self Assessment (SA) Donate – As announced in Budget 2011, legislation will be introduced to withdraw the SA Donate scheme with effect from 6 April 2012. A TIIN for this change was published at Budget 2011.

Corporate tax

2.24 Reduction in the main corporation tax rate – As announced in Budget 2011, legislation will be introduced to:

- reduce the main rate of corporation tax to 24 per cent for the financial year commencing 1 April 2013; and
- keep the small profits rate of corporation tax at 20 per cent from the financial year commencing 1 April 2012.

A TIIN for this change was published at Budget 2011.

2.25 Controlled foreign companies full reform – As confirmed most recently in the June 2011 consultation document on controlled foreign companies (CFC) reform, legislation will be introduced to replace the existing regime with new rules. The new rules will better reflect the way that businesses operate in a globalised economy and strike the right balance between making the corporate tax system more competitive and protecting the UK corporate tax base. The majority of the legislation was published in draft on 6 December 2011, and the remainder will be published in January 2012. A response to the consultation on this measure was also published on 6 December 2011 and is available on the HM Treasury website.

2.26 Patent Box – As confirmed most recently in the June 2011 consultation document, legislation will be introduced to allow companies to apply a 10 per cent corporation tax rate to profits attributable to patents and other qualifying intellectual property from 1 April 2013. A response to the consultation on the introduction of a Patent Box was also published on 6 December 2011 and is available on the HM Treasury website.

2.27 Research and development (R&D) tax relief – As announced at Budget 2011, and following further consultation, legislation will be introduced to improve the R&D tax relief for both small and medium enterprises and large companies. A response to the consultation on R&D tax relief was also published on 6 December 2011 and is available on the HM Treasury website.

2.28 Capital allowances: Enterprise Zones – As announced in the Autumn Statement, the Enterprise Zones in assisted areas will qualify for enhanced capital allowances. First year allowances of 100 per cent will apply for companies investing in plant or machinery for use primarily within designated areas within six Enterprise Zones. These allowances will be available from 1 April 2012 to 31 March 2017.

2.29 Capital allowances: Feed-in Tariffs and the Renewable Heat Incentive – As announced at Budget 2011, and following consultation, legislation will be introduced to make changes to the capital allowances treatment of expenditure on plant or machinery to generate renewable electricity or heat. A response to the consultation on capital allowances and feed-in tariffs and the renewable heat incentive was also published on 6 December 2011 and is available on the HMRC website.

2.30 Capital allowances: fixtures – As announced at Budget 2011, and following consultation over the summer, legislation will be introduced to make capital allowances for fixtures dependent on the pooling of relevant expenditure prior to a transfer, and on the seller and purchaser agreeing a value for fixtures within two years of a transfer or on formal proceedings to agree the value being commenced within that time. A response document to this measure was published on 6 December 2011 and is available on the HMRC website.

2.31 Changes to the real estate investment trust legislation – As announced at Budget 2011, following informal engagement with interested parties, legislation will be introduced to ease some of the conditions to be met when joining the real estate investment trust (REIT) regime and to relax some of the requirements of being in the regime.

2.32 Tax transparent fund – As announced in Budget 2011, legislation will be introduced to permit the authorisation of tax transparent funds from summer 2012. Legislation will provide powers for HM Treasury to make regulations that apply to collective investment schemes (CIS). Regulations will be made to establish the tax treatment applying to UK investors' holdings as well as the stamp taxes on shares treatment of transactions. The legislation also provides a power to define in regulations the details of the types of CIS to which the new tax rules will apply. The capital gains rules for mergers and reconstructions of CIS will be simplified and rewritten in regulations to clarify the existing position, which will equally apply to the new tax transparent funds.

2.33 Bank Levy rates – As set out in Budget 2011, the Government intends that the Bank Levy should raise at least £2½ billion each year. To offset the forecast shortfall in receipts for 2011 and restore expected yield for future years above £2½ billion, the full rate of the Bank Levy will be increased to 0.088 per cent from 1 January

2012. The half rate for chargeable equity and long term chargeable liabilities will be similarly increased to 0.044 per cent.

2.34 Bank Levy amendments – As announced on 6 December 2011, legislation will be introduced to make changes to the Bank Levy to ensure that the liabilities of joint ventures are correctly aggregated into a foreign banking group or a relevant non-banking group's chargeable equity and liabilities. This will ensure that double taxation relief can be restricted where the amount of a foreign Bank Levy subsequently is reduced. Legislation will also be introduced to amend the powers allowing the rules for the exchange of information with foreign authorities to work as intended.

2.35 Tax treatment of regulatory capital instruments – At Budget 2011, the Government announced that HMRC would work with industry and representative bodies to explore the tax treatment of new capital instruments which banks and building societies may issue as a result of the Basel III proposals on capital requirements. The Government continues to consider the fiscal, financial stability and economic impacts of the Basel III proposals alongside the recommendations of the Independent Commission on Banking as well as the finalisation of the EU legislation on prudential requirements and remains committed to providing legislative certainty on the tax treatment in advance of 1 January 2013.

2.36 Solvency II and the taxation of life insurance companies – As announced in Budget 2011, legislation will be introduced to establish a new corporate tax regime for life insurance companies, which will take effect from 1 January 2013. This change is made necessary by the EU Solvency II Directive, which will replace the regulatory returns on which life company taxation is currently based. A response to the consultation on the taxation of life insurance companies was also published on 6 December 2011 and is available on the HMRC website. Detailed rules relating to the transition and Friendly Societies will be included in secondary legislation to be published in draft for consultation in the early part of 2012; a Technical Note was published on 6 December 2011 which explains the scope of the transitional rules.

2.37 Claims equalisation reserves – Following an informal consultation announced in Budget 2011, legislation will be introduced to repeal the legislation that provides for tax deductions for claims equalisation reserves maintained by general insurance companies under FSA rules and equivalent reserves maintained by corporate and partnership members of Lloyd's. The repeal will have effect for accounting periods ending on or after the date that the EU Solvency II Directive capital requirements come into force, currently expected to be 1 January 2014. Transitional rules will provide for any built-up reserves to be released in equal instalments over a 6 year period. The repeal and transitional rules for general insurers will be introduced through primary legislation. Draft regulations for the transitional period in respect of Lloyd's will be published for consultation in February 2012.

2.38 Lloyd's: stop-loss insurance – Following an informal consultation announced in Budget 2011, legislation will be introduced to ensure that all premiums payable by corporate members of Lloyd's in respect of member-level stop-loss reinsurance taken out on or after 6 December 2011 shall be deducted for tax purposes at the same time as the recognition of the profits to which they relate.

2.39 Distributions in the form of assets and liabilities – Following an informal consultation announced in Budget 2011, legislation will be introduced to ensure that, for the purposes of the distributions legislation, the treatment of transfers of assets and liabilities between UK resident companies will be the same as that which applies to transfers between a UK resident and non-UK resident company. The legislation will be

effective for transfers made on or after the date the Finance Bill 2012 receives Royal Assent.

2.40 Amendments to the tax treatment of financing costs and income (debt cap) – As announced in Budget 2011, and following consultation over the summer, legislation is being introduced to resolve a number of issues that have arisen on the application of the debt cap rules.

2.41 Changes to UK generally accepted accounting practice – As announced on 6 December 2011, legislation will be introduced to ensure that the existing rules dealing with tax adjustments arising on a change in accounting policy apply to changes expected to be made to UK generally accepted accountancy practice (UK GAAP) in 2012. The legislation will apply to changes in accounting policy where accounts are prepared after 1 January 2012.

2.42 Oil and gas: restriction on decommissioning relief – As announced in Budget 2011, legislation will be introduced to restrict tax relief for supplementary charge purposes in respect of decommissioning expenditure to 20 per cent. Analysis of the impact of this measure was included in the TIIN published alongside the Budget 2011 announcement on changes to the oil and gas fiscal regime.

2.43 Oil and gas: scope of supplementary charge – As announced on 6 December 2011 and effective from that date legislation will be introduced to ensure the supplementary charge applies to ring fence chargeable gains. The legislation will also confirm that the scope of the supplementary charge matches the scope of ring fence corporation tax.

Indirect tax

2.44 Machine games duty – As announced in Budget 2011, and following consultation over the summer, legislation will be introduced for a machine games duty (MGD). This duty will come into effect on 1 February 2013 and will replace the current amusement machine licence duty. With the introduction of MGD in 2013, receipts from dutiable machine games will become exempt from VAT.

2.45 Double taxation relief on gambling duties – As announced on 6 December 2011, following the review of remote gambling taxation legislation will be introduced to provide double taxation relief for remote gaming duty, general betting duty and pool betting duty.

2.46 Repeal of the drawback of excise duty on rectified spirit and compounded spirit – As announced in Budget 2011, legislation will be introduced to repeal this provision. Drawback is available on these goods through alternative means, making this provision redundant.

2.47 Air passenger duty: business jets – As announced at the Autumn Statement, legislation will be introduced to extend air passenger duty (APD) to business jets and smaller aircraft. Passengers on aircraft with an authorised take off weight of 5.7 tonnes and above will attract APD on flights that take off from a UK airport from 1 April 2013. Legislation will also introduce new premium rates of APD for passengers on flights using planes with a certified authorised weight of 20 tonnes or more and fewer than 19 seats. Flights in this category, which tend to offer a luxury service, will pay APD at double the prevailing standard business/first class rates.

2.48 Air passenger duty: Northern Ireland rate – As announced on 15 September 2011, the reduced rate for direct long haul flights from Northern Ireland, which has been in place since 1 November 2011, will be given statutory effect.

2.49 Carbon price support rates – As announced at Budget 2011, legislation will be introduced in Finance Bill 2012 to:

- ensure that supplies of fossil fuels (e.g. coal and gas) to combined heat and power (CHP) stations and power generators fitted with carbon capture and storage technology can benefit from lower carbon price support (CPS) rates of climate change levy (CCL);
- require large-scale electricity generators to self-account for these CPS rates, and change the basis of taxation for fuels such as coal from weight (i.e. per kilogram) to heat (i.e. per kilojoule); and
- set the CPS rates of CCL for 2014-15.

The reliefs outlined above also require secondary legislation, which will also set out the detailed administrative provisions to enable HMRC to administer the CPS rates of CCL. Other secondary legislation will also provide that oils used in electricity generation will no longer be fully relieved of fuel duty, which will, in effect, make such oils subject to CPS rates of fuel duty, with an effective lower rate applying to oils used in CHP stations. All these changes take effect from 1 April 2013.

2.50 Climate change levy: change to the reduced rate on electricity – As announced in the Autumn Statement, legislation will be introduced to amend the reduced rate of climate change levy (CCL) on electricity only from 35 to 10 per cent from 1 April 2013. This amendment will help mitigate the impacts on energy-intensive industry of the carbon price floor from the same date. The legislation will also correct an omission in the legislation introduced in Finance Act 2010, which amended the reduced rate of CCL from 20 to 35 per cent for all taxable commodities.

2.51 Climate change levy: rates – Legislation will be introduced in Finance Bill 2012 to amend the CCL rates from 1 April 2013. The rates will be announced at Budget 2012.

2.52 Climate change levy: reform of climate change agreements – As announced at Budget 2011, the climate change agreement scheme will be extended to 2023 and the current participating sectors will continue to be eligible. Following consultation in September and October 2011, legislation will be introduced to simplify and streamline the scheme from 1 April 2013. The draft primary legislation was published on 6 December 2011, and associated secondary legislation will be published in January 2012.

2.53 Climate change levy: removal of the exemption for indirect supplies of combined heat and power electricity – As announced at Budget 2011, legislation will be introduced to withdraw the exemption from the CCL for supplies of electricity generated in a CHP station that are made by an electricity utility to business energy consumers. The change will be enacted through both primary and secondary legislation.

2.54 Climate change levy: metal recycling processes – As announced on 6 December 2011, legislation will be introduced in Finance Bill 2012 to introduce a lower rate of 20 per cent of the full rates of CCL for supplies of taxable commodities used in the recycling of steel and aluminium, from 1 April 2012. The draft primary legislation was published on 6 December 2011, and associated secondary legislation will be published separately, at a later date.

2.55 VAT: low value consignment relief – As announced in Budget 2011, the Government is taking action to end the exploitation of low value consignment relief. This relief was reduced from £18 to £15 on 1 November 2011. On 9 November 2011 the Government announced that it would remove the relief completely from the Channel Islands from 1 April 2012.

2.56 VAT: cost sharing exemption – Following consultation over summer 2011, legislation will be introduced to bring the EU VAT Cost Sharing Exemption into UK law. A response document to the consultation on introduction of the cost sharing exemption was published on 6 December 2011 and is available on the HMRC website.

2.57 VAT: tackling VAT fraud on imported road vehicles – As announced in Budget 2011, from 2013 road vehicles entering the UK for permanent use on UK roads will have to be notified to HMRC, before the vehicle can be registered with the Driver and Vehicle Licensing Agency. Online notification is expected to be the norm. A response document to the consultation on tackling VAT fraud on imported road vehicles was published on 6 December 2011 and is available on the HMRC website.

2.58 VAT: online registration and tranche 2 of online filing of returns – As announced in Budget 2011, an online system for VAT registration, de-registration, and changes to business details will be introduced. This will be available from October 2012. Also from that date, certain VAT forms will be removed from the law (secondary legislation will be published in early February 2012). The VAT threshold for businesses not established in the UK will be removed from 1 December 2012. For VAT periods beginning on or after 1 April 2012, the second tranche of existing VAT businesses (with a VAT exclusive turnover of under £100,000), will be mandated to file VAT returns online and make electronic payments. A response document to the consultation on next steps for moving VAT online was published on 6 December 2011 on the HMRC website.

2.59 VAT grouping extra statutory concession 3.2.2 – As announced in Budget 2011, legislation will be introduced to bring into law a long standing concession on the valuation of certain reverse charges applicable to VAT groups. A response document to the consultation on the VAT grouping extra statutory concession was published on 6 December 2011 and is available on the HMRC website.

2.60 VAT: treatment of public bodies – As announced in Budget 2011, legislation will be introduced to amend UK law to ensure that there is clear transposition of EU agreements relating to the VAT treatment of public bodies carrying out their statutory duties.

2.61 Stamp duty land tax: relief for National Health Service bodies – As announced on 6 December 2011 legislation will be introduced to re-enact an existing stamp duty land tax (SDLT) relief for health service bodies, currently at section 61(3) to (3C) National Health Service and Community Care Act 1990, and update the list of bodies to which the relief applies. Allowance will be made for consequential changes arising from provisions of the Health and Social Care Bill. The existing SDLT relief and its predecessor stamp duty relief will be repealed.

Anti avoidance

2.62 Capital allowances: anti-avoidance rules for plant and machinery – As announced at Budget 2011, and following consultation over the summer, legislation will be introduced to make changes to the capital allowances anti-avoidance rules that apply to transactions involving plant or machinery. This will include legislation

announced on 12 August 2011, effective from that date, which closed down a loophole that would have enabled business to accelerate capital allowances claims. A response document to this measure was published on 6 December 2011 and is available on the HMRC website.

2.63 Stamp duty land tax: disclosure of tax avoidance schemes – As announced on 6 December 2011, legislation will be introduced to remove the SDLT disclosure of tax avoidance schemes (DOTAS) grandfathering rules for certain avoidance schemes using the sub-sale rules and to remove the thresholds for making a disclosure. Draft regulations will be published at a later date.

2.64 Manufactured overseas dividends – Legislation will be introduced to put beyond doubt that manufactured overseas dividends cannot be used to obtain repayment or set off of income tax that the Exchequer does not receive. As announced on 15 September 2011, and taking effect from that date, legislation will be introduced in Finance Bill 2012. Draft legislation was published on the day of the announcement together with a TIIN.

2.65 Listed tax avoidance schemes – Following the announcement at Budget 2011, a consultation was held over the summer on proposals to tackle the sale and use of certain avoidance schemes which are believed not to deliver the tax advantages advertised. The aim was to deter the use of such schemes by listing them in regulations and attaching certain statutory consequences to their use. Respondents were supportive of the Government’s anti-avoidance strategy, but identified issues that called into question the proportionality and effectiveness of the measure proposed. Consequently, it will not be included in Finance Bill 2012. The consultation was extremely useful in helping to clarify the nature of the problem and identifying alternative ways of tackling it. The Government will continue to explore these options and consider new options for strengthening the anti-avoidance strategy in relation to high-risk schemes. We will continue to discuss the issues with interested parties and provide a further update at Budget 2012.

2.66 Tax treaties – Following consultation on the proposed legislation over the summer, the Government announced on 9 September 2011 that it had decided not to include legislation in Finance Bill 2012 because of the uncertainty the draft rules could create for UK business and overseas investors.

Tax administration

2.67 UK/Switzerland agreement – Legislation will be introduced to give effect to the agreement between the UK and Switzerland about co-operation in tax matters that was signed on 6 October 2011. It is anticipated that the agreement will take effect from 1 January 2013. The measure also provides that the fact that arrangements with a territory contain significant protection for UK tax revenue may be taken into account in classifying that territory for the purposes of the offshore penalty legislation.

2.68 Information powers – As announced at the report stage of the Finance Bill 2011, and following consultation over the summer, legislation will be introduced to bring HMRC’s information powers up to the standards required by the Global Forum on Transparency and Exchange of Information for Tax Purposes. A summary of responses to the July 2011 consultation document was published on 6 December 2011 on the HMRC website.

2.69 Tax agents: dishonest conduct – As announced in Budget 2011, and following consultation over the summer, legislation will be introduced to address

dishonest conduct by tax agents. A summary of responses to the July 2011 discussion document was published on 6 December 2011.

2.70 Incapacitated persons: a modern approach – Following consultation over the summer, legislation will be introduced to remove the unsatisfactory definition of an incapacitated person and associated tax provisions from the Taxes Management Act 1970 (and other similar legislation). A summary of responses to the consultation on this measure was published on 6 December 2011 on the HMRC website.

2.71 Real time information – As announced in a technical note published on 14 November 2011 with the draft PAYE, NICs and Construction Industry Scheme regulations, legislation is being introduced to provide HMRC with additional powers to make regulations that will facilitate the introduction of real time information (RTI). A TIIN will be issued when the wider regulations are published in March 2012.

Office of Tax Simplification review of reliefs

2.72 As announced at Budget 2011, and following consultation over the summer, legislation will be included in Finance Bill 2012 to abolish the following provisions from 6 April 2013 (1 April 2013 for corporation tax elements and harbour reorganisation schemes):

- mineral royalties;
- disadvantaged areas relief: SDLT;
- grants for giving up agricultural land;
- Angostura bitters;
- Black Beer;
- luncheon vouchers;
- relief on certain payments arising from a reduction in pool betting duty;
- stamp duty: relief on certain transactions in shares;
- tax reserve certificates issued by HM Treasury;
- payments for the benefit of family members;
- capital allowances: safety at sports grounds;
- capital allowances: flat conversion allowances;
- stamp duty: reliefs for certain transactions in land;
- harbour reorganisation schemes; and
- pensions for 1947 redundancies.

Legislation will be included in Finance Bill 2012 to abolish the following provisions and to repeal the relief from 6 April 2015 (1 April 2015 for corporation tax elements):

- deeply discounted securities;
- life assurance premium relief; and
- life assurance premiums paid by employers under an employer-financed retirement benefit scheme (EFRBS).

The draft provisions are published separately for the purposes of consultation, however, the Government will legislate these repeals through a single schedule in Finance Bill 2012.

Legislation will be introduced in a future National Insurance Contributions Bill to abolish the provision set out below:

- Class 4 NICs: deduction for certain losses from income other than from a trade or profession or vocation.

Following the summer consultation the Government decided, for exceptional reasons, not to abolish the reliefs set out below:

- late-night taxis;

- land remediation relief;
- compensation for mis-sold pensions; and
- Class 1 NICs exemption for payments as a reward for assistance with lost or stolen credit cards.

Details of all these withdrawals are provided in the TIINs available at Annex A.

A consultation response document was published on 6 December 2011 on the HM Treasury website.

Measures introduced by secondary legislation

2.73 The measures set out in this section will all be introduced by secondary legislation. Details of the regulations will be made available on the HMRC website together with the relevant TIINs.

2.74 **Fuel duty** – As announced in the Autumn Statement, the 3.02 pence per litre fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012, and the inflation increase that was planned for 1 August 2012, expected to be worth 1.92 pence per litre, will be cancelled. Secondary legislation will be introduced to give effect to the deferment.

2.75 **VAT: diplomatic privilege** – Although announced in Budget 2011, legislation will not now be introduced to provide indirect tax and duty reliefs for diplomatic missions, international bodies, and visiting NATO forces – the existing arrangements which provide these reliefs will remain in place. Separate secondary legislation will be introduced in due course to provide VAT relief for European Research Infrastructure Consortia.

2.76 **Commutation of small personal pension funds** – As announced on 19 April 2011 in response to the call for evidence paper on early access to pension savings, the Government has been exploring ways of extending the rules on commutation of small pension pots to personal pensions. Secondary legislation, published on 6 December 2011, will allow individuals aged 60 or over with small personal pension pots of £2,000 or less to commute a maximum of two such pots in their lifetime.

2.77 **Overseas transfers of UK pension savings** – Draft regulations published on 6 December 2011, will provide for changes to the regime that allows transfers of pension savings from UK registered pension schemes to qualifying registered overseas pension schemes (QROPS) to be made free of UK tax. These changes will revise the conditions that a scheme has to meet to be a QROPS and strengthen the information and reporting requirements from 6 April 2012.

2.78 **Extension of business premises renovation allowances scheme** – As announced at Budget 2011, secondary legislation will be introduced by March 2012 to extend the business premises renovation allowances (BPRA) scheme for five years, until 11 April 2017. The legislation will also include new provisions, applying from 11 April 2012, to ensure that the scheme continues to comply with State aid rules.

2.79 **Office of Tax Simplification review of reliefs** – As announced at Budget 2011, and following consultation over the summer, regulations will be made to abolish the provisions set out below effective from 6 April 2012:

- Class 1 NICs exemption for certain apprentices and students coming to the UK;
- Class 1A NICs exemption for prescribed general earnings; and
- certain payments to mariners to be disregarded for Class 1 NICs.

Regulations will be made to abolish the provisions set out below effective from 6 April 2013:

- cycle to work days: provision of meals;
- luncheon vouchers: exemption from Class 1 NICs.

A Tax Information and Impact Notes: Introduction

A.1 As set out in the introduction, the Government has consulted on its approach to tax policy making. One of the elements of this has been how information about changes in tax policy is communicated and presented.

A.2 From Budget 2011 onwards, the Government will publish a Tax Information and Impact Note (TIIN) for most tax policy changes at the point at which the policy design is final or near final. This was set out by the Exchequer Secretary to the Treasury in a Written Ministerial Statement on 15 March 2011. Depending on the nature of the policy change, a TIIN could be published alongside the Budget, draft legislation or final legislation. A TIIN will be produced for the majority of substantive changes in tax and NICs policy by primary and secondary legislation.[1]

A.3 TIINs are published in this document for measures intended for inclusion in Finance Bill 2012.

A.4 For each policy measure, the TIIN will provide a clear statement of:

- the change the Government proposes to make to the tax system;
- why it proposes this change; and
- what it expects the impacts of the change to be.

Impact of policy changes

A.5 All the tax policy changes contained in this document have been tested against the list of possible impacts as used in regulatory Impact Assessments.[2] 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.6 The full list of other impacts against which each policy has been tested is as follows:

- equality;
- competition;
- small firms;
- carbon emissions;
- wider environment;
- health;

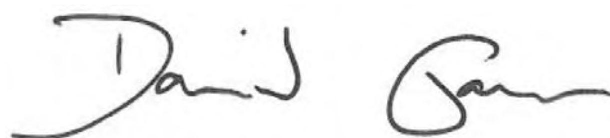
[1] Generally, TIINs will not be published e.g.alongside a routine legislative change that gives effect to previously announced policy, such as routine changes to rates, appointed day orders, secondary legislation enacting Double Taxation treaties, or secondary legislation not laid before Parliament.

[2] See Annex 6 of the Impact Assessment toolkit: http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-518-impact-assessment-toolkit.pdf

- sustainable development;
- rural proofing;
- justice; and
- privacy.

Ministerial sign-off for Tax Information and Impact Notes

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



David Gauke MP

Exchequer Secretary to the Treasury

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A1 Personal Taxes, National Insurance Contributions and Capital Gains Tax

HM Revenue & Customs

Seed Enterprise Investment Scheme

Who is likely to be affected?

Smaller, early stage companies raising equity, and individuals investing in such companies.

General description of the measure

This measure introduces a new tax-advantaged venture capital scheme, similar to the Enterprise Investment Scheme (EIS).

The new scheme – the Seed Enterprise Investment Scheme (SEIS) – will be focused on smaller, early stage companies carrying on, or preparing to carry on, a new business in a qualifying trade. The scheme will make available tax relief to investors who subscribe for shares and have a stake of less than 30 per cent in the company.

The relief will apply to investments made on or after 6 April 2012.

For the first year of the new scheme, the Government will offer a capital gains tax (CGT) holiday – gains realised on the disposal of assets in 2012-13 that are invested through SEIS in the same year will be exempt from CGT.

Policy objective

The measure will support the Government's growth agenda by helping smaller, riskier, early stage UK companies, which may face barriers in raising external finance, to attract investment, making it easier for these companies to be established and to grow.

Background to the measure

The Government announced at Budget 2011 that it would bring forward proposals to support investment in smaller, early stage companies. A consultation document, *Tax-advantaged venture capital schemes: a consultation* was published on the Treasury website on 6 July 2011 setting out in detail a number of design issues concerning the new scheme. The Government's consultation response document was published on 6 December 2011.

Detailed proposal

Operative date

The relief will apply to shares issued on or after 6 April 2012.

Current law

The EIS legislation is in Part 5 of the Income Tax Act (ITA) 2007.

Sections 150A and 150B of the Taxation of Chargeable Gains Act 1992 make provision for exemption from capital gains tax of gains on disposals of shares in companies within the scope of the EIS. Schedule 5B of that Act provides for deferral of gains on disposals of assets where those gains are reinvested in shares under the EIS.

Proposed changes

Legislation will be included in Finance Bill 2012 to provide for a new tax advantaged venture capital scheme. This will:

- apply to smaller companies, those with 25 or fewer employees and assets of up to £200,000, which are carrying on or preparing to carry on a new business;
- give income tax relief worth 50 per cent of the amount invested to individual investors with a stake of less than 30 per cent in such companies, including directors who invest in their companies;
- apply to subscriptions for shares, using the same definition of eligible shares as EIS (which it is proposed will be widened in Finance Bill 2012);
- apply to an annual amount of investment of £100,000 per investor, with unused annual amounts able to be carried back to the previous year, as under EIS;
- provide for relief within an overall tax favoured investment limit of £150,000 for the company. To give the greatest degree of flexibility, this will be a cumulative limit, not an annual limit;
- provide for an exemption from CGT on gains on shares within the scope of the SEIS; and,
- provide for an exemption from CGT on gains realised from disposals of assets in 2012-13, where the gains are reinvested through the new SEIS in the same year.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	nil	-50	-25	-20	-20
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	Tax relief is provided to incentivise investment in companies that may face barriers in raising equity finance, including seed level companies. This relief will provide a more generous rate of relief than offered under EIS and will increase the incentive for individuals to invest in small companies and help new businesses to establish. This is likely to increase investment in these companies, which will contribute to wider economic growth.					
Impact on individuals and households	Individual investors will be able to access a higher rate of relief than they would if they invested in qualifying companies under EIS or VCTs from April 2012. The scheme will also encourage individuals to become entrepreneurs with the backing of SEIS investors.					
Equalities impacts	Compared to the self-assessment population, EIS and Venture Capital Trust (VCT) investors tend to be male, located in the south of England and have higher overall income levels; users of SEIS are likely to share these characteristics. No further data is available to suggest that there will be impacts on other groups. From the data available it is therefore envisaged that these changes will not have any further impact on those groups affected by equality legislation.					
Impact on business including civil society organisations	The change should increase the amount of equity investment available to smaller companies (including potentially some in civil society organisations). The relief is claimed by investors rather than the investee companies, therefore there is unlikely to be any additional administrative burden on companies.					

	It is estimated that 300 or more companies will benefit from investment under the scheme in its first year.
Operational impact (£m) (HMRC or other)	It is currently proposed that the scheme will be administered in a similar way to the EIS. There will therefore be a small increase in the work done by the offices that currently administer EIS and VCT work. There will also be some small costs in updating computer systems, forms and guidance.
Other impacts	Competition assessment: There will be a positive impact for small early stage companies receiving investment under SEIS, as more individuals will look to invest in such companies. It should not have any impact on competition as it will not affect or limit suppliers' ability to compete. Small firms impact test: the proposed reforms are beneficial and will help to increase the provision of equity available to invest in small businesses.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment will be regularly monitored and published. The Government will evaluate the scheme in 2016 to determine whether or not it should continue.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).

HM Revenue & Customs

Enterprise Investment Scheme and Venture Capital Trusts: Better Focus

Who is likely to be affected?

Companies raising money under the Enterprise Investment (EIS) and Venture Capital Trust (VCT) schemes, and individuals investing under the schemes.

General description of the measure

This measure will better focus the EIS and VCT schemes through:

- introducing a new disqualifying purpose test for the schemes;
- providing that acquiring shares in another company (other than by subscription in a subsidiary) will not be a qualifying activity; and,
- providing that receipt of Feed-In Tariffs (FiTs) or similar subsidies will not generally be a qualifying activity.

Policy objective

The aim of this measure is to focus the EIS and VCT schemes better on higher risk activities, preventing tax relief being provided for investment in companies or activities outside the purpose of the schemes and so helping smaller, higher-risk UK companies to obtain finance.

Background to the measure

The Government announced in Budget 2011 its intention to improve the focus of the reliefs, and proposals were included in a consultation document *Tax-advantaged venture capital schemes: a consultation* published on the Treasury website on 6 July 2011.

Comments received in response to that document have been reflected in the measure. In particular, the overall approach taken on the purpose test has been revised.

Detailed proposal

Operative date

Purpose test: For both EIS and VCTs the new disqualifying purpose test will apply to shares in underlying investee companies issued on or after 6 April 2012.

Share acquisition: The exclusion of share acquisition as a qualifying activity will apply, for EIS, to shares issued on or after 6 April 2012 and for VCTs, to money invested in a VCT on or after that date.

Exclusion of FiTs based activity: For both EIS and VCTs, the exclusion will apply to all shares in underlying investee companies issued on or after 6 April 2012. The exclusion will also apply to shares issued between 23 March 2011 and 6 April 2012 where the investee company has not commenced subsidised electricity generation before 6 April 2012.

Current law

The EIS and VCT legislation is in Parts 5 and 6 (respectively) of the Income Tax Act (ITA) 2007.

Section 192 ITA (for EIS) and section 300 ITA (for VCTs) defines which activities, carried on by an investee company, exclude it from qualifying for relief.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to:

- introduce a new disqualifying purpose test. The test will disqualify shares which are issued subject to arrangements whose main purpose is to generate access to the reliefs in circumstances where either the benefit of the investment is passed to another party to the arrangements, or the business activities would otherwise be carried on by another party;
- amend the definition of qualifying business activity to exclude acquiring existing shares in another company; and,
- provide that activity comprising receipt of FiTs or similar subsidies will not generally be a qualifying activity. There are a number of exceptions to this. Electricity generated by anaerobic digestion or hydro power, and projects operated by community interest companies, co-operative societies, community benefit societies or Northern Ireland industrial and provident societies will not be affected.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out as part of a wider reform to the EIS and VCTs in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to increase receipts by approximately £30 million per annum.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Smaller, higher risk companies tend to face barriers in raising equity finance, and tax relief is given under the EIS and VCT schemes to incentivise such investment.
If companies carrying out lower risk activities can obtain investment under the schemes, the schemes may fail to serve their purpose.
Excluding companies carrying out lower risk activities (for example, because they are already in receipt of another subsidy, as with FiTs, or because arrangements have been made for the company to receive a guaranteed income stream) should focus investment on those companies that are the real target of the schemes.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Around 10,000 individual investors invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs. Individuals investing under the schemes benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies and favourable capital gains tax treatment on eligible investment.</td></tr>
</table>

Equalities impacts	Compared to the self-assessment population, EIS and VCT investors tend to be male, located in the south of England and have higher overall income levels. The changes to the schemes are not likely to change that position. No further data is available to suggest that there will be impacts on other groups. From the data available it is therefore envisaged that these changes will not have any further impact on those groups affected by equality legislation.
Impact on business including civil society organisations	The changes proposed will exclude certain companies and activities from the benefit of the reliefs and will therefore have some impact on those companies, although this is necessary to ensure that the reliefs remain properly targeted and the impact of the changes will be fairly small, within the existing framework of the reliefs. The legislation excluding investment in FiTs subsidised trades will not apply to certain classes of company which are established with public or social benefit in mind. Such companies will be able to continue to receive investment under the venture capital schemes. VCTs will incur some one off administrative costs since they will need to ensure that their investments meet the new conditions (though these are expected to be negligible). Around 2,000 companies raise funds under EIS each year, and in total around 1,600 through VCTs for all years up to 2007-08.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating forms and guidance.
Other impacts	Small firms impact test: EIS and VCTs are reliefs intended to help small firms, and changes to them may therefore have an impact on such firms. Carbon assessment: The provisions excluding investment in FiTs subsidised trades will mean less support for investment in solar photovoltaic and wind turbines. Other low carbon technologies – including hydroelectricity and anaerobic digestion – will continue to receive support. The overall environmental impact of these changes therefore depends on whether, and to what extent, investment is diverted between technologies. Competition assessment: The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment are regularly monitored and published as National Statistics.

Further advice

If you have any queries about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).

HM Revenue & Customs

Enterprise Investment Scheme and Venture Capital Trusts: Simplification

Who is likely to be affected?

Companies raising money under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) and individuals investing under the schemes.

General description of the measure

This measure will amend the EIS to:

- relax the rules defining when a person is connected to a company through an interest in its capital; and,
- widen the definition of shares which qualify for relief.

It will also remove the £1 million limit on investment by a VCT in a single company (except for companies in a partnership or a joint venture).

Policy objective

The aim of the EIS and VCT schemes is to help smaller, riskier UK companies to compete for equity finance, recognising a market failure in the supply of such finance.

The measure simplifies the rules of the schemes making them easier for companies, VCTs and investors to use.

Background to the measure

The Government announced its intention to consult on simplification of the scheme in Budget 2011, and a consultation document, *Tax-advantaged venture capital schemes: a consultation* was published on the Treasury website on 6 July 2011.

The measure takes account of views expressed in the consultation.

Detailed proposal

Operative date

The changes to EIS will apply to shares issued on or after 6 April 2012. The change to the VCT scheme will apply to shares issued on or after 1 April 2012.

Current law

The EIS is in Part 5 of the Income Tax Act (ITA) 2007.

Within that part, the rule defining when an individual is "connected" to a company (and so not eligible under EIS for relief on investment in the company) is at section 170 ITA. In particular, it provides that an individual must not possess or be entitled to acquire more than 30 per cent of the loan capital and issued share capital of the company (s170(1)(b)).

The rule defining the type of shares which can qualify for relief under the scheme is at section 173 ITA. It provides (at s173(2)) that the shares must not be entitled to any present or future preferential rights to dividends.

The Venture Capital Trust Scheme is in Part 6 of ITA 2007.

Within that part, the rules defining what investments, by a VCT, in a company, count as "qualifying holdings" are in Chapter 4. In particular, section 287 - the "maximum qualifying investment requirement" - provides that in any period, up to £1million may be invested by a VCT in a company as part of the VCT's qualifying holdings. If the company is a member of a partnership or joint venture, this amount is divided between the members so that the partnership or joint venture as a whole cannot receive more than £1million of investment.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to:

- disregard loan capital for the purposes of the limit on the proportion of a company's capital which an investor can hold without being treated as "connected";
- allow shares to carry a preferential right to dividends providing their amount and the date that they are payable is not dependent on a decision of the company, the holder or anyone else, and providing that the dividends are not cumulative; and,
- remove the £1 million limit for VCT investment for companies not in partnership.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The figures were set out as part of a wider reform to the Enterprise Investment Scheme and Venture Capital Trusts in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to have a negligible impact on receipts.				
Economic impact	Smaller, higher risk companies tend to face barriers in raising equity finance, and tax relief is given under the EIS and VCT schemes to incentivise such investment. The legislation which ensures that the reliefs are properly targeted is lengthy and, in places, complicated. The Government is committed to simplifying it wherever possible. By relaxing the rules under which relief is given, and aligning them more closely with commercial practice, the changes in this measure will make it easier for companies and individuals to benefit under EIS and VCTs and therefore easier for companies to raise equity for investment and growth.				
Impact on individuals and households	Individual investors investing under EIS and VCTs will benefit from these simplifications to the rules of the schemes. Around 10,000 individuals invested through EIS in 2008-09, the last year for which figures are available, and around 6,300 through VCTs.				
Equalities impacts	Compared to the self-assessment population, EIS investors tend to be male, located in the south of England and have higher overall income levels. The changes to the schemes are not likely to change that position. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.				

Impact on business including civil society organisations	The simplification proposals set out here are deregulatory overall although the level of any savings will be small. There may be a one-off administrative impact in familiarisation with the new rules, though this is expected to be negligible. HM Revenue & Customs operates an advance assurance system for the schemes under which companies can seek advice before making a share offer and this will assist companies in using the new definition of eligible shares. Shares which would have previously qualified will continue to do so. Around 2,000 companies raise funds under EIS each year and in total around 1,600 through VCTs for all years up to 2007-08.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating forms and guidance.
Other impacts	The EIS is designed to incentivise investment in smaller companies. The changes being introduced are based on consultation with this sector and should have a positive effect. The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment are regularly monitored, and published as National Statistics.

Further advice

If you have any queries about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk).

Enterprise Investment Scheme and Venture Capital Trusts: Increases to Thresholds

Who is likely to be affected?

Companies raising money under the Enterprise Investment (EIS) and Venture Capital Trust (VCT) schemes, and individuals investing under the schemes.

General description of the measure

This measure will increase the annual amount that an individual can invest under the EIS. Subject to state aid approval, legislation will also be introduced in Finance Bill 2012 to increase:

- the thresholds for the maximum size of qualifying company for both EIS and VCTs; and,
- the maximum annual amount that can be invested in an individual company under all the venture capital schemes.

Policy objective

The aim of EIS and VCTs is to help smaller, riskier UK companies, which face barriers in raising external equity finance, to compete for finance, making it easier for these companies to be established and to grow.

Background to the measure

Budget 2011 announced a number of changes to the EIS and VCT rules, including increases to the company size limits, the rate of EIS income tax relief and the annual EIS investment limit, as well as proposals to focus the reliefs better and simplify the rules, which were consulted on in summer 2011.

State aid approval for the increases in the rate of EIS relief and the EIS annual amount was received in September 2011.

Detailed proposal

Operative date

The increases to the company size limits, and the annual amount of investment that a company may receive will, subject to state aid approval, have effect for investee company shares issued on or after 6 April 2012.

The increase in the annual amount that an individual can invest under the EIS has already received state aid approval and will apply to the tax year 2012-13 and subsequent years.

Current law

The EIS and VCT legislation is in Parts 5 and 6 respectively of the Income Tax Act (ITA) 2007.

The limit (currently £500,000) on the annual amount which an individual can invest under EIS) is set by section 158 ITA.

The company size threshold (gross assets of no more than £7 million immediately before the share issue and £8 million after) is set by section 186 ITA for EIS and section 297 ITA for VCTs.

The limit on the number of employees (currently, fewer than 50) is at sections 186A ITA and 297A ITA.

The £2 million limit on the amount of investment that a company can raise under both schemes is defined at section 173A ITA for EIS and section 292A ITA for VCTs.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to increase:

- the employee limit to fewer than 250 employees;
- the size threshold to gross assets of no more than £15 million before investment and £16 million after; and,
- the maximum annual amount that can be invested in an individual company, to £10 million.

Subject to state aid approval these changes will apply to shares in investee companies that are issued on or after 6 April 2012.

Legislation will also increase the annual amount that an individual can invest under the EIS to £1million. This has already received State aid approval and will apply to the tax year 2012-13 and subsequent years.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The figures were set out as part of a wider reform to the EIS and VCTs in Table 2.1 of Budget 2011 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. This element of the reform is expected to decrease receipts by approximately £70 million each year.				
Economic impact	Smaller, higher risk companies tend to face barriers in raising equity finance, and tax relief is given under the EIS and VCT schemes to address this market failure and incentivise such investment. The Government is proposing to increase company size and investment thresholds because of evidence that the market failure goes wider than the companies and investments included by the current limits.				
Impact on individuals and households	Around 10,000 individual investors and households invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs. Individuals investing under the schemes benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies and favourable capital gains tax treatment on eligible investment.				

Equalities impacts	Compared to the self-assessment population, EIS and VCT investors tend to be male, located in the south of England and have higher overall income levels. The changes to the schemes are not likely to change that position. The Government has no data to suggest that there will be impacts on other groups. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.
Impact on business including civil society organisations	The change should increase the amount of equity investment in smaller companies, including potentially some acting in the civil society. There is no administrative impact on EIS companies, since the relief is claimed by investors rather than the investee companies. VCTs have to apply the rules to determine whether or not a potential investee company will qualify. However, as they already apply limits, albeit lower ones, there should be only a one-off administrative impact of familiarisation with the higher limits, which is expected to be negligible. Around 2,000 companies raise funds under EIS each year and in total around 1,600 through VCTs for all years up to 2007-08.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating the forms and guidance.
Other impacts	There will be a positive impact for smaller firms receiving investment under the EIS, as individuals will be able to invest higher amounts and a wider range of companies will be able to benefit from investment. The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@hmrc.gsi.gov.uk)

HM Revenue & Customs

Reform of the Taxation of Non-Domiciled Individuals

Who is likely to be affected?

UK resident non-domiciled individuals who claim the remittance basis of taxation.

General description of the measure

The measure makes three keys changes.

The first is to introduce a higher annual charge of £50,000 for those non-domiciles who claim the remittance basis in a tax year and have been resident in at least 12 of the previous 14 tax years.

The second removes the charge to UK tax on overseas income or capital gains remitted to the UK for the purpose of making a commercial business investment in an unlisted company or a company listed on an exchange regulated market.

The third introduces simplifications to the existing remittance basis rules in respect of nominated income and the taxation of assets remitted to and sold in the UK.

Policy objectives

This measure supports the Government's objective of creating a fairer tax system by building on the existing rule. This rule requires non-domiciles who have been in the UK for more than a short period to pay an annual charge of £30,000 if they wish to retain access to the beneficial tax regime. The measure introduces a higher £50,000 annual charge for those who have been in the UK the longest to reflect their closer connection to the UK.

Furthermore, this measure will support the Government's objective of encouraging investment into the UK. Currently overseas income or capital gains remitted to the UK by individuals claiming the remittance basis are liable to UK tax, regardless of the purpose for which they are used. This measure will remove this disincentive to bring funds into the UK to invest in trading and commercial property companies.

This measure will support the Government's objective of a simpler tax system by simplifying some aspects of the rules related to nominated income and taxation of assets remitted and sold in the UK.

Background to the measure

The Government announced a package of reforms to the taxation of non-domiciles at Budget 2011.

A consultation document *Reform of the taxation of non-domiciled individuals* was published on 17 June 2011 on the HM Treasury and HM Revenue & Customs (HMRC) websites. The Government has considered all the responses to the consultation, as detailed in the summary of responses document published on 6 December 2011.

A separate Tax Information and Impact Note covers changes to the capital gains tax treatment of foreign currency bank accounts proposed in the consultation.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2012.

Current law

Increased remittance basis charge: Under section 809H of the Income Tax Act 2007 (ITA 2007), non-domiciles taxed on the remittance basis in a tax year who have been resident in at least seven of the nine tax years preceding the year of claim are required to pay an annual charge of £30,000.

Encouraging business investment: Under section 809L ITA 2007, overseas income or capital gains remitted to the UK by resident non-domiciles claiming the remittance basis are liable to UK tax, regardless of the purpose for which they are used.

Nominated income: Under section 809H ITA 2007, non-domiciles who have been UK resident in at least seven of the past nine tax years are liable to pay an annual charge of £30,000 if they wish to be taxed on the remittance basis. They are also required, under section 809C, to nominate an amount of their overseas income and capital gains which is taxable on the arising basis to ensure that the £30,000 is a recognised tax charge for the purposes of the UK's double taxation agreements. Identification rules in sections 809I and 809J ITA 2007 prevent such individuals from subsequently remitting any of these nominated income or capital gains before their other overseas income and capital gains.

Taxation of assets remitted to and sold in the UK: Assets purchased overseas using overseas income or capital gains are normally a taxable remittance when they are brought to the UK. There are limited exemptions to this rule in section 809X ITA 2007 which treats certain assets as exempt from tax in the UK. However, these exemptions cease to be available if the asset is sold in the UK, with the result that the individual will become liable to UK tax on the overseas income and gains used to purchase the asset.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend or simplify current legislation.

Increased remittance basis charge: The £50,000 charge will work in the same way as the current £30,000 charge. In each tax year, resident non-domiciled individuals will have a choice whether to pay the charge or to be liable to UK tax on their worldwide income and capital gains. Individuals will be able to opt in and out of the remittance basis from year to year, and choosing the arising basis in one year will not preclude claiming the remittance basis in a future year. The annual charge will not be payable if the individual is under 18 or if they have unremitted overseas income and capital gains of less than £2,000 in the tax year.

Encouraging business investment: From 6 April 2012 non-domiciles will be able to remit their overseas income or capital gains to the UK tax-free, where they do so for the purposes of making a ‘qualifying investment’. A ‘qualifying investment’ is an investment in unlisted companies, or those listed on exchange regulated markets, which carry out trading activity on a commercial basis or undertake the development or letting of commercial property. There will be specific anti-avoidance provisions to ensure the investment is made on proper commercial terms.

Simplification of the treatment of nominated income: The nominated income rules will be amended to allow individuals to remit up to £10 of overseas income or capital gains which they have nominated for the purposes of the annual remittance basis charge, without being taxed on that remittance and without becoming subject to the identification rules. This will

apply both for the purposes of the existing £30,000 charge, and for the new increased £50,000 charge.

Simplification of the taxation of assets remitted to and sold in the UK: The Government proposes to build on the existing exemptions and introduce a new provision which would remove the tax charge that arises where exempt property remitted to the UK ceases to be exempt property as a result of being sold in the UK. This exemption will apply to all exempt property and will not be restricted to any particular class of asset or sector of the economy. There will be specific anti-avoidance provisions requiring the vendor to send the sale proceeds offshore in order to benefit from the exemption.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out as part of a wider reform to the taxation of non-domiciled individuals in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to increase receipts by approximately £75 million a year.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The increase in the annual remittance basis charge could have a negative economic impact in isolation and there may be an increase in the number of individual non-domiciles who choose to either leave the UK or not to settle here. However, the increased charge is one element of a package of reforms that is expected, overall, to have a positive impact on the economy.

The measure includes an incentive for additional inward investment from non-domiciles. This is expected to have a positive economic impact by helping businesses across a variety of sectors to grow, increasing economic activity and creating additional employment, with resulting benefits for the Exchequer.

The simplifications to existing remittance basis rules are not expected to have a direct economic impact but will have an indirectly positive impact. The complexity of the current rules, and the administrative burdens this can create, may create disincentives to invest or do business in the UK. The simplifications will help to remove some of those disincentives.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The increase to the annual remittance basis charge will only impact individuals and households already liable to pay the £30,000 charge. It is estimated that around 3,500 such individuals will choose to pay the higher £50,000 charge in 2012-13. It is assumed that only those who have significant levels of overseas income and gains in the relevant tax year will choose to pay the charge.

Affected individuals who are non-domiciled and choose not to pay the charge will lose access to the remittance basis of taxation. They will become liable to UK tax on their worldwide income and gains (the arising basis) and will be required to disclose all their worldwide income and gains on a self assessment (SA) tax return. It is estimated that around 3,500 individuals will choose to move to the arising basis in 2012-13. A small number of individuals may chose to leave the UK instead.

It is difficult to quantify how many will benefit from the measure to encourage business investment as there is no requirement for remittance basis users to provide information about their unremitted overseas income</td></tr>
</table>

	and gains. Some individuals and households will pay less tax on remittances of overseas income and capital gains, if they are currently making remittances for business investment. There are also expected to be benefits from the investment opportunities this policy will make available. No-one will pay more tax on remittances of overseas income and capital gains as a result of this policy. The option will be open to any remittance basis user who wishes to invest in UK business, regardless of the level of personal wealth, and is designed to be as simple as possible to operate, to ensure minimal costs for those wishing to use this measure to invest. Although individuals may need to make additional declarations on their SA tax returns, the information required will be limited. As most affected individuals will already be submitting an annual SA tax return, this will not be a large additional administrative burden. The simplifications to the existing remittance basis rules will not have a material impact on the amount of tax paid for any individual and household. However, they will reduce the administrative burden of operating and complying with the rules for many individuals who claim the remittance basis. Figures for number of individuals are rounded to the nearest 500.
Equalities impacts	These reforms are not expected to have any impacts on people with protected characteristics. Any non-domiciled individual who has been resident in the UK for the relevant period will have a choice whether to pay the increased charge and retain access to the remittance basis, or to be taxed on their worldwide income in the same way as all other UK resident taxpayers.
Impact on business including civil society organisations	It is expected that any increase in administrative burdens through the increased annual remittance basis charge would be negligible as the change will only affect individuals. In addition, the vast majority of expatriate employees are assigned to the UK for six years or less and so this policy will not affect them or their employers. It is expected that the measure to encourage business investment will have a negligible impact on the administrative burden or compliance costs for businesses or civil society organisations. Qualifying businesses will benefit from increased investment helping to generate growth, additional employment and further economic activity. The simplifications to the existing remittance basis rules are expected to result in a reduction in administrative burdens for employers, particularly those with employees on tax equalisation contracts, and for agents with clients taxed on the remittance basis whose compliance obligations will be reduced. This reduction is expected to be negligible.
Operational impact (£m) (HMRC or other)	Any individual who pays the £50,000 charge will already be paying the £30,000 charge, so there are not expected to be any significantly increased operational costs for HMRC from the increase to the remittance basis charge. Although there is not expected to be a significant operational impact from the measure to encourage business investment, there will be limited compliance costs for HMRC from the decision to require an individual to claim the relief as part of the Self Assessment process. Such costs will

	include amending HMRC forms to enable a claim to be made, and the capture and processing of that information. The simplifications to the existing remittance basis rules will result in overall reduction in compliance burdens and decreased operational costs for HMRC associated with remittance basis taxpayers.
Other impacts	The potential for other impacts has been considered for the full package of reforms and none have been identified.

Monitoring and evaluation

This measure will be monitored through HMRC's existing operational systems and processes, including receipts and data collected from Self Assessment tax returns.

Further advice

If you have any questions about these changes, please email:
offshorepersonal.taxteam@hmrc.gsi.gov.uk

HM Revenue & Customs

Capital Gains Tax: Foreign Currency Bank Accounts

Who is likely to be affected?

Individuals, trustees and personal representatives of deceased persons who hold bank accounts in a currency other than sterling.

General description of the measure

Capital gains arising on withdrawals of money in foreign currency bank accounts will not be liable to capital gains tax (CGT), and capital losses will not be allowable losses.

Policy objective

The measure will increase simplicity in the tax system by reducing administrative burdens in certain cases, by removing foreign currency bank accounts (FCBAs) from the scope of CGT.

Background to the measure

Bank accounts denominated in a currency other than sterling are chargeable assets for CGT. There is an exemption from CGT for certain funds held in these accounts held by individuals, but not all. This means that every withdrawal, however small or large, of funds from accounts that are not exempt funds constitutes a part disposal of the account on which a capital gain or loss can arise as a result of movements in currency exchange rates.

The administrative burden of calculating gains and losses and keeping detailed records for very long periods can be disproportionate to the final tax payable or losses allowable. The burdens are particularly relevant to non-domiciled individuals taxed on the remittance basis as they are more likely to make regular use of FCBAs and cannot rely on the CGT annual exempt amount (AEA) to cover small net chargeable gains arising on the accounts.

At Budget 2011 the Government announced that it would reform the taxation of non-domiciled individuals, including measures to simplify aspects of the current remittance basis rules to remove undue administrative burdens.

Reform of the taxation of non-domiciled individuals: a consultation, issued on 17 June 2011, included consultation on changes to the CGT treatment of FCBAs. The Government has considered all the responses to the consultation, as detailed in the summary of responses published on 6 December 2011.

A separate Tax Information and Impact Note covers other reforms to the taxation of non-domiciled individuals proposed in the consultation.

Detailed proposal

Operative date

The measure will have effect for withdrawals of money from FCBAs on or after 6 April 2012.

Current law

Debts are assets for CGT purposes (section 21(1) of the Taxation of Chargeable Gains Act 1992 (TCGA 1992)). The person holding a debt in the form of a credit balance on a bank account is exempt from CGT on withdrawals from the account (section 251(1) TCGA 1992). But the exemption does not apply where the bank account is not in sterling (section 252(1) TCGA 1992). Sums deposited in an individual's bank account in a foreign currency are

however exempt if the monies are held for the purpose of personal expenditure abroad by the individual, their family or dependants (section 252(2) TCGA 1992).

Certain other provisions of the TCGA 1992 are indirectly affected by the main change and will be removed.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend section 252 TCGA 1992 so that the exemption in section 251(1) applies to all bank accounts held by individuals, trustees of settled property, and personal representatives of deceased persons.

As a result of the main change outlined above some consequential changes will be made to provisions in the TCGA 1992, as follows.

A provision in section 13(5)(c) that refers to the current section 252 is obsolete and will be repealed.

The existing, limited, exemption in section 252(2) for certain funds held in accounts held by individuals will be superseded and cease to apply.

Schedule 8A will be repealed. The Schedule provides rules for calculating chargeable gains and allowable losses where individuals withdraw money from a FCBA situated outside the UK and some or all of the amount withdrawn is liable to tax as income under the remittance basis of taxation. The new section 252 prevents chargeable gains or allowable losses from arising to individuals on any such withdrawals, rendering the rules in schedule 8A redundant.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The figures were set out as part of a wider reform to the taxation of non-domiciled individuals in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to decrease receipts by approximately £5 million per annum.				
Economic impact	The change has no significant effects but, due to simplification of the tax system, any impact would be positive.				
Impact on individuals and households	This measure simplifies the tax system for individuals and households, trustees and personal representatives of deceased persons who would otherwise have had to calculate gains and losses on FCBAs to complete their tax return and pay small amounts of tax. Exact numbers affected are not available but are likely to be low.				
Equalities impacts	This measure is not expected to have any impacts on groups with protected characteristics. It seems likely to benefit non-domiciled residents more than others as they are more likely to have FCBAs. It may benefit men slightly more than women, as the former have a greater tendency to have a CGT liability, but this effect is uncertain.				
Impact on business including civil society organisations	The Government does not anticipate any specific impacts on business or civil society organisations.				

Operational impact (£m) (HMRC or other)	The Government expects there to be a negligible operational impact for HMRC.
Other impacts	The potential for other impacts has been considered and none have been identified.

Monitoring and evaluation

This measure may be kept under review through communication with taxpayer groups affected by the measure. Any risk of exploitation of the exemption will be monitored through usual HMRC channels, including examination of information from tax returns and the Disclosure of Tax Avoidance Schemes (DOTAS) regime.

Further advice

If you have any questions about this change, email capitalgains.taxteam@hmrc.gsi.gov.uk or telephone Colin Weston on 020 7147 0127.

HM Revenue & Customs

Inheritance Tax Nil Rate Band: Switch to Consumer Prices Index

Who is likely to be affected?

Executors and personal representatives of people who have died, individuals and trustees.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to provide for the inheritance tax (IHT) nil rate band (NRB) to rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 6 April 2015. Automatic indexation of the NRB using the CPI will still be subject to override if Parliament determines a different amount should apply.

Policy objective

This measure reflects the Government's intention to move the underlying indexation assumption for direct taxes from RPI to CPI.

Background to the measure

In the June Budget 2010 the Government announced a review of how the "CPI can be used for the indexation of taxes and duties while protecting revenues."

This specific measure was announced at Budget 2011.

Detailed proposal

Operative date

Automatic indexation using CPI will begin from 2015-16, using the increase in the CPI for the year to September 2014. The NRB will remain frozen at its current level (£325,000) up to and including 2014-15.

Current law

IHT is payable on the value transferred by a chargeable transfer (any transfer of value which is not exempt by way of the Inheritance Tax Act 1984 or any other enactment) above the NRB.

The NRB is frozen at its current level for chargeable transfers on or before 5 April 2015. For any later transfers Section 8, Inheritance Tax Act 1984 provides that, unless Parliament determines otherwise, NRB will increase automatically each 6 April in line with any increase in RPI over the year to the previous September.

Proposed revisions

Legislation will be included in the Finance Bill 2012 so that for the year commencing 6 April 2015 and subsequent years the automatic increase in NRB will be based on changes in CPI over the year to the previous September. As now, the result of automatic calculation will be rounded up to the nearest £1,000.

Automatic indexation by reference to the CPI will start from 2015-16 (based on the increase in the CPI for the 12 months to September 2014).

Automatic indexation of the NRB may still be overridden for a tax year if Parliament sets a different figure. HM Treasury will still make an order setting out the NRB for the new tax year under automatic indexation.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out as part of a wider reform to direct taxes indexation in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to increase receipts by approximately £20 million in 2015-16.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The change has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will impact upon individuals and households as increasing the NRB at a lower rate could lead to around 1,500 estates requiring completion of the full IHT400 form instead of the shortened IHT205 in 2015-16. Of these, it is expected that 900 more estates will have inheritance tax to pay and this number will increase over time.
The estimated one off cost to those individuals completing the IHT400 instead of the IHT205 is £45-£55, there will be a negligible difference in cost depending on whether or not any tax is due to be paid.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The gender split for those whose estates become liable to IHT is around 60 per cent female and 40 per cent male. In the main this is because, for married couples, IHT becomes due on the second death which is more likely to be the wife.
The administrative impact of this measure is not on the person leaving the estate but rather those acting as a personal representative, or executor, of the estate.
We do not expect a change in the NRB rate to have a disproportionate impact on any equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The Government envisages no initial or ongoing impact on business and the Civil Society.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">Operational impact for HMRC will be negligible and fall within usual working practices.</td></tr>
<tr><td>Other impacts</td><td colspan="5">No other impacts have been identified with this measure.</td></tr>
</table>

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

HM Revenue & Customs

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 capital gains tax (CGT) annual exempt amount (AEA) for 2012-13 at £10,600, keeping it at the same level as for 2011-12. It also provides for the AEA to rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2013-14 onwards. Automatic indexation of the AEA using the CPI will still be subject to override if Parliament determines a different amount should apply.

Policy objective

Freezing the AEA forms part of the package of measures to freeze tax and benefits thresholds as part of the Government's commitment to tackle the budget deficit. The switch to CPI from RPI from 2013-14 reflects the Government's decision to move the underlying indexation assumption for all direct taxes to CPI.

Background to the measure

In the June Budget 2010 the Government announced a review of how the "CPI can be used for the indexation of taxes and duties while protecting revenues."

The change in the underlying indexation assumption for the AEA was announced at Budget 2011.

The decision to keep the AEA at its current level of £10,600 for the year 2012-13 was announced on 29 November 2011.

Detailed proposal

Operative date

The changes will have effect for the tax year 2012-13 and later years.

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.

Section 3(2) sets the AEA for the year.

Section 3(3) increases the previous year's AEA automatically by the percentage increase in the RPI in the 12 months to September of the previous tax year, rounded up to the nearest £100. Parliament can override the automatic increase by setting a higher or lower figure. The RPI is defined in section 288(2).

Section 3(4) requires HM Treasury to issue an order setting out the AEA for the new tax year if automatic indexation applies.

Section 3(7) entitles personal representatives to the AEA for the tax year in which the deceased dies and the next two tax years. Section 3(8) of and Schedule 1 to TCGA provide rules for certain trustees to qualify for an AEA. In most instances trustees are entitled to half the AEA available to individuals.

Proposed revisions

Legislation will be included in the Finance Bill 2012 to replace the reference to the RPI in section 3 TCGA with a reference to the CPI. Rounding up to the nearest £100 will continue. The legislation will also set the AEA for 2012-13 at £10,600, keeping it at the 2011-12 level. Automatic indexation by reference to the CPI will start from 2013-14 (based on the increase in the CPI for the 12 months to September 2012).

Automatic indexation of the AEA may still be overridden for a tax year if Parliament sets a different figure. HM Treasury will still make an order setting out the AEA for the new tax year under automatic indexation. Personal representatives of deceased persons and trustees will be entitled to AEA in the same way as they are now.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	nil	+25	+25	+25	+30
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	The change proposed is not expected to have any significant economic impact.					
Impact on individuals and households	There will be an impact on individual and household's compliance costs as increasing the AEA at a lower rate over time could lead to around 60,000 more individual tax returns with a CGT liability being submitted between 2012-13 and 2015-16. However, the number of individuals affected is likely to be lower as some individuals will have a CGT liability in more than one of these years. Furthermore, it is expected that some taxpayers will arrange their disposals in such a way that the gains they make in any one year will remain below the AEA and no CGT will be payable. Administrative burdens on individuals are likely to be small. The impact will be further limited given that a significant proportion of those individuals affected are likely to be within the Self Assessment system.					
Equalities impacts	The gender split for CGT payers is 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	No significant impacts on business and the civil society sector, the majority of which will either pay corporation tax on gains (companies) or be eligible for exemptions (charitable gifts), are envisaged.					

Operational impact (£m) (HMRC or other)	There will be a negligible operational impact on HMRC.
Other impacts	This measure is not expected to have any other significant impacts.

Monitoring and evaluation

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

Further advice

If you have any questions about these changes, please contact Craig Griffith on 0207 147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

HM Revenue & Customs

Single Payment Scheme and Capital Gains Tax Roll-Over Relief

Who is likely to be affected?

Farmers, including companies carrying on a farming business, who dispose of or acquire entitlements under the EU Single Payment Scheme (SPS).

General description of the measure

The measure will preserve the availability of roll-over relief in relation to rights to SPS payments following changes to the EU scheme.

Policy objective

Roll-over relief allows businesses to defer capital gains tax (CGT) where proceeds from the disposal of certain classes of qualifying asset are reinvested into new qualifying assets. This helps businesses modernise and expand by deferring the CGT due.

The objective of the measure is to ensure farmers are not disadvantaged by losing their existing right to claim roll-over relief when they dispose of or acquire entitlements to SPS payments.

Background to the measure

Entitlements to payments under the SPS – the principal agricultural subsidy scheme in the European Union – have been included in the classes of assets eligible for CGT roll-over relief since 22 March 2005.

The EU directive under which SPS entitlements previously arose was repealed on 1 January 2009 and replaced with a similar directive.

SPS entitlements under the new directive do not qualify for roll-over relief, because the roll-over relief legislation defines SPS entitlements in terms of the original 2003 EU directive. The effect of this is that disposals and acquisitions of entitlements under the current SPS are no longer included under the classes of assets that are eligible for roll-over relief.

This measure was announced at Budget 2011.

Detailed proposal

Operative date

The revisions in this measure will be retrospective and have effect on or after 1 January 2009.

Current law

Roll-over relief is provided for in sections 152 to 159 of the Taxation of Chargeable Gains Act 1992 (TCGA). The classes of qualifying assets are listed in section 155. SPS entitlements are in Class 7A.

Proposed revisions

Legislative changes will be made in Finance Bill 2012 so that that the availability of roll-over relief in respect of entitlements to SPS payments is preserved by making appropriate amendments to the classes of qualifying assets in section 155 TCGA.

It will also allow for any future changes of this sort to be dealt with through secondary legislation. Existing powers that allow for additions to the classes of assets eligible for roll-over relief to be made by Treasury Order will be amended to ensure that existing classes can be maintained in a similar way.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	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 2012.				
Economic impact	No additional impact is envisaged.				
Impact on individuals and households	The impact on individuals and households is negligible. There are only around 7,000 transfers of entitlement to payments under SPS a year and the measure is expected to have no impact on the numbers, amounts or cost of claims involved.				
Equalities impacts	The gender split for CGT payers is relatively stable over time, with around 60 per cent of filers male and 40 per cent female. It is not known how this pattern might change for farmers but we do not expect this measure to create a disproportionate impact on a particular group of people.				
Impact on business including civil society organisations	This measure has a negligible impact on business and administrative burdens as the main impact is to ensure the continuation of an existing relief. There is no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	No additional impact is envisaged.				
Other impacts	No additional impact on competition, small firms or rural proofing is expected as this measure ensures the continuation of an existing relief for a small number of payments under an EU agricultural scheme.				

Monitoring and evaluation

This measure will be kept under review through communication with relevant taxpayer groups.

Further advice

If you have any questions about this change, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tax Exemptions: International Military Headquarters, EU Forces, etc.

Who is likely to be affected?

Members of EU military forces and EU civilian staff (working alongside military forces) serving in the UK or attached to international military headquarters in the UK.

General description of the measure

The measure ensures that members of EU forces and their civilian staff receive the tax privileges to which they are entitled under the EU Status of Forces Agreement. These privileges are the same as already apply to visiting North Atlantic Treaty Organisation (NATO) forces.

Policy objective

The measure is required in order that the UK can ratify the EU Status of Forces Agreement signed at Brussels on 17 November 2003.

Background to the measure

In 2003 the EU drew up the EU Status of Forces Agreement which was put to Parliament by the Foreign & Commonwealth Office in 2009. All Member States are required to ratify the Agreement once they have the domestic law in place to do so. This measure is the final step required to enable the UK to ratify the Agreement.

This measure has not been previously announced and the changes required are technical ones.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2012 receives Royal Assent.

Current law

Section 74A Finance Act (FA) 1960, section 155 Inheritance Tax Act 1984, section 303 Income Tax (Earnings and Pensions) Act 2003 and section 833 Income Tax Act 2007.

Section 74A FA 1960 applies an exemption from stamp duty land tax in respect of any land transaction in connection with a NATO headquarters. The other three sections provide tax privileges to members of visiting armed forces and their civilian component who are either stationed in the UK or serving at a NATO headquarters in the UK. Section 155 Inheritance Tax Act 1984 provides for an exemption from any liability to inheritance tax, section 303 Income Tax (Earnings and Pensions) Act 2003 provides for an exemption from income tax in respect of their earnings. Section 833 Income Tax Act 2007 provides that they are not to be treated as resident in the UK which means that their non-UK source income is exempt from tax, it also means they are not liable to capital gains tax which is only charged on residents.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 so that section 74A FA 1960 will apply to any international military headquarters in the UK. The other three sections will apply to military and civilian personnel either stationed in the UK or working at an international military headquarters in the UK.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	The measure has no significant economic impacts.				
Impact on individuals and households	There are probably no more than 100 EU military and civilian staff in the UK at any one time. There is a positive impact on those affected.				
Equalities impacts	This measure is likely to predominantly affect men but there are no other impacts on other equality groups.				
Impact on business including civil society organisations	The Government does not anticipate any specific impact on business or civil society organisation since EU military and civilian staff are the only parties affected.				
Operational impact (£m) (HMRC or other)	Any additional costs or savings will be negligible.				
Other impacts	No other impacts are anticipated.				

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 Geoff Barnard on 020 7147 2734 (email: geoff.barnard@hmrc.gsi.gov.uk).

HM Revenue & Customs

Income Tax Exemption: Armed Forces Continuity of Education Allowance

Who is likely to be affected?

Armed Forces Service Personnel, and their families, who receive the Ministry of Defence (MoD) continuity of education allowance (CEA).

General description of the measure

This measure will exempt from income tax, payments of CEA to service personnel and payments in respect of the children of deceased service personnel.

Policy objective

This measure aims to support the principles of the Armed Forces Covenant and in particular the principle that service personnel and their families should not be put at any disadvantage from entering into military life. It seeks to mitigate any financial impact of providing a secure and continuing education acknowledging the particular circumstances in which these men and women serve and the particular difficulties they face.

Background to the measure

The CEA is paid to service personnel to provide a continuity of education for their children that would not otherwise be possible if they accompanied their parents on frequent assignments both at home and overseas.

The CEA is currently liable to tax when paid to recipients based in the UK but the tax is paid by the MoD on behalf of CEA recipients. The financial impact of the measure will be neutral for service personnel and their families but the measure will simplify administration of the allowance.

This measure has not been previously announced.

Detailed proposal

Operative date

The measure will have effect for payments made on and after 6 April 2012.

Current law

There is no current specific tax law relating to the CEA; it is taxable as employment income. This measure introduces a new employment income exemption.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to exempt payments of the CEA from tax under the Income Tax Earnings and Pensions Act 2003 (ITEPA).

Consequential amendments will be made to sections 297A and 297B of ITEPA which provide income tax exemptions for payments of the Operational Allowance and Council Tax Relief to members of the Armed Forces. These consequential amendments are being made to align the wording of the Armed Forces exemptions.

Corresponding changes will be made in regulations to disregard the CEA for National Insurance contributions (NICs) and tax credits purposes.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The tax and NICs forgone are around £45 million a year, which will be offset by departmental funding changes to produce a zero Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure is not expected to have any general impact on individuals and households; it is a targeted measure relating to a very limited specific group of individuals.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure is likely to predominately affect men but no specific impact is envisaged. There are no other impacts on other equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The Government does not anticipate any specific impact on businesses or civil society organisations, since government departments are the only bodies directly affected.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">Any additional costs or savings will be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="5">No other impacts are anticipated. This measure is targeted at a very limited specific group of individuals. It will ensure this group is not disadvantaged and seeks to mitigate the impact of providing a secure and continuing education.</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 Neil Chattell on 020 7147 3860 (email: neil.chattell@hmrc.gsi.gov.uk).

HM Revenue & Customs

Company Car Tax: Security Enhanced Cars

Who is likely to be affected?

Individuals who, because of the nature of their employment, have a security enhanced company car which is made available for their private use.

General description of the measure

This measure excludes certain passive security enhancements from being treated as accessories for the purpose of calculating the cash equivalent of the benefit of a company car made available for private use.

Policy objective

This measure supports the Government's objective of a fair tax system by ensuring that individuals who are provided with security enhanced cars due to the nature of their employment are not unfairly impacted by the abolition of the £80,000 cap on the cash equivalent of the benefit.

Background to the measure

As part of reforms to the company car tax regime designed to incentivise purchases of the lowest emitting vehicles, the Government announced at Budget 2009 that the cap on the cash equivalent of the benefit of a company car would be removed with effect from 6 April 2011. The calculation of the cash equivalent of the taxable benefit where a company car is made available for private use is based on the list price and cost of any accessories provided as well as CO_2 engine emissions. Following removal of the cap, including the cost of certain security enhancements could make the taxable benefit disproportionately expensive.

The relief will be confined to those individuals who can demonstrate that the nature of their employment creates a threat to their personal security.

This measure has not been previously announced but we expect it to be welcomed by those affected.

Detailed proposal

Operative date

This measure will have effect for relevant benefits provided on or after 6 April 2011.

Current law

Part 3 of the Income Tax (Earnings and Pensions) Act 2003 sets out the types of earnings and benefits received by employees which are treated as taxable earnings under the benefit in kind rules. Chapter 6 of Part 3 covers the treatment of cars, vans and related benefits.

Proposed revisions

This measure will be introduced in Finance Bill 2012.

Section 120 provides that if Chapter 6 applies to a car in relation to a particular tax year, the cash equivalent of the benefit is to be treated as earnings from the employment for that year. Section 121 sets out how to calculate the cash equivalent of the benefit of the car. Step 2 of the calculation is to add the price of any accessories which fall to be included by virtue of sections 125-131 to the list price or notional price of the car.

Security enhancements do not currently fall within any of the four categories of excluded accessory set out in section 125. In particular, they are not equipment necessarily provided for use in the performance of the duties of the employment. This measure will treat certain security enhancements as excluded accessories. The particular enhancements are:

- armour designed to protect the car's occupants from explosions or gunfire;
- bullet-resistant glass;
- any modifications to the car's fuel tank designed to protect the tank's contents from explosions or gunfire (including by making the tank self-sealing); and,
- any modification made to the car in consequence of anything which is a relevant security feature by virtue of the proceeding three examples.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Most of the individuals with this type of protection will be senior employees in the public sector, for example members of the police and the Armed Forces.
Some employees in the private sector might be affected because of the nature of the work they undertake, such as employees in the pharmaceutical industry, animal test laboratories, and some journalists.
It is estimated that up to 100 individuals will be affected.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">There is no impact on any protected equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The change to the benefit calculation formula will result in a negligible additional burden on a very small number of employers in the public and private sectors. The overall compliance cost impact will be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">Any additional costs will be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="5">The Government has carefully considered other impacts but has not identified any.</td></tr>
</table>

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package for personal tax and benefits changes.

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

HM Revenue & Customs

Taxation of Non-Residents: Champions League Final 2013

Who is likely to be affected?

Non-resident football players and team officials of football teams playing in the UEFA Champions League final 2013.

General description of the measure

An exemption from UK taxation for non-resident footballers and team officials for money earned in relation to the Champions League final 2013, which is to be held in the UK.

Policy objective

The exemption has been put in place to satisfy the UEFA's requirement that countries hosting the Champions League final do not levy domestic tax on non-resident players and team officials involved in the final.

Background to the measure

This measure has not been previously announced. It will mirror similar provisions put in place in the 2010 Finance Bill for the 2011 UEFA Champions League final.

Detailed proposal

Operative date

The measure will have effect on and after the date of Royal Assent to the Finance Bill 2012.

Current law

The law imposes a UK income tax charge on non-resident sportspeople's income that is related to a UK performance. Without an exemption, non-resident sportspeople are taxed at UK rates on both income directly gained from the performance, plus a proportionate share of worldwide sponsorship income. UK resident sportspersons are taxable in the UK on their worldwide income; there will be no exemption for UK residents.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to provide an exemption from UK taxation for non-resident team players and officials on income related to the UEFA Champions League Final 2013.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	-
	This measure is not expected to have an Exchequer impact.				
Economic impact	No macroeconomic impact; small microeconomic impact on the London economy associated with increased hotel room sales, Football Association profits, food and drink sales in the capital, etc. The 2011 final yielded an estimated £45 million for the London economy (MasterCard study: UEFA Champions League Final, by Simon Chadwick, May 2011).				
Impact on individuals and households	The exemption means that non-resident football players and team officials will not be subject to UK income tax on income related to the UEFA Champions League final 2013. They would be liable to tax on this income in the countries in which they are resident. Should a UK-resident team and/or UK resident player be involved in the final, they will not be subject to 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. The measure is likely to impact more men than women.				
Impact on business including civil society organisations	Negligible impact on business as measure only affects non-resident football players and team officials.				
Operational impact (£m) (HMRC or other)	There will be no operational impact on HMRC.				
Other impacts	No other impacts 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.

HM Revenue & Customs

Qualifying Time Deposits: Deduction of Tax at Source

Who is likely to be affected?

Building societies, banks and other deposit-takers who offer investment products which are Qualifying Time Deposits (QTDs).

Individuals who make QTD investments on or after 6 April 2012.

General description of the measure

QTDs are investments which, among other conditions, require a single deposit of at least £50,000 and do not permit any withdrawals during their term, which can be any period up to 5 years. Interest, dividends and similar amounts paid by providers on QTD balances are subject to income tax.

From 6 April 2012, any QTD provider who operates the Tax Deduction Scheme for Interest (TDSI) will be required to deduct sums representing income tax at the basic rate from interest, dividends or similar payments they make in respect of QTD investments opened or made after this date.

This measure will align tax collection arrangements for QTDs with those already in operation for many comparable savings or investment products.

Policy objective

To simplify tax collection arrangements for QTDs, and by doing so:

- collect more of the tax due on savings income;
- reduce burdens on individual taxpayers; and,
- align tax collection arrangements for QTDs with those for many comparable products.

Background to the measure

This measure was announced at Budget 2011. Since then, HM Revenue & Customs (HMRC) have informally consulted on implementation issues. This was mainly through discussions with financial providers and their representatives. However, HMRC also published a general invitation to comment in a TDSI Bulletin, which was sent to all building societies, banks and other deposit-takers, and made more generally available on the HMRC website.

In addition to the responses provided during the discussions mentioned above, a formal representation was submitted to HMRC by a representative group.

No respondents raised any significant objections in principle to the proposed measure. Some concerns were raised about the proposed 6 April 2012 effective date for the change, although this was not reported to be unachievable. More generally, the importance of clarity around this effective date was emphasised, in order that QTD providers could plan for the change with certainty.

A number of technical issues were raised around the treatment of payments processed at or around the time at which the measure will have effect. HMRC will publish guidance for QTD providers ahead of the effective date of the measure.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2012, and will apply only to QTDs opened or made on or after this date.

Current law

Chapter 2 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) provides that income tax is chargeable on interest, dividends and similar amounts. This is subject to an exemption for income from individual investment plans (Individual Savings Accounts) and other tax-advantaged products, as set out in Part 6 of ITTOIA.

QTD investments are not exempt from charges to income tax under ITTOIA. Income tax is therefore due on interest, dividends and similar amounts payable in respect of a QTD.

As regards the collection of this tax, Chapter 2 of Part 15 of the Income Tax Act 2007 (ITA) requires deposit-takers and building societies to deduct sums representing income tax from payments of interest on 'relevant investments'. The current mechanism for deduction of this tax and payment to HMRC is TDSI.

Section 866 of ITA defines QTDs, and, at subsection (1), provides that these are not 'relevant investments'. This means that there is no requirement on a QTD provider to deduct sums representing income tax from any interest they pay on QTD balances. This interest is therefore paid gross, and QTD investors are required to make separate arrangements to pay any tax due to HMRC.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 so that from 6 April 2012, any new QTDs will be 'relevant investments'. This means that QTD providers who operate TDSI will be required to deduct sums representing income tax from payments of interest on these QTDs.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	+35	+40	+40
	These figures were set out in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget.				
Economic impact	This measure has no significant economic impact. The Exchequer effect arises from advancing the collection of tax already due rather than introducing any new liability.				
Impact on individuals and households	An estimated 30,000 individuals hold a QTD, although the measure will only affect those individuals who intend to invest in a QTD on or after 6 April 2012. No individual will be liable for additional tax on interest or other savings income as a result of this measure, although there may be a change to the time at which this tax is paid. For most basic rate taxpayers who are affected, ongoing compliance burdens will be reduced, as they will no longer be required to notify HMRC of the interest received on their QTD. Some basic rate taxpayers may be				

	required to contact HMRC to arrange a one-off adjustment of their PAYE tax code, in order that they do not overpay tax. However, we anticipate that the impact is likely to be negligible – both in terms of the number of taxpayers affected and the compliance costs for those who are affected. Higher and additional rate taxpayers will still be required to declare the interest received on their QTDs to HMRC, in order to account for additional tax due. The small number of individuals who are not liable to pay tax on savings income (for example because their total taxable income is less than their tax-free personal allowance) can claim back basic rate tax or use HMRC form R85 to receive interest gross. Any individuals eligible for the 10 per cent starting rate on savings income can submit a claim for overpaid tax. In either case, we think that the number of individuals affected is likely to be negligible.
Equalities impacts	The Government does not have evidence of the profile of QTD holders, and representatives of QTD providers have also been unable to provide us with this detail. But there is no reason to expect any equality impact for any protected characteristic.
Impact on business including civil society organisations	The measure is expected to have a negligible impact in terms of on-going administrative and one-off compliance costs for around 30 large and medium-sized retail banks and building societies which offer QTDs. Provider costs are likely to be limited to the one-off costs of changing processes, information technology systems, product literature and staff guidance; and the negligible ongoing cost of deducting tax at source under TDSI. In the long run the proposed change may reduce some provider's overall costs. For example, many providers currently deal with questions from customers about the QTD status of their products, or the tax consequences of holding a QTD. This measure will ultimately remove this burden.
Operational impact (£m) (HMRC or other)	Both the additional costs and savings for HMRC in implementing this change are anticipated to be negligible.
Other impacts	Competition assessment: This measure would align the tax arrangements for QTDs with those for similar (and competing) products. It is very unlikely that financial providers will face any adverse competition consequences as a result of the measure and no evidence to that effect has been presented. Small firms impact test: Small firms are included within the scope of this measure, although through our consultation we have not been made aware that any such firms offer QTDs. Therefore, no specific measures of amelioration for small firms have been considered.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Simon Turner on 0151 472 6154 (email: simon.turner@hmrc.gsi.gov.uk).

A2 Philanthropy and Charities

HM Revenue & Customs

Gifts of Pre-Eminent Objects

Who is likely to be affected?

This measure will affect individual and corporate owners of pre-eminent objects (such as a work of art or other item that is of national, scientific, historic or artistic interest) who want to donate them to the nation.

General description of the measure

The aim of this scheme is to stimulate lifetime giving by encouraging taxpayers to donate pre-eminent objects, or collections of objects, to the nation. The objects may be loaned or given to appropriate institutions including certain charities and accredited museums for safe keeping and to provide public access. In return, donors will receive a reduction in their UK tax liability based on a percentage of the value of the object they are donating.

Policy objective

The objective of this policy is to encourage and support greater philanthropy.

Background to the measure

At Budget 2011 the Government announced a series of substantial reforms to encourage more philanthropy and charitable giving.

This measure was the subject of a consultation over the summer and is a scheme to provide a tax reduction to people who, during their lifetime, donate works of art or historical objects of pre-eminent importance to the nation.

At the Autumn Statement, the Government announced that the annual limit available for both tax reductions under the new scheme to encourage gifts of pre-eminent objects, and taxes offset under the existing inheritance tax Acceptance in Lieu (AIL) scheme, would be increased from £20 million to £30 million.

Detailed proposal

Operative date

The measure will take effect on an appointed day after the date that Finance Bill 2012 receives Royal Assent.

Current law

There is no scheme already in existence to encourage people to give pre-eminent objects to the nation in return for a reduction in a donor's tax liability. The AiL scheme enables estates to offer pre-eminent objects (including land, buildings and contents) to set against an inheritance tax liability based on the value of the item(s). There is no philanthropic element to the AiL scheme, and it only applies to inheritance tax liabilities and not to other taxes.

Proposed changes

A potential donor will offer to give a pre-eminent object (or collection of objects) to the nation with a self-assessed valuation of the object. A panel of experts will consider the offer and, if it considers the object is pre-eminent and should be accepted, the panel will agree the value of the object with the donor. If the donor decides to proceed based on that valuation they will receive a tax reduction (for individuals, income tax and/or capital gains tax, and for companies, corporation tax) as a fixed percentage of the object's agreed value. The fixed percentage will be 30 per cent for individuals and 20 per cent for companies. Individuals will be able to spread the tax reduction forward across a period of up to five years starting with the tax year in which the object is offered. The donor will specify in advance how the tax reduction is to be used.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-15	-15	-15	-15	-15
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	This measure is not expected to have significant economic impacts. However, in the longer term the scheme will increase the attractiveness of the UK as a cultural tourism destination, which will have associated benefits for the economy.					
Impact on individuals and households	This measure will affect only a small number of individuals who are owners of pre-eminent works or objects who might wish to consider donating them to the nation.					
Equalities impacts	The potential equality impacts of this policy have been considered. No different impact on any equality group has been identified.					
Impact on business including civil society organisations	There will be negligible impact on businesses as the scheme will be of interest to only a very few businesses. Museums, galleries, archives etc, many of which are charities, will be interested in the new scheme as it will open a new route for them to receive pre-eminent objects.					
Operational impact (£m) (HMRC or other)	HM Revenue & Customs will need to set up processes to apply and monitor tax reductions given to taxpayers under the new scheme. The extent of the processes and the costs will depend on the number of donors using the scheme. The Department for Culture, Media and Sport will need to refresh the panel of experts currently serving on the AiL panel.					
Other impacts	No other impacts were identified.					

Monitoring and evaluation

The scheme will be kept under review through communication with taxpayer groups and museums and galleries affected by the measure, and through assessment of the demand for the scheme, including the impact on the AiL scheme.

Further advice

If you have any questions about this change, please contact Keith Nichol on 020 7211 6216 (email: keith.nichol@culture.gsi.gov.uk) in regards to the general scheme, and Joanne Shelling on 020 7147 2401 (email: joanne.shelling@hmrc.gsi.gov.uk) in regards to the tax reduction.

HM Revenue & Customs

Inheritance Tax: Reduced Rate for Estates Leaving 10 Per Cent or More to Charity

Who is likely to be affected?

This measure will primarily affect people who are considering leaving, or who have already left, a charitable legacy in their will. The personal representatives of people who have died and the beneficiaries of their estates may also be affected. Solicitors, estate practitioners, accountants and other professional advisers who deal with or advise on wills, estates and inheritance tax (IHT) will also be affected.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to provide for a reduction in the rate of IHT from 40 per cent to 36 per cent where 10 per cent or more of a deceased person's net estate (after deducting IHT exemptions, reliefs and the nil-rate band) is left to charity. The measure will apply to deaths on or after 6 April 2012.

Policy objective

This policy supports the Government's aim to encourage charitable giving, promote greater philanthropy, and links into the Government's objective of fairness in the tax system. The aim of the policy is to act as an incentive for people to make charitable legacies, or to increase existing legacies, and so increase the amount charities receive from estates.

Background to the measure

At Budget 2011 the Chancellor of the Exchequer announced a package of measures to support philanthropy and encourage charitable giving by donors at all life stages. A consultation document, *A new incentive for charitable legacies*, was published on 10 June 2011 on the HMRC website. The Government has considered all responses received to the consultation, as detailed in the summary of responses published on 6 December 2011.

Detailed proposal

Operative date

The measure will have effect for deaths on or after 6 April 2012.

Current law

On death, IHT is charged on estates where the net value is more than the IHT threshold or 'nil-rate band' (currently £325,000 but the amount available for use by an estate can be different in some circumstances).

A person's estate for IHT purposes includes not only the assets that they directly owned immediately before their death and which they are able to dispose of under the terms of their will (their 'free estate') but also certain other assets and property. These include jointly owned assets which pass automatically to the surviving joint owner, interests in certain types of trust (settled property), and some other assets which the individual gave away during their lifetime whilst continuing to derive a benefit (gifts with reservation of benefit). All these different categories of asset combine to form an aggregate estate that is subject to IHT.

This aggregate estate is reduced by a number of reliefs and exemptions. For example, assets passing to a spouse or civil partner are exempt, and certain business assets may qualify for business property relief. Gifts made to qualifying charities are exempt from IHT. After deducting the various reliefs and exemptions most estates are below the available nil-rate band and so are not liable to IHT.

IHT is charged at a single rate of 40 per cent on the net chargeable value of an estate (after reliefs and exemptions have been deducted) over the available nil-rate band.

The distribution of a deceased's estate can be altered after death by executing an Instrument of Variation if the relevant beneficiaries agree. Where beneficiaries redirect all or part of their inheritance to charity, they can elect for those charitable gifts to be treated for IHT purposes as if they were made from the deceased's estate. This applies not only to assets passing under the deceased's will, but also to assets passing under the intestacy rules and to jointly owned assets passing to the surviving joint owner.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 so that for deaths on or after 6 April 2012 IHT will be charged on the net chargeable value of an estate at a rate of 36 per cent where 10 per cent or more of that estate has been left to charity.

Where the estate comprises only the deceased's 'free estate', the value of the estate on which the 10 per cent threshold will be based (the 'baseline') will be the value of the net estate charged to IHT after deducting all available reliefs, exemptions and available nil-rate band, but excluding the charitable legacy itself. The total amount of charitable legacies will be compared with the baseline amount to see if the estate qualifies for the reduced IHT rate (the '10 per cent test').

In cases in which the IHT estate includes assets additional to those in the 'free estate', the 10 per cent test will be applied to each category of assets (or component) that makes up the aggregate estate such as the 'free estate', jointly owned assets and settled property. If the assets passing to charity from one component exceed 10 per cent of the baseline, other components may be merged with it to give an aggregate baseline. The value of the assets passing to charity from a particular component will be compared to the baseline amount for that component. If the 10 per cent test for a component is passed, IHT will be charged on that particular component at 36 per cent.

The reduced rate of IHT will apply automatically if the estate or component passes the 10 per cent test. If it does not, IHT will be charged at the full rate. However, personal representatives and other relevant persons will be able to elect for the reduced rate not to apply if, for example, the benefit obtained from applying the reduced rate is likely to be minimal and they do not wish to incur additional costs of valuing items left to charity.

The new provisions will apply equally to charitable legacies made by will or by an Instrument of Variation. The conditions for an Instrument of Variation to be taken into account for IHT purposes will be amended so that the reduced rate will only apply if it is shown that the charity has been notified that the devolution of the estate has been varied in its favour.

Summary of impacts

This summary is based on a number of assumptions about how people will respond to the new rules, including the extent and speed of take-up. The impacts may vary depending on those assumptions and eventual policy implementation.

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out in Table 2.1 of Budget 2011. In addition, further changes were made to assumptions as a result of consultation, therefore the measure is now expected to decrease receipts to the Exchequer by approximately £60 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure will have some impact on individuals and households. However, most estates are not liable to IHT because their value after any reliefs and exemptions is less than the available nil-rate band. Only estates liable to IHT will be directly affected by this measure. The number of these is relatively low and is forecast to be 16,000 in 2010-11 or about 3 per cent of the total number of death estates.

The number of estates where the amount that is left to charity is changed as a result of this measure is highly uncertain. The assumption is that the number of estates where a person will die and increase the amount they leave to charity to 10 per cent will be about 50 in 2012-13, increasing to about 200 in 2013-14, 600 in 2014-15, 1,000 in 2015-16, and eventually to about 5,000. The take up will depend on the extent to which the reduced rate is promoted by charities and by professional advisers.

The measure may affect people who are considering leaving a charitable legacy when they die, or who have already left an amount to charity in their will, and whose estates are liable to IHT. Such individuals will need to be aware of the proposed changes when they are making their will, or if they wish to amend an existing will. To benefit from the reduced IHT rate, some wills might need to be changed, with associated administrative costs to testators, although wills may be reviewed for other reasons and changed as part of that review. The use of standard clauses in wills to ensure that the estate benefits from the reduced rate if appropriate amounts are left to charity would minimise additional costs to testators.

The measure may also affect executors, personal representatives, and beneficiaries of a deceased's estate where IHT is due. Beneficiaries may consider submitting Instruments of Variation to take advantage of the reduced rate of IHT. The measure may also have an impact on solicitors, estate practitioners and other professional advisers who have been appointed as executors of estates.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The gender split for those whose estates become liable for IHT is around 60 per cent female and 40 per cent male. This is because, for married couples, IHT generally becomes due on the second death, which is more likely to be the wife. However, the administrative impact of this measure is not on the deceased person leaving the estate but rather on those acting as executors or administrators of the estate.

This measure is not expected to have any impacts on any other protected equality group.</td></tr>
</table>

Impact on business including civil society organisations	There will be an impact on software providers who will have to update substitute IHT forms and the software they supply. Solicitors, estate practitioners and other professional advisers may also incur one-off costs of familiarisation, training and software updates. These one-off costs are unknown as the consultation did not provide any evidence. It is assumed that charities will benefit from this change. The additional revenue that this measure is expected to raise for charity up to 2016-17 is on average approximately £40 million per annum. These estimates are based on an assessment of the number of estates which are assumed to increase their legacies to charity as a result of the measure, and so are also uncertain. As charities will not receive any additional revenue until after the estate has gone through probate and paid the tax, it will take longer for charities to receive the additional revenue than for the measure to impact on the Exchequer. The average increase in the amount left to charity is assumed to eventually be around £60,000. It is assumed that many estates will increase the amount left to charity by much less than this but the average is higher due to a small number of large estates. There are over 300,000 charities in the UK. All of these, and certain European charities, could potentially benefit, although it is not known how many will be left additional legacies as a result of this measure in any given year. Some of these charities may wish to be aware of the change and understand the new rules so that they can encourage people to leave legacies in their wills or increase the amount already left to charity. The expected additional revenue will depend partly on the extent that charities promote this measure to potential donors.
Operational impact (£m) (HMRC or other)	Changes will be needed to IHT forms, guidance, and the IHT computer system. Additional contact is expected from customers to the Probate & IHT Helpline and increases are expected to the processing work involved with IHT forms by staff. There may be increased risk assessment and compliance activity. Operational and IT change costs are estimated to be £2.23 million for the first five years although these will be subject to change depending on final implementation.
Other impacts	No other impacts have been identified.

Monitoring and evaluation

The impact of the reduced rate on the amount left to charity by IHT taxpayers will be monitored from information collected through IHT returns.

Further advice

If you have any questions about this change, please contact Danka Wigley on 020 7147 3674 or by email: danka.wigley@hmrc.gsi.gov.uk.

HM Revenue & Customs

In-year Repayments of Tax to Charities

Who is likely to be affected?

This measure applies to charitable companies and some charitable trusts that make claims for repayment of tax (excluding Gift Aid) outside a tax return.

General description of the measure

This measure puts on a statutory footing the practice by certain charities of making claims for repayment of tax outside a tax return (excluding Gift Aid). HM Revenue & Customs (HMRC) makes certain repayments of tax to charitable companies and certain charitable trusts that make a claim to repayment of tax outside a tax return (in-year claims) which should, in strict law, be claimed in a tax return.

In-year claims to repayments of income tax under Gift Aid were put on a statutory basis by Schedule 8 to Finance Act 2010 and this measure puts on a statutory basis other repayments of tax to charities. As the measure is legislating an existing extra-statutory concession, charities will not need to be aware of the change.

Policy objective

This measure puts on a statutory footing an extra statutory concession operated by HMRC, to support the Government's agenda of making the tax system fairer.

Background to the measure

The measure was announced at Budget 2011. It will retain the effect of the existing concession.

Detailed proposal

Operative date

This measure will apply for claims made on or after 6 April 2012.

Current law

Section 42(2) of the Taxes Management Act 1970 provides that repayments of tax other than Gift Aid relief should be claimed only in an annual return made by a charitable trust if a notice has been issued to make a tax return. Paragraph 9 of Schedule 18 to the Finance Act 1998 provides that repayments of tax, other than Gift Aid relief, should be claimed by a charitable company only in its annual return, whether or not a notice has been issued requiring a return to be made.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make provision for charitable trusts that have received a notice to make a tax return and charitable companies to make in-year claims to repayments of tax.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This measure will have no economic impact.				
Impact on individuals and households	This measure concerns charities rather than individual donors to charities and it has no direct impact on individuals or households.				
Equalities impacts	The potential equality impacts of this policy have been considered. No different impact on any equality group has been identified.				
Impact on business including civil society organisations	This measure is simply to put an extra statutory concession on a statutory basis and charities for the most part will not need to be aware of the change.				
Operational impact (£m) (HMRC or other)	This measure will not have any impact on HMRC's operating costs.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

This measure will be kept under review through communication with relevant taxpayer groups.

Further advice

If you have any questions about this change, please contact the Charities Helpline on 0845 302 0203 (email: charities@hmrc.gov.uk).

A3 Corporation Tax

HM Revenue & Customs

Controlled Foreign Companies Full Reform

Who is likely to be affected?

Primarily large UK based multinationals, but any UK company with overseas subsidiaries or exempt foreign branches may be affected.

General description of the measure

A reform of the controlled foreign companies (CFC) rules to introduce a modernised regime that fits with a move towards a more territorial corporate tax system and better reflects the way that businesses operate in a globalised economy.

Policy objective

The policy objectives of the new CFC regime are to:

- introduce a modernised CFC regime that better reflects the way that businesses operate in a global economy whilst maintaining adequate protection of the UK tax base;
- exempt profits where there is no artificial diversion of UK profits; and,
- exempt profits arising from genuine economic activities undertaken overseas.

Background to the measure

In November 2010, the Government proposed reforms to the CFC rules as part of the Corporate Tax Road Map. The Government made a first step towards reforming the rules by introducing interim improvements in Finance Bill 2011.

In June 2011 the Government published a consultation document setting out detailed proposals for new CFC rules to be introduced in Finance Bill 2012.

Detailed proposal

Operative date

This measure will be included in Finance Bill 2012.

It is likely the rules will have effect for accounting periods beginning on or after the date of Royal Assent to Finance Bill 2012 but this is subject to further consultation.

Current law

The current law is in Chapter IV of Part XVII Income Tax and Corporation Taxes Act 1988 and Schedules 24, 25 and 26 of that Act. It charges United Kingdom resident companies tax on profits of certain foreign subsidiaries in which they have an interest.

A controlled foreign company is an overseas company controlled by United Kingdom residents which pays less than three quarters of the tax which it would have paid on its income had it been resident in the UK. The controlled foreign companies' provisions are directed at companies which artificially divert UK profits to low tax territories or other favourable overseas tax regimes to reduce their UK tax liabilities.

No tax will be due in respect of a CFC if the company satisfies any one of the statutory exemptions or exclusions.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the current legislation and replace it with a new CFC regime, the key elements of which are:

The business profits of a foreign subsidiary will be outside the scope of the new CFC regime unless they meet the specified conditions set out in a “gateway”. These conditions define what is to be treated for the purposes of the regime as profits artificially diverted from the UK.

"Safe harbours" for the gateway conditions will be provided covering general commercial business, incidental finance income and some sector specific rules. A foreign subsidiary can rely on these safe harbours to show that some or all of its profits are outside the regime's scope.

As an alternative to the gateway, the regime will also provide exemptions for CFCs. The exemptions will apply to the CFC as a whole and include an excluded territory exemption and a low profits exemption. The lower level of tax test which currently forms part of the definition of a CFC will function as an exemption in the new regime.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>nil</td><td>-210</td><td>-540</td><td>-770</td><td>-840</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of the Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget 2011.

In addition, further policy changes made as a result of consultation will be expected to decrease receipts by approximately £100 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.

The CFC regime protects the UK corporation tax base against the artificial diversion of UK profits to low tax jurisdictions by UK based companies, by seeking to tax these profits in the UK.

The CFC base is comprised of all foreign companies and exempt permanent establishments in which a UK company is able to exercise control. However, there is only a charge to tax when a CFC artificially diverts profits from the UK as defined by the CFC legislation. Therefore, the tax charged in any given year is defined by the actions of those companies and so the estimated costs are reliant on assumptions of behavioural change.

In reforming the CFC regime, the aim is to make the rules simpler to apply, exempting genuine foreign profits whilst better targeting artificially diverted UK profits. Where a CFC charge arises it will only apply to the proportion of a CFC's profits that have been artificially diverted from the UK.

Further consultation on this measure is ongoing and this cost will be subject to scrutiny by the OBR.</td></tr>
</table>

Economic impact	The UK introduced CFC rules to protect against the artificial diversion of UK profits to low tax jurisdictions; however, the current CFC regime has been in place for 27 years, and its reform is frequently identified by UK multinational businesses as a key priority in improving the UK's tax competitiveness. Modernisation of the CFC regime, together with the programme of corporate tax reforms set out in the Corporate Tax Road Map, will assist in improving the UK's international tax competitiveness; it will allow businesses based in the UK to be more competitive on the world stage, as well as supporting investment in the UK. The new regime also provides: (i) UK businesses with greater flexibility to organise their foreign operations; with rules aimed at making it easier for business to show that those operations do not represent artificial diversion of profits from the UK, and (ii) an expected reduction in their compliance costs.
Impact on individuals and households	This is a corporate tax measure and therefore, has no direct impact on individuals and households.
Equalities impacts	This is a corporate tax measure and has no impacts on any protected equality group.
Impact on business including civil society organisations	The CFC rules impact primarily on large UK multinationals but will affect all UK companies with overseas subsidiaries or exempt foreign branches. The changes introduced are designed to make the current CFC rules easier to operate, more competitive internationally and to benefit as many businesses with both UK and overseas presence as possible. They will not harm domestic competition. A number of aspects of the proposed changes reflect a degree of simplification of the CFC regime and it is expected that any additional one-off administrative costs should not be significant. It is expected that in general, civil society organisations will not be impacted negatively by the proposed changes (if impacted at all).
Operational impact (£m) (HMRC or other)	Introducing and implementing the new regime is not expected to involve any additional funding.
Other impacts	Small firms impact test: Small and medium sized companies are less likely to have CFCs and where they do they are more likely to be eligible for the simpler exemptions as under the current rules, unless they are artificially diverting UK profit. Therefore, the impact on small and medium sized companies is not expected to be significant.

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package for corporation tax changes.

Further advice

If you have any questions about this change, please contact Carol Johnson on 020 7270 6032 (email: carol.johnson@hmtreasury.gsi.gov.uk) or Andrew Page on 020 7147 2673 (email: andrew.page@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation Tax Reform: Patent Box

Who is likely to be affected?

Companies within the charge to corporation tax that actively hold qualifying patents and some other forms of intellectual property (IP) Patents are used by a wide variety of businesses, but particular sectors likely to benefit are pharmaceuticals, life sciences, manufacturing, electronics, and defence.

General description of the measure

The Patent Box will allow companies to elect to apply a 10 per cent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying patents, whether paid separately as royalties or embedded in the sales price of products. The regime will also apply to other qualifying intellectual property rights such as regulatory data protection (also called 'data exclusivity'), supplementary protection certificates (SPCs) and plant variety rights. Other non-qualifying profits in these companies will continue to be taxed at the main rate. The Patent Box will potentially benefit a wide range of companies which receive patent royalties, sell patented products, or use patented processes as part of their business.

Policy objective

The Patent Box is part of the Government's growth agenda (as detailed in the *Plan for Growth* document published in March 2011). The aim of the Patent Box is to provide an additional incentive for companies to retain and commercialise existing patents and to develop new innovative patented products. This will encourage companies to locate the high-value jobs associated with the development, manufacture and exploitation of patents in the UK and maintain the UK's position as a world leader in patented technologies.

Background to the measure

The Patent Box measure was announced at the 2009 Pre-Budget Report.

Two consultation documents have been published. *The Taxation of Innovation and Intellectual Property* was published in November 2010 and set out the high level principles for the Patent Box design. *Consultation on the Patent Box*, published in June 2011, was the stage 2 consultation document which gave more detail on the design proposals. In addition a consultation response document has now been published.

Detailed proposal

Operative date

The measure will have effect in relation to profits made or after 1 April 2013.

Proposed Changes

Legislation will be introduced in Finance Bill 2012 to introduce the Patent Box.

The Patent Box will allow companies to elect to apply a 10 per cent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying IP.

Qualifying IP includes patents granted by the UK Intellectual Property Office (IPO) and the European Patent Office, as well as supplementary protection certificates, regulatory data protection and plant variety rights. The Patent Box will apply to existing as well as new IP,

and to acquired IP provided that the group has further developed the IP or the product which incorporates it.

The legislation sets out a structured approach to calculate the profits from qualifying IP.

For companies selling patented products or licensing their patents, the calculation starts from the total profit from the sale of products incorporating the patented invention or the profit from licensing the invention. The full rate of corporation tax will still be charged on a 10 per cent routine return on certain costs and on any part of those profits which is attributable to marketing intangibles. Companies making smaller claims can choose a simpler calculation avoiding the need to value their brand. All remaining profit will be eligible for the Patent Box rate.

Companies which use the IP to perform processes or provide services will benefit from the Patent Box up to the level of an arm's length royalty for the use of the qualifying IP.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>-500</td><td>-800</td><td>-900</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.2 of Budget 2011, with a steady state cost of £1.1 billion. In addition, further development of policy design as a result of consultation will be expected to decrease the cost to the Exchequer by approximately £160 million a year in steady state. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The world economy is changing rapidly. Developments in technology and communications are opening up new markets and increasing international competition. The UK economy is increasingly "knowledge" driven. Knowledge is important to all industries, whether they are "high" or "low" tech, because it is crucial to innovation as well as the creation and exploitation of new products and markets. Patents are a key element of the knowledge economy and an important source of competitive advantage for UK businesses. How companies manage and develop their patents has become a crucial factor in determining their competitiveness in national and global markets.

Against this background, a number of countries – Belgium, Luxemburg and the Netherlands amongst others – already provide an additional incentive for companies to retain and commercialise existing patents. Thus, the introduction of the Patent Box in the UK would further the Government's aim of ensuring that the UK is an attractive place to do business, and that businesses in the UK can compete effectively within the global market place.

Patents are used by a wide variety of businesses: sectors such as pharmaceuticals, life sciences, manufacturing, electronics, and defence are likely to benefit from the Patent Box.

Where revenue-generating patents are held by unincorporated businesses, the introduction of the Patent Box will likely increase the incentive to incorporate. However, this increase is unlikely to be significant as incorporation will normally have been undertaken already in order to qualify for the research and development Relief which is only available for companies.

The introduction of the Patent Box is likely to encourage investment and</td></tr>
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<tr><td></td><td colspan="3">economic growth as well as prevent the movement of intellectual property offshore by innovative businesses who otherwise might invest elsewhere. A provisional behavioural response reflecting the likely impact of the Patent Box on increasing inward investment has been estimated, and has been incorporated into the steady state costing. Further work is underway covering how quickly the behavioural effect on attracting investment is likely to build-up.

Other behavioural impacts included in the costings are: an estimate of additional patenting by companies where currently no patent protection is sought; an estimate of the costs associated with a degree of income shifting by corporate groups.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="3">This measure is aimed at the corporate sector so there is no impact on individuals.</td></tr>
<tr><td>Equalities impacts</td><td colspan="3">The Government has carefully considered whether this measure impacts on people with protected characteristics and have not identified any impacts.</td></tr>
<tr><td rowspan="7">Impact on business including civil society organisations</td><td colspan="3">The final number of companies which will benefit has not been established at this stage.

The Patent Box will be available to patents granted by the IPO and European Patent Office, and the Government also intends to include patents granted by some other EU jurisdictions. Some businesses who do not currently patent through these routes will therefore need to apply for patents and will incur additional costs. The IPO fees to acquire a UK patent, including application and renewal fees, are £950 for 10 years and £4,770 for the maximum 20 years. The proposed design for the Patent Box, which requires only one patent over a product in order for the associated profits to qualify, reduces the impact of this requirement.

The Government has developed a largely formulaic approach to calculating the net profit from patents to improve certainty and reduce administrative burdens. Although the regime is elective there is some unavoidable complexity which will impose an additional administrative burden on those who choose to elect in. The requirement for some companies to calculate an arm's length royalty for use of marketing intangibles will impose the use of transfer pricing methodologies in those cases. Additionally where the formula produces an inappropriate result the company will either be able or be required to use alternative rules to calculate the net patent profit. This will be in the areas of expense streaming and claw-back of pre-commercialisation expenses.

Indicative total annual administration costs of a potential Patent Box population complying with the regime are currently estimated to be £30 million. These costs are reliant on final design. Work is ongoing to refine these costs between now and Budget 2012.</td></tr>
<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>To be quantified</td><td></td></tr>
<tr><td>Average Annual Costs</td><td>£30m</td><td>10 years</td></tr>
<tr><td>Total Costs (PV)</td><td>£30m + one off costs</td><td></td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
</table>

<table>
<tr><td rowspan="7"></td><td>One-off Benefit</td><td>-</td><td>-</td></tr>
<tr><td>Average Annual Benefit</td><td>-</td><td>-</td></tr>
<tr><td>Total Benefit (PV)</td><td>-</td><td>-</td></tr>
<tr><td>Net Benefit (NPV)</td><td>N/A</td><td></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>£30m</td><td>-</td><td>£30m</td></tr>
<tr><td>Operational impact (£m) (HMRC or other government departments)</td><td colspan="3">Indicative estimated annual costs of HMRC administering the regime are in the range of £2 million to £5 million, although these costs are very much reliant on the final design. Training and familiarisation on the new legislation will be required.

There may be some operational impact on the IPO, as the regime may encourage increased patenting in the UK. Several aspects of the proposals have been designed to minimise this impact, including the proposed model design, which requires only one patent over a product in order for the associated profits to qualify. Additional patent examiners may be required to deal with the projected additional demand.

It is not anticipated that there will be any significant operational impacts on other government departments.</td></tr>
<tr><td>Other impacts</td><td colspan="3"><u>Competition assessment:</u> The Patent Box is not sector specific and is generous in its scope by also including SPCs and data exclusivity. Any company with eligible patents and qualifying income may be able to take advantage of the Patent Box.

<u>Small firms impact test:</u> However, several aspects of the proposals have been designed to help reduce the impact on small businesses. The largely formulaic approach will help small businesses to accurately self-assess their corporation tax. The Government recognises that some small companies may not have experience of identifying the relative contribution of patents and brand IP. This is addressed by proposing a safe harbour for the attribution of profits to patent and brand IP in smaller claims of up to £1,000,000 a year which can be used by small companies who choose not to adopt the formulaic method. The Government intends to produce comprehensive guidance which will further assist small businesses.</td></tr>
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Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of corporate tax reforms.

Further advice

If you have any questions about this change, please contact Anna Floyer-Lea via email: corporatetaxreform@hmtreasury.gsi.gov.uk

HM Revenue & Customs

Research and Development Tax Relief

Who is likely to be affected?

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

General description of the measure

Following consultation in November 2010 and June 2011, the Government intends to legislate improvements to R&D tax relief in Finance Bill 2012. In particular, for the small or medium enterprise (SME) scheme only:

- the rate of additional deduction for a SME company will be further increased from 100 per cent to 125 per cent from April 2012, giving relief of 225 per cent in all;
- to allow the increase in the additional deduction for SMEs while remaining within state aid limits, the rate of payable credit for SMEs will be reduced to 11 per cent, and vaccine research relief for SME companies will be withdrawn;
- the rule limiting the amount of payable R&D tax credit to the amount of a company's PAYE/NIC liability will be removed; and,
- the existing definition of when a company is a "going concern" will be clarified to confirm that companies in administration or liquidation are excluded from relief.

For the SME and large company schemes:

- the requirement for minimum expenditure of £10,000 a year will be removed; and,
- the scope of the definition of an "externally provided worker" will be widened.

Policy objective

To improve the overall competitiveness of the UK tax system for R&D companies by increasing the incentive for them to carry out R&D, increasing R&D and innovation in the UK. The aim is to make the UK a preferred location for companies to carry out R&D and boost productivity and growth.

Background to the measure

The changes announced follow consideration by the Government of responses to:

- a consultation document *Corporate Tax reform: delivering a more competitive system* was published on 29 November 2010 on the HM Treasury website and included consultation on the R&D tax relief; and,
- a response document, *Research and Development Tax Credits: response and further consultation* published on 10 June 2011 on the HM Treasury website.

Budget 2011 announced increases to the rate of SME R&D relief, together with abolition of the PAYE/NIC limit and £10,000 a year minimum expenditure.

Legislation implementing the increase in the rate of additional SME R&D relief to 100 per cent was included in Finance Act 2011.

State aid approval for the increases in the rate of SME relief and the abolition of the PAYE/NIC limit and the £10,000 a year minimum expenditure was received in September 2011. The increase in the rate of additional SME R&D relief to 100 per cent, with effect from 1 April 2011, was then brought into effect.

Detailed proposal

Operative date

For the SME scheme only:

- The further increase in the rate of additional deduction for SMEs and the corresponding reduction in the rate of payable tax credit to 11 per cent, together with removal of vaccine research relief for SMEs, will have effect for expenditure incurred on or after 1 April 2012.
- The abolition of the PAYE/NIC limit will have effect for accounting periods ending on or after 1 April 2012.
- The clarification of what constitutes a company being a 'going concern' will apply to claims for relief made on or after 1 April 2012.

For the SME and large company schemes:

- The removal of the £10,000 minimum expenditure will have effect for accounting periods ending on or after 1 April 2012.
- The revised definition of an "externally provided worker" will have effect for expenditure incurred on or after 1 April 2012.

Current law

The current rules are in Part 13 of the Corporation Tax Act 2009 (CTA). Separate rules deal with claims by companies which are SMEs (the SME scheme), claims by large companies, and claims for vaccines research relief (VRR).

Section 1044 provides that a company which is a small or medium sized enterprise will receive an additional deduction of 100 per cent of its qualifying R&D expenditure, and sets out the conditions for this, including that its expenditure meets the R&D threshold (section 1044(3)).

Section 1057 provides that payable tax credit is only available where a company is a going concern. Section 1058 defines the amount of payable tax credit to which a company is then entitled and limits this to the amount of its PAYE and NIC liability for the period in question.

Section 1074 imposes the same R&D threshold for large companies and section 1087 imposes it for vaccine research relief.

Sections 1127-1132 define an externally provided worker for all three schemes.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to increase the additional deduction for SME companies to 125 per cent of qualifying R&D expenditure. To allow for the increase, while remaining within state aid intensity thresholds:

- Vaccine Research Relief for SMEs will be abolished for expenditure incurred on or after 1 April 2011; and,
- the rate of payable SME R&D tax credit will be reduced to 11 per cent for expenditure incurred on or after 1 April 2012.

Legislation will also be introduced in Finance Bill 2012 to:

- abolish the rule limiting a SME company's payable R&D tax credit to the amount of PAYE and national insurance contributions (NICs) it pays;
- remove the £10,000 minimum expenditure condition for all companies;
- simplify the rules defining an externally provided worker to allow for cases where additional parties are involved in providing workers; and,
- clarify that where a company is in administration or liquidation it is not a "going concern" and is excluded from relief.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The figures were set out as part of a wider reform to R&D tax credits in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to decrease receipts by approximately £60 million a year.</td></tr>
<tr><td>Economic impact</td><td colspan="5">R&D expenditure is likely to have positive spillover effects in terms of increased innovation and productivity in the wider economy. But as these will not be reflected in the return to R&D investment that individual companies make they will tend to under invest in R&D. This is supported by academic studies.

R&D tax relief reduces the cost of R&D investment that companies make and is therefore likely to increase aggregate R&D expenditure, which will benefit the economy more widely through the positive spillover effects.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There is no impact on individuals or households. This change only affects companies involved in research and development and not individuals.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This change only affects companies involved in research and development and not individuals. It is considered that these proposals have no significant impacts on protected equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">Around 7,000 SME and 1,750 large companies claim R&D tax relief each year. These companies will benefit from the improved incentive to carry out additional R&D and the simplification of the rules.

These are straightforward changes with a negligible one-off administrative impact on companies claiming R&D tax relief.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">Some increases are anticipated in the number of companies making claims, in the amount of R&D expenditure companies incur, and in the amount of relief claimed. However, no structural changes are necessary to operational delivery and there should be no significant impact on HMRC operational costs.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> These changes respond to consultation with small companies and other stakeholders. There will be a positive impact for small firms carrying out research and development, as they will benefit from increased tax relief.
<u>Competition assessment:</u> There should not be any impact on competition as they do not affect or limit suppliers' ability to compete.</td></tr>
</table>

Monitoring and evaluation

Uptake of the number of companies claiming the relief and amounts of relief claimed are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact David Harris on 020 7147 2562 (email: david.harris@hmrc.gsi.gov.uk) or Neil Smillie on 020 7147 0864) (email: neil.smillie@hmrc.gsi.gov.uk).

HM Revenue & Customs

Enterprise Zones: First-Year Allowances for Designated Areas

Who is likely to be affected?

Companies investing in plant or machinery for use in designated assisted areas in Enterprise Zones.

General description of the measure

The measure will introduce 100 per cent first-year allowances (FYAs) for companies investing in plant or machinery for use primarily in designated assisted areas within Enterprise Zones.

Policy objective

The Enterprise Zones are being introduced from 2012-13 to encourage economic growth and investment. FYAs of 100 per cent are intended to contribute to this objective by promoting investment by capital intensive companies in a limited number of designated assisted areas within Enterprise Zones.

Background to the measure

The proposal to introduce Enterprise Zones was announced at Budget 2011. The core offer for businesses in the new zones comprises simplified planning and business rates discounts. The Budget statement also announced that the Government would work with individual Local Enterprise Partnerships (LEPs) to consider the scope for introducing enhanced capital allowances, to support zones in assisted areas where there is a strong focus on manufacturing. In an HM Treasury Press Notice on 17 August 2011, the Government announced its decision to proceed with the enhanced capital allowances proposal. On 26 August 2011, HM Treasury wrote to LEPs providing details of the proposed design of the new 100 per cent FYAs scheme and seeking bids from the LEPs based on that design. In addition, the letter outlined the criteria against which the bids would be judged.

The Chancellor of the Exchequer announced the successful bids in the Autumn Statement on 29 November 2011. Discussions are ongoing with the devolved administrations about setting up Enterprise Zones which could include a limited number of designated assisted areas in which 100 per cent FYAs would be made available.

Detailed proposal

Operative date

This measure will have effect for expenditure incurred in the five year period from 1 April 2012 to 31 March 2017 inclusive. The expenditure must be incurred at a time when the designated area is in an assisted area (as defined by the Assisted Areas Order 2007 (S.I. 2007/107).

Current law

Capital allowances allow businesses to deduct the costs of certain capital assets, such as plant or machinery, from their taxable income. They take the place of commercial depreciation, which is not allowed for tax.

Any qualifying expenditure on plant or machinery, not covered by a claim to the annual investment allowance (AIA) or a FYA, qualifies for writing-down allowances at either 18 per cent or 8 per cent a year (the rates that will apply from April 2012), depending on the nature of the asset.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to provide 100 per cent FYAs for expenditure incurred by trading companies on qualifying plant or machinery for use primarily in designated assisted areas within Enterprise Zones. The qualifying expenditure must be incurred between 1 April 2012 and 31 March 2017 and the area in which the plant or machinery is to be used must be an assisted area at the time when the expenditure is incurred. In addition, the plant or machinery must not be held for use in an area outside of the designated assisted area for a period of five years.

As with existing FYAs, the general exclusions in section 46 of the Capital Allowances Act 2001 will apply to the new FYA; this includes the exclusion of expenditure on assets for leasing.

In order to comply with the state aid General Block Exemption rules (Commission Regulation (EC) No 800/2008), a number of additional conditions will also apply to the new FYA. In particular, the company incurring the qualifying expenditure must not be a firm:

- in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02);
- subject to an outstanding recovery order following a European Commission decision declaring an aid illegal;
- engaged in the fisheries and aquaculture sectors, as covered by Council Regulation (EC) No 104/200, nor in the management of waste of undertakings;
- engaged in any of the coal, steel, shipbuilding or synthetic fibres sectors; or,
- engaged in the primary production of agricultural products.

In addition, the expenditure must be on plant or machinery that is unused and not second-hand and must:

- comprise investment not replacement expenditure;
- not be on a means of transport, or transport equipment for the purposes of a business in the road freight or air transport sectors;
- not be taken into account for the purposes of another State aid grant or relevant payment made towards that expenditure; and,
- not exceed a total of €125 million for the investment project.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-25	-40	-25	-5	negligible
	These figures were set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					

Economic impact	The 100 per cent first-year allowances are expected to lead to more investment being made in the Enterprise Zones.
Impact on individuals and households	There is no impact on individuals or households. This change only affects companies that invest in plant or machinery in designated assisted areas in Enterprise Zones.
Equalities impacts	This change only affects companies investing in plant or machinery in designated assisted areas and not individuals. It is therefore considered that these proposals have no impacts on protected equality groups.
Impact on business including civil society organisations	A limited number of companies will qualify for FYAs in the Enterprise Zones. These companies will benefit from 100 per cent first-year allowances, which will enable them to write off qualifying expenditure more quickly for tax purposes. The impacts of this measure on businesses' administrative burdens are expected to be negligible.
Operational impact (£m) (HMRC or other)	The measure is expected to have some small operational impact on HM Revenue & Customs.
Other impacts	Small firms impact test: The direct impact on small firms is likely to be negligible because the designated assisted areas have been identified as areas where companies intending to make significant capital investments plan to locate. Smaller firms in Enterprise Zones are likely to benefit more indirectly (from the general increase in local investment) and from other elements of the package (such as the business rates discount). In any event, the capital investment in plant or machinery by the vast majority of small firms will normally be wholly covered by the AIA.

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package for Enterprise Zones.

Further advice

If you have any questions about this change, please contact Joy Guthrie (email: joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith (email: malcolm.smith3@hmrc.gsi.gov.uk) or telephone 020 7147 2610.

HM Revenue & Customs

Capital Allowances: Feed-in Tariffs and the Renewable Heat Incentive

Who is likely to be affected?

Businesses that invest in plant or machinery to generate electricity or heat (or to produce biogas or biofuel) that attracts a Feed-in Tariff (FiT) or tariffs under the Renewable Heat Incentive (RHI) after April 2012.

General description of the measure

This measure will make changes to the capital allowances treatment of expenditure on plant or machinery to generate renewable electricity or heat to:

- designate expenditure on solar panels as special rate for capital allowances purposes; and
- ensure that enhanced capital allowances are not given for expenditure on plant or machinery where tariff payments are received under either of the renewable energy schemes introduced by the Department of Energy and Climate Change (DECC) – FiTs or the RHI.

Policy objective

Capital allowances are intended to provide tax relief that broadly reflects average rates of economic depreciation. There are two rates of writing down allowances - main rate and special rate. Designation of a particular rate is intended to provide certainty over the treatment of expenditure, in the light of the nature or general expected economic life of the equipment in question.

Enhanced capital allowances provide targeted incentives to encourage business investment in particular types of plant and machinery. To ensure value for money they are intended to complement, rather than duplicate the effects of other Government policies supporting such investment.

Background to the measure

A consultation on proposed changes to the capital allowances treatment of plant or machinery that could attract FiTs or tariffs under the RHI was announced at Budget 2011 and took place over the summer.

Detailed proposal

Operative date

Generally, the measure will have effect for expenditure incurred on or after 1 April 2012 (for businesses within the charge to corporation tax) or 6 April 2012 (for businesses within the charge to income tax). Though, for expenditure on combined heat and power equipment (CHP) only, the change to enhanced capital allowances will apply to expenditure incurred on or after 1 April 2014 (for businesses within the charge to corporation tax) or 6 April 2014 (for businesses within the charge to income tax).

Current law

Business expenditure on electricity or heat generating (or biogas or biofuel producing) plant or machinery may qualify for allowances under Part 2 of the Capital Allowances Act 2001 (CAA) as follows:

The Annual Investment Allowance (AIA) permits a 100 per cent allowance for such expenditure in the year in which it is incurred up to a limit of £25,000 a year (the limit from April 2012).

In addition 100 per cent first-year allowances (enhanced capital allowances or ECAs) are available in respect of expenditure on energy-saving plant or machinery that meets the criteria required by either of the Energy Technology Product or Criteria Lists maintained by DECC (section 45A CAA). ECAs provide a cash-flow advantage over writing down allowances and so act as an incentive to invest. With the exception of some micro-CHP equipment, technologies that qualify under the FiTs scheme will not be eligible for ECAs. However, many of the technologies that could qualify for tariffs under the RHI could also qualify for ECAs.

Expenditure above the AIA limit (that has not been relieved by ECAs) will attract writing down allowances at either the main rate (18 per cent per annum from April 2012) or special rate (8 per cent per annum from April 2012). Section 104A CAA lists the categories of expenditure that are special rate. If expenditure is not special rate then it will attract main rate allowances. Expenditure on the provision of an integral feature in a building (defined in section 33A CAA) will be special rate. This could include equipment that generates heat that attracts RHI tariffs, as building space or water heating systems are within the definition of integral features. Also, the special rate applies to expenditure on defined long life assets – generally, equipment expected to have a useful economic life of 25 years.

Proposed revisions

Special rate expenditure

Legislation will be introduced in Finance Bill 2012 to ensure that expenditure on solar panels from April 2012 will be designated as special rate expenditure. The AIA will, however, continue to be available on such expenditure.

Enhanced capital allowances

From April 2012 (or April 2014 for CHP installations) ECAs will not be available in respect of expenditure on plant or machinery when it generates electricity or heat (or produces biogas or biofuels) that attracts tariff payments under either of the FiTs or RHI schemes. ECAs may still be claimed (subject the other conditions of the ECA schemes) in respect of expenditure on such equipment as long as no tariffs are paid.

Any ECAs given, in respect of expenditure incurred from April 2012 (or April 2014 for CHP installations), will be withdrawn if FITs or RHI tariffs are paid subsequently.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to increase receipts by approximately £70 million a year. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.				

Economic impact	The changes have no significant economic impacts.
Impact on individuals and households	The impact on individuals and households is negligible as any changes as a result of this measure would only apply to businesses claiming capital allowances.
Equalities impacts	The changes are not likely to impact on the equality of protected groups. Any legislative changes would affect only businesses and businesses of all sizes and across all sectors.
Impact on business including civil society organisations	Businesses investing in certain RHI technologies that currently qualify for ECAs after April 2012 (or April 2014 for combined heat and power installations) will not be able to claim the ECA as well as tariffs. There is no impact on earlier expenditure. A further impact of this measure is on businesses claiming capital allowances in respect of expenditure on solar PV cells provided for use in a dwelling-house, hotel, office, retail shop or showroom that may not previously have fallen to be treated as special rate – these would suffer a slight cash flow disadvantage by the changes, if their annual spend on plant and machinery exceeded the AIA limit of £25,000, as the expenditure is written off over a longer period of time. The one-off compliance cost to business of the recommended change option would be expected to be negligible. The changes to ECAs will remove the administrative burden involved in claiming ECAs for some businesses. The overall impact on businesses' ongoing administrative burdens of this measure is expected to be negligible.
Operational impact (£m) (HMRC or other)	There will be a small impact on HMRC to update guidance and instructions.
Other impacts	Small firms impact test: The changes will apply to small firms and any expenditure on solar panels could potentially be allocated to the special rate pool to the extent that it is above the AIA limit. Carbon assessment: For some businesses, the cost of FiTs or RHI qualifying expenditure will be written off over a longer period after the change, which reduces the post-tax rate of return offered by FiTs/RHI slightly. The Government considers that the return is still sufficiently generous to act as an incentive to purchase qualifying equipment and therefore does not expect the change to substantially affect the take up of the environmental regime.

Monitoring and evaluation

The take-up of the FiTs and RHI scheme is monitored by DECC and measured against the projected take-up for each technology. Any unexpected adverse effect on the schemes from the capital allowances changes would contribute to a lower than anticipated take-up that would be reviewed.

Further advice

If you have any questions about these changes please contact Sue Pennicott on 020 7147 2610 (email: sue.pennicott@hmrc.gsi.gov.uk) or Malcolm Smith also on 020 7147 2610 (email:malcolm.smith3@hmrc.gsi.gov.uk).

HM Revenue & Customs

Capital Allowances: Fixtures

Who is likely to be affected?

Businesses disposing of, or acquiring, property containing fixtures.

General description of the measure

This measure will make the availability of capital allowances to a purchaser of fixtures conditional on:

- previous business expenditure on qualifying fixtures being pooled before a subsequent transfer on to another person; and
- a seller and purchaser using one of two existing procedures to fix their agreement about the value of the fixtures transferred within two years of the transfer; or, exceptionally,
- the past owner providing a written statement of the amount of the disposal value of fixtures, which he had some time earlier been required to bring into account (for example, when he permanently ceased his business) within two years of a later sale of the property.

In addition, the legislation will make a technical change to enable plant and machinery capital allowances to be claimed by a new owner on any fixtures expenditure that has not already been relieved under the Business Premises Renovation Allowances (BPRA) scheme.

Policy objective

The policy purpose of the capital allowances fixtures regime is that expenditure on a fixture can only be written-off once against taxable profits over its economic life. This measure seeks to ensure that the legislation works as originally intended to deliver this policy.

Background to the measure

This measure was announced at Budget 2011. A formal consultation was launched on 31 May and closed on 31 August 2011.A summary of responses was published on 6 December.

Detailed proposal

Operative date

The measure will have effect in relation to expenditure incurred on or after 1 April 2012, for corporation tax purposes, or on or after 6 April 2012, for income tax purposes

Current law

Capital allowances provide tax relief for the depreciation of certain capital assets, principally plant or machinery, including most fixtures in a building used by a business. They take the place of commercial depreciation, which is not deductible for tax purposes. The allowances are calculated as a percentage of the capital expenditure incurred, and are deducted from the income or profit of the business.

The main plant or machinery allowances are the Annual Investment Allowance (AIA) and writing-down allowances (WDAs). The AIA covers most expenditure on plant or machinery up to an annual limit, which will be £25,000 per year from April 2012. Any expenditure not

covered by the AIA qualifies for WDAs, at either 18 per cent or 8 per cent a year (the rates that will apply from April 2012), depending on the nature of the asset.

The fixtures legislation is contained in Chapter 14 of Part 2 of the Capital Allowances Act 2001 (CAA). To deliver the policy purpose - that expenditure on a fixture should be written-off against taxable profits only once over its economic life - the current legislation contains rules to limit the allowances that can be given to the lower of original cost (section 62 CAA) or the last disposal value that has been brought into account by any previous owner of the fixture (section 185 CAA). However, the current law does not prescribe when expenditure on fixtures should be pooled, so that there is no time limit laid down to govern when a seller and purchaser should agree the part of the sale price of a property that should be attributed to the fixtures. This has led to 'late' claims by current owners at a time when a single sale value for fixtures can no longer be agreed and brought into account by both parties.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make the availability of capital allowances to a purchaser of fixtures conditional on:

- previous business expenditure on qualifying fixtures being pooled before a subsequent transfer on to another person; and
- a seller and purchaser using one of two existing procedures to fix their agreement about the value of the fixtures transferred within two years of the transfer; or, exceptionally,
- the past owner providing a written statement of the amount of the disposal value of fixtures, which he had some time earlier been required to bring into account (for example, when he permanently ceased his business) within two years of a later sale of the property.

The two existing procedures are:

- the facility, under section 198/199 CAA, for a seller and purchaser to jointly elect for any part of the sale price to be attributed to fixtures (subject always to the cap of the seller's original cost); or,
- exceptionally, if the parties are unable to reach an agreement within two years, the facility (under section 563, CAA) to refer the matter to a First Tier Tribunal for an independent determination. The current rules will be amended so that this facility can be invoked by either party to the transaction, if the matter appeared material to the tax affairs of either. If the parties are unable to agree a value, therefore, the purchaser would have to invoke this procedure within two years of the sale, if they wanted to claim allowances. As long as the procedure had been invoked within two years, it would not matter if the Tribunal did not reach its determination until after the second anniversary of the sale.

The legislation will also include a technical amendment to enable plant and machinery capital allowances (under Part 2, CAA) to be claimed by a new owner on any fixtures expenditure to the extent that this has not already been relieved under the BPRA scheme (Part 3A, CAA).

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to increase receipts by approximately £30 million per annum. The final costing will be subject to scrutiny by the				

	Office for Budget Responsibility, and will be set out at Budget 2012.
Economic impact	The change has no significant economic impacts.
Impact on individuals and households	This measure will have no direct impact on individuals or households as it only affects businesses.
Equalities impacts	No equality concerns were raised in the consultation and the proposal is not expected to have any impact on the equality of position of people with different protected characteristics.
Impact on business including civil society organisations	By providing statutory mechanisms for fixing a value for fixtures within two years of a sale, the measure should assist a new owner to make a legitimate claim. The one-off costs for business in becoming familiar with the new rules are expected to be negligible. Efficient compliant businesses, that do not currently choose to make a section 198/199 CAA election, will need to do so in future, if the new business owner wishes to claim allowances on the fixtures transferred. An election involves both parties signing a document recording the sale value agreed for specified fixtures and sending this to HM Revenue & Customers (HMRC). The extra administrative costs for businesses of formally recording and signing up to what should currently be established and agreed less formally, have been estimated as being between £50,000 and £500,000 per year.
Operational impact (£m) (HMRC or other)	The proposals would have a favourable impact in helping to reduce the compliance workload on HMRC, by reducing the volume of incorrect claims that come to HMRC's attention and that require to be investigated.
Other impacts	Small firms impact test: this measure will affect those small firms that acquire or dispose of business property that includes qualifying fixtures. Like all businesses entering into commercial property transactions, they will be subject to the impacts on business outlined above. However, in general, requiring a buyer and seller to agree the part of the price attributable to fixtures near to the time of sale should make it easier for all businesses (including smaller firms) to make legitimate claims. HMRC will work with small business representatives to prepare simple guidance to help smaller firms familiarise themselves with the changes. Competition assessment: The proposals are intended to prevent incorrect claims for allowances by some businesses, so these proposals should have a positive effect on competition by levelling the playing field for all businesses.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups and compliance will be monitored through HMRC's risk assessment procedures and examination of returns.

Further advice

If you have any questions about this change, please contact Joy Guthrie (email: joy.guthrie@hmrc.gsi.gov.uk) or Malcolm Smith (email: malcolm.smith3@hmrc.gsi.gov.uk) or telephone 020 7147 2610.

HM Revenue & Customs

Improvements to the Real Estate Investment Trust Regime

Who is likely to be affected?

Existing and future real estate investment trusts (REITs).

General description of the measure

The measure will make improvements to the REIT regime by addressing barriers to entry and investment in the regime, and reducing the costs of complying with the requirements of the regime.

Barriers to entry improvements include:

- the entry charge paid by a company joining the regime is to be abolished;
- the requirement for a REIT to be listed on a recognised stock exchange is to be relaxed; and,
- the diverse ownership requirement a REIT has to meet is being reduced.

REIT condition improvements include:

- the rules regarding the REIT's assets are being relaxed to reduce the likelihood that commercial decisions are being influenced by the conditions of the REIT legislation;
- the condition regarding the level of borrowing for a REIT is being made simpler to comply with; and,
- there are also a number of other minor changes to the regime.

Policy objective

This measure helps to support expansion of the property sector and so encourage further investment and stimulate the construction industry.

Background to the measure

REITs are a tax advantaged vehicle introduced to encourage investment in the property sector.

The Government indicated in its response to the consultation *Investment in the UK Private Rented Sector* in September 2010 that it would look further at the barriers to entry to the REITs regime with the view to facilitating, in the longer term, the establishment of residential REITs. Subsequent further consultation with interested parties suggested that the best way to support the REITs industry in general (and the development of residential REITs in particular) was in part to reduce barriers to entry for new REITs and to ensure that the regime does not inhibit good business practice.

To date over 20 REITs have been created with particular focus on commercial property investment.

This measure was announced at Budget 2011 and a subsequent informal consultation on the measure took place between 5 April 2011 and 10 June 2011.

Detailed proposal

Operative date

The measure as it relates to the barriers to entry to the regime will have effect for companies that join the regime on or after the date of Royal Assent to Finance Bill 2012. For the balance of the measures they will have effect for REITs in the regime on or after the date of Royal Assent to Finance Bill 2012.

Current law

All legislative references are to the Corporation Tax Act 2010 unless otherwise indicated.

Section 528 requires that a REIT is listed on a recognised stock exchange (the listing requirement).

Section 528 also requires that a REIT is not a close company, that is, a REIT cannot be controlled by a small number of people (the non close company requirement).

Section 530 requires that a REIT distributes 90 per cent of its profits from its property rental business to investors (the distribution requirement)

Section 531 ensures that a REIT is primarily a property investment company by requiring that profits and assets of the property rental business of the REIT are 75 per cent or more of the total profit or assets of the REIT (the balance of business test).

Section 538 requires a company joining the REIT regime to pay a conversion charge equivalent to two per cent of the value of its assets involved in its property rental business (the entry charge).

Section 543 restricts the amount of borrowing undertaken by a REIT in respect of its property rental business by charging to tax the amount by which its financing costs exceed a limit (the profit financing cost ratio).

Section 556 determines the treatment of assets involved in the property rental business and when disposal of the asset by the REIT does not benefit from the exemption from tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make the following changes:

The listing requirement will be relaxed so that REITs can be listed on trading platforms such as AIM, Plus and their foreign equivalents.

The non close company requirement will be amended to allow a new REIT time to meet this requirement. The non close company requirement will also be relaxed so that certain institutional investors will not make a company close for the purposes of the REIT regime. The amended legislation will list the types of institutional investors that will not make the REIT a close company. There will be a power to make regulations to add, modify or remove categories of investors to or from the list.

The distribution requirement will be amended to ensure that tax is charged at the correct time.

The balance of business test, as it applies to assets, will be relaxed so that cash will be added to the assets of the property rental business for the purpose of the balance of business test.

The conversion charge will be abolished.

The profit finance cost ratio will be amended so that financing costs will consist only of interest. The amount of tax paid when financing costs exceed the limit will be restricted to a proportion of the property profits.

The legislation will make clear that the section 556 treatment of assets disposed of will not apply where the disposal is to a company that is part of the same REIT group.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	The measure should facilitate increased investment in REITs and the private rental sector. This may in turn stimulate the construction sector. No significant macroeconomic impacts are anticipated.				
Impact on individuals and households	This measure will not impact on individuals and households as it only concerns REITs.				
Equalities impacts	The change only affects companies that elect to join the REIT regime and not individuals. It is therefore considered that these proposals have no effect on protected equality groups.				
Impact on business including civil society organisations	With the aim of encouraging new REITs, the measure will make entry to the REIT regime easier by abolishing the entry charge, and relaxing the close company and listing requirements. The changes also better align the regime conditions with a REIT's commercial needs by changing how cash is dealt with for the balance of business asset test, and by removing one-off costs from the profit financing cost ratio. These changes have a negligible impact on compliance costs because the changes only affect a small number of businesses.				
Operational impact (£m) (HMRC or other)	No operational impact is expected to be caused by the measure.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

HMRC will continue to monitor the REIT industry and seek to maintain a dialogue with it to establish the impact of the changes.

Further advice

If you have any questions about these changes, please contact Tony Linehan on 020 7147 0527 (email: tony.linehan@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tax Transparent Fund

Who is likely to be affected?

Investors in the new tax transparent fund (TTF) pooled investment vehicle are expected to be UK authorised unit trusts, Open Ended Investment Companies (OEICs), pension funds and insurance companies and similar European investors.

General description of the measure

The measure will facilitate the appropriate tax treatment of the new regulated asset pooling vehicle, the TTF, covering capital gains and stamp taxes on shares. The new regulated vehicle is expected to be in place by summer 2012.

Policy objective

The policy objective is to ensure that the UK can compete as a fund domicile for tax transparent funds. The proposed tax measures are designed to remove any tax obstacles to achieving that objective for TTFs, which are being introduced to facilitate the setting up of UK pooled "master fund" investment vehicles under the Undertakings for Collective Investment in Transferable Securities (UCITS) IV Directive (2009/65/EC of the European Parliament and of The Council).

Background to the measure

The Government announced at Budget 2011 the introduction of a new TTF vehicle to be in place in the summer of 2012. It was then announced in May 2011 that, as most of the legislation required was regulatory and not tax, this would be taken forward as a regulatory consultation. A regulatory consultation document will be published before the end of 2011 or in early 2012. The tax measures in the Finance Bill will provide the necessary powers to provide appropriate tax treatment for investors in TTFs in line with the policy objective.

Detailed proposal

Operative date

The measure will have effect from Royal Assent to Finance Bill 2012.

Current law

The TTF regulated vehicle is not yet in place so no specific provisions exist for these vehicles.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 which takes a power to make regulations about the tax treatment of participants in collective investment schemes for the purposes of tax on capital gains.

Specific anticipated uses of the power will be to:

- provide that, for the purposes of tax on chargeable gains, assets held by investors as part of certain tax transparent collective investment schemes will not be chargeable assets and that, instead, the investor’s interest in the scheme will be treated as if it were a chargeable asset;

- provide that, for such chargeable assets, section 212 of the Taxation of Chargeable Gains Act 1992 (TCGA) will apply to interests within the long term fund of an insurance company;
- provide a relief for insurance companies which transfer assets to such transparent schemes to ensure that no chargeable gain arises at the point of transfer, together with a provision to prevent abuse of that relief; and,
- enable the provisions in TCGA to be adapted for use at the merger and reconstruction of new and existing types of collective investment scheme so that the provisions will work when applied to interests in tax-transparent schemes and be simplified in application to existing schemes.

For stamp duty and stamp duty reserve tax, it is proposed to take a power to give relief or exemption for transactions relating to collective investment schemes in the context of TTFs.

Specific anticipated uses of this power will be to provide relief:

- where the TTF acquires securities in exchange for issuing units in itself;
- where the TTF only has charitable investors; and,
- in certain other circumstances to be determined following the consultation exercise.

No change will be made to Schedule 19 to the Finance Act 1999 as TTFs will be outside the charge to SDRT under that Schedule.

On corporation tax, it is intended that the regulatory legislation to be consulted upon shortly will add the new TTF funds to the exclusions from charge in section 1121 of Corporation Tax Act 2010, to the extent necessary to put beyond doubt that the fund, which will not be a legal entity, is not chargeable to UK corporation tax.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The introduction of the TTF is designed to retain business in or attract business to the UK. The wider impact will be covered in the regulatory impact assessment. Specific Finance Bill measures are not expected to impact tax yield directly. There is a possible indirect impact via increased economic activity/avoiding losing business overseas.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">No impact is expected on individuals and households.</td></tr>
<tr><td>Equalities impact</td><td colspan="5">This measure is not expected to have any impact on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There will be a negligible impact on business as a result of the tax measures as these only facilitate the use of a fund structure by investors.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The impact on HM Revenue and Customs will be negligible.</td></tr>
</table>

Other impacts	No significant impacts have been identified. However the wider impact of the regulatory change will be covered in the regulatory impact assessment which will be issued by January 2012 with a regulatory consultation document.

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, companies are required to prepare tax returns and computations which will provide data to inform any such monitoring and evaluation.

Further advice

If you have any questions about this change, please contact John Buckeridge (email: john.buckeridge@hmrc.gsi.gov.uk) or Jeremy Schryber (stamp taxes issues only) (email: jeremy.schryber@hmrc.gsi.gov.uk).

HM Revenue & Customs

Bank Levy: 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

As set out in Budget 2011, the Government intends that the Bank Levy should raise at least £2½ billion each year. To offset the forecast shortfall in receipts for 2011 and restore expected yield for future years above £2½ billion, the full rate of the Bank Levy will be increased to 0.088 per cent from 1 January 2012. A similar increase will be made to the half rate for chargeable equity and long term chargeable liabilities.

Policy objective

These changes will help to ensure that the banking sector makes a fair contribution through the Bank Levy reflecting the risks they pose 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 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.

An increase in the rate of the Bank Levy from 1 January 2012 was announced at Budget 2011 to offset for the reduction in corporation tax that would benefit most banks subject to the Bank Levy.

Expectations for Bank Levy revenues at the rates announced at Budget 2011 have been revised down. The November 2011 forecasts published by the Office for Budget Responsibility (OBR) imply that receipts in respect of 2011 are expected to fall short of £2½ billion. Additionally, without amendment to the rate from 1 January 2012, the OBR's autumn 2011 forecast is that yield for future years will also be below that expected at Budget 2011.

Detailed proposal

The measure increases the rates of the Bank Levy from 1 January 2012 to 0.088 per cent for the full rate and 0.044 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.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the rates of Bank Levy.

For periods falling wholly or partly after 1 January 2012 the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.039 per cent to 0.044 per cent and the rate for short term chargeable liabilities will be increased from 0.078 per cent to 0.088 per cent.

The legislation will include a provision that will require the amount of Bank Levy liability arising from the rate increase to be due and payable in the Quarterly Instalment Payments (QIPs) following Royal Assent to the Finance Bill 2012. Where there are no QIPs after Royal Assent for a relevant chargeable period the extra liability will be due and payable 30 days after Royal Assent.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>nil</td><td>+280</td><td>+310</td><td>+310</td><td>+315</td><td>+325</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 OBR. More detail can be found in the policy costings document published alongside the Autumn Statement.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The Bank Levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The changes proposed here are expected to have no additional economic impacts than those already set out in the Tax Information and Impact Note (TIIN) published alongside Budget 2011.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">There is no direct impact on individuals and households. The Bank Levy is a tax on the balance sheets of banks, banking groups, and building societies.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The amendment is not expected to have a direct or disproportionate impact on any of the protected equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This rate change means that the total Bank Levy revenues expected over this Parliament are broadly in line with those forecast at Budget 2011. As such it will have no additional impact on business beyond that already recorded in the TIIN published alongside Budget 2011.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">The Bank Levy is being delivered through the existing corporation tax Quarterly Instalment Payments system thereby minimising costs to HMRC. The changes proposed here add no additional costs.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Competition assessment:</u> The scope of the Bank Levy has been specifically designed to ensure a level playing field for all those affected by it in the UK.

<u>Small firms impact test:</u> None of the banks, building societies and banking groups affected by the Bank Levy are considered to be small firms.</td></tr>
</table>

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 from 2011.

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).

HM Revenue & Customs

Bank Levy Amendments

Who is likely to be affected?

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 makes technical amendments to ensure that the legislation applies as intended to the liabilities of joint ventures (JVs) and that these liabilities will be aggregated with the chargeable equity and liabilities of a foreign banking group or relevant non banking group.

Policy objective

The purpose of the Bank Levy is to ensure that the banking sector makes a fair contribution, reflecting the risks they pose to the financial system and the wider economy. The Bank Levy is also intended to encourage banks to move away from risky funding models that threaten the stability of the financial sector and the wider economy.

These changes ensure that the legislation applies consistently to both UK and foreign banking groups by ensuring that banking group operations through JVs are subject to the Bank Levy in the same may for both UK and foreign groups.

Background to the measure

In the June 2010 Budget the Government announced the introduction of a tax (the bank levy) on liabilities of banks and banking groups for chargeable periods ending on or after 1 January 2011.

Bank Levy: a consultation was published on 13 July 2010. The consultation document set out proposals to address a number of operational issues around design and implementation, including possible and proposed approaches to defining taxable entities and the tax base.

A consultation response document was published on 21 October 2010, along with initial draft legislation. All documents are available on the HM Treasury and HM Revenue & Customs (HMRC) websites.

Following the introduction of the Bank Levy in Schedule 19, Finance Act 2011, officials from HMRC have engaged with banks and advisers to ensure that stakeholders understand how to apply the rules correctly. Through this engagement some banks and advisers have brought to HMRC's attention that the rules relating to joint ventures do not, in all cases, work as intended.

Detailed proposal

Operative date

The changes to the rules on joint ventures will have effect for chargeable periods ending on or after 1 January 2012.

Current law

The current law is covered in paragraphs 43 and 44 of Schedule 19 Finance Act (FA) 2011. A JV is an entity where two or more parties (the venturers) undertake an economic activity that is subject to joint control.

International Accounting Standards allow JVs to be accounted for in two different ways, using either the equity method (where the investment in the JV is recorded at cost) or through proportional consolidation (where the balance sheet of the venturer includes its share of the assets and liabilities of the JV).

As no party has overall control of the JV the JV is not a member of a “banking group" as set out in paragraph 4 of Schedule 19. Without further provision it would instead, for the purposes of the Bank Levy, be treated as a bank or banking group in its own right and as such it may be within the scope of the Bank Levy.

Paragraph 43 of Schedule 19 confirms this treatment where a venturer uses the equity method to account for their interest in the JV; none of the JV’s liabilities will be included within another group or entity’s consolidated financial statements and the JV or JV's group's liabilities may only be subject to the Bank Levy where it is respectively a standalone bank or the parent of a banking group.

Where the interest in the JV is held by a member of a foreign banking group or a relevant non banking group and the venturer proportionally consolidates its interest in the JV, paragraph 43 treats a UK resident JV as if it is a UK member of the foreign banking group or relevant foreign banking group. The venturer's share of the JV liabilities is therefore aggregated along with any other bank levy chargeable equity and liabilities that may arise. This is consistent with the treatment of UK banking groups.

However, this treatment could potentially lead to a double charge of the Bank Levy. The JV could be charged to the Bank Levy in its own right and then a second time through the financial statement of the venturer, if the JV or the group it belongs to are both subject to the bank levy. Paragraph 44 therefore prevents such a double charge by allowing the JV to omit any liabilities that arise on a stand alone basis so that the JVs liabilities are only charged the Bank Levy once.

Where a venturer proportionally consolidates, these rules do allow the venturer to be treated as a part of the group to which it belongs for the purposes of the Bank Levy in certain situations. However contrary to the policy intention they do not cover all situations and the changes under this measure remedy this imbalance.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend paragraph 43 of Schedule 19 FA 2011 so that it applies to any JV where a member of either a foreign banking group or a relevant foreign banking group holds an interest in the JV, and the members interest in the JV's liabilities are proportionally consolidated within the consolidated financial statements of the group, and where these JV liabilities are not already taken into account in calculating the chargeable equity and liabilities of that group.

The amendment achieves this by ensuring that the JV is treated as a member of the relevant group when determining the group's chargeable equity and liabilities. This means that the chargeable equity and liabilities of all group members, including the JV (and any branches or subsidiaries its holds) along with all other group members are calculated on the basis that the assets and liabilities of the JV belong partly to the group.

The assets and liabilities of the JV brought within the group are limited to the proportion of the liabilities and assets that relate to the group's relevant interest in the JV. In addition the

amendment ensures that the JV is not charged again to the Bank Levy on the same liabilities as an entity or banking group in its own right.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The measure is expected to increase receipts by approximately £10 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The Bank Levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The changes to the legislation proposed here are expected to have no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There is no direct impact on individuals and households. The Bank Levy is a corporate tax on the balance sheets of banks, banking groups, and building societies.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The amendment is not expected to have a direct or disproportionate impact on any groups with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The impact of the amendment in respect of joint ventures is expected to be negligible. The Bank Levy currently affects only in the region of 30 banks, building societies and banking groups in total. Only a small number of these banks have joint ventures that are impacted by the proposed changes to the legislation.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The Bank Levy is being delivered through existing systems thereby minimising costs to HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Competition assessment:</u> The scope of the bank levy has been specifically designed to ensure a level playing field for all those affected by it in the UK. The changes proposed ensure that the bank levy rules correctly reflect this in regard to the treatment of joint venture companies.
<u>Small firms impact test:</u> None of the banks, building societies and banking groups affected by the bank levy are considered to be small firms.</td></tr>
</table>

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 from 2011.

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).

HM Revenue & Customs

Solvency II and the Taxation of Life Insurance Companies

Who is likely to be affected?

This measure is relevant to UK life insurance companies and Friendly Societies. It will also affect overseas life insurance companies operating in the UK through a permanent establishment.

General description of the measure

The measure will establish a new regime for the taxation of life insurance companies. It represents a wide ranging and fundamental revision of both the basis on which life companies' taxable profits are computed and the detailed rules by which those profits are taxed.

Policy objective

The new life company tax regime supports the Government's policy of making the tax system simpler by bringing the taxation of life companies more in line with other companies, and aligning it more closely with the commercial realities of life insurance business.

It also encourages competition by eliminating distortions arising from the way in which profits on certain types of insurance policy are currently taxed.

Background to the measure

The measure is made necessary by the EU Solvency II Directive, which will fundamentally change the regulatory framework on which life company taxation is currently based. As a result of these changes, regulatory returns made by insurance companies to the Financial Services Authority will no longer provide the information necessary to make the current taxation basis work. Change is therefore essential.

The Government began informal consultation in 2009, and has maintained close co-operation with the life insurance industry since then through a series of joint working groups.

A first consultation document *Solvency II and the taxation of insurance companies* was published on 10 March 2010 on the HM Treasury website.

The new regime was announced at Budget 2011. A Technical Note *Solvency II and the taxation of insurance companies*, published on 23 March 2011 on the HM Revenue & Customs (HMRC) website, set out the broad framework of the new regime. A second consultation document *Life insurance companies: a new corporate tax regime* was published on the HMRC website on 5 April 2011.

A series of 13 open meetings were held over the summer of 2011 to consider aspects of the new regime.

Detailed proposal

Operative date

The measure will have effect from 1 January 2013.

Current law

The main current provisions governing life company taxation are in Chapter I of Part XII of the Income and Corporation Taxes Act 1988 (ICTA), and in sections 82 to 90 of the Finance Act 1989.

The legislation is modified for Friendly Societies by Chapter II of Part XII of ICTA and by the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 2005 (SI 2005/2014 as amended by SI 2007/2134 and SI 2008/1937).

The legislation is modified for the UK permanent establishments of overseas life insurance companies by SI2006/3271.

The current legislation constitutes a tax regime which is unique to life insurance companies. Its key features are that:

- trading profits are calculated on the basis of regulatory returns made to the Financial Services Authority (FSA), not on the basis of statutory accounts, as is the case for companies generally;
- life companies are taxed on the 'Income minus Expenses' (I minus E) basis, which aims to tax (at different rates) profits made by the shareholders and the investment return arising for the benefit of certain policyholders;
- three categories of insurance business are recognised for tax purposes, all subject to different tax rules; and,
- a life insurance company's investment income, gains and losses are split between those categories on the basis of a series of formulae set out in the legislation.

Proposed revisions

Legislation will be included in Finance Bill 2012. Changes under the new regime will be extensive. The main changes are that:

- trading profits will be calculated on the basis of life companies' statutory accounts, in line with general tax rules;
- life companies will still be subject to I minus E, but, unlike now, only the type of business where it is appropriate to tax shareholder profit and policyholder investment return together will be taxed on that basis. Life protection business, which does not attract significant investment return, will be excluded from I minus E;
- two of the existing categories of business recognised for tax purposes will be amalgamated, reducing their number from three to two;
- the allocation of income, gains and profits between the categories will be determined by reference to the actual commercial activities of individual companies instead of statutory formulae; and
- life companies will be brought within the rules on loan relationships and intangible fixed assets which apply to companies generally.

Some detailed rules relating to the transition and Friendly Societies will be included in secondary legislation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is currently estimated to be broadly revenue neutral over the scorecard period. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and set out at Budget 2012.				
Economic impact	The measure as a whole is not expected to have any significant economic impacts. However, it will encourage competition in the life protection market and eliminate tax-driven anti-competitive distortions and encourage product innovation.				
Impact on individuals and households	The tax changes apply to life companies only. There will probably be (in the medium term) an increase in premium rates for protection type life assurance policies, potentially in the range of 4 per cent to 10 per cent. However, this will be in the context of a general reduction in premiums in recent years. This measure should also help to foster increased competition which is expected to result in downward pressure on prices.				
Equalities impacts	No impacts on people with protected characteristics are anticipated.				
Impact on business including civil society organisations	The measure affects the life insurance sector only (approximately 250 companies including Friendly Societies). There will be some one-off familiarisation and training costs for tax specialists. The measure simplifies the tax regime and brings tax computations more in line with commercial operations and accounting procedures. The impact on compliance and ongoing annual administrative costs will be negligible. The measure does not require companies to collect and process additional data; it will require changes to the tax computations, which companies are already required to produce.				
Operational impact (£m) (HMRC or other)	Impact on HMRC will be negligible. There will be training and familiarisation costs for a small number of specialists, offset by significant simplification of the tax rules.				
Other impacts	Small firms impact test: The new rules will affect approximately 30 Friendly Societies classified as small firms (that is, with fewer than 20 employees). These have to be included in the measure as they are part of the life insurance sector. The main representative body for Friendly Societies has been fully engaged in consultation, and generally welcome the changes.				

Monitoring and evaluation

Tax returns will provide the information required to make a reliable assessment of the tax impact of the new rules.

HMRC has an established programme of liaison with industry which will capture issues around implementation and ongoing compliance and administrative costs.

Further advice

If you have any questions about this change, please contact Andy Stewardson on 0207 147 2600 (email: andy.stewardson@hmrc.gsi.gov.uk).

HM Revenue & Customs

General Insurance: Claims Equalisation Reserves

Who is likely to be affected?

General insurance companies who maintain claims equalisation reserves (CERs) and corporate and partnership members of Lloyd's who maintain equivalent reserves.

General description of the measure

This measure will repeal the current legislation for the tax treatment of CERs. Regulations will be made by HM Treasury to cover equivalent reserves maintained by corporate and partnership members of Lloyd's.

The measure will introduce a rule to tax built-up CERs in equal amounts over a six year period commencing from the date the Solvency II Directive solvency requirements come into force.

Policy objective

This measure deals with the taxation impacts arising from the removal of the regulatory requirement for general insurers to maintain CERs as a result of the implementation of the Solvency II Directive. The measure repeals the current tax rules and the parallel rules for Lloyd's and provides for a transitional period over which the built-up reserves will be charged to tax.

Background to the measure

This measure was originally announced at Budget 2011. There is currently a regulatory requirement for general insurance companies (but not Lloyd's members) to maintain CERs in respect of certain lines of business. From 1996 general insurers were allowed to treat amounts transferred into CERs as tax deductible (and amounts transferred out were treated as taxable receipts). In 2009, rules were introduced to allow equivalent deductions for Lloyd's corporate and partnership members.

The relief currently available is dependent on the regulatory requirement for general insurance companies to maintain CERs. However, under Solvency II that requirement will be withdrawn.

An informal consultation took place between April and August 2011 with an industry working group. Both the Association of British Insurers (ABI) and Lloyd's, representing general insurance companies and corporate and partnership members at Lloyd's, have been included in the consultation process. Following this consultation, the Government has decided to introduce legislation to repeal the CER tax provisions and to tax built-up reserves over a transitional six year period.

Detailed proposal

Operative date

The measure will have effect from the date Solvency II comes into force, which is expected to be 1 January 2014.

Current law

For general insurance companies the tax treatment of equalisation reserves is governed by sections 444BA to 444BD of the Income and Corporation Taxes Act 1988.

Section 47 of the Finance Act 2009 and The Lloyd's Underwriters (Equalisation Reserves) (Tax) Regulations 2009 (SI 2009/2039) provide for the same tax treatment for Lloyd's corporate and partnership members that maintain an equivalent reserve to that maintained by general insurance companies.

The current law allows for a tax deduction for transfers into reserves and taxes transfers out of reserves.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to make these changes for general insurance companies and by secondary legislation in the case of Lloyd's.

With effect from the date Solvency II capital requirements come into force built-up reserves will be taxed over a six year period. The release will have effect in relation to accounting periods ending on or after an appointed day specified in an order made by HM Treasury. The appointed day will be the date Solvency II comes into force, once it is confirmed.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to increase receipts by approximately £90 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and set out at Budget 2012.				
Economic impact	No impact on investment, employment, or consumption is anticipated. The objective is to address the changed circumstances brought about by the removal of a regulatory requirement which has an associated tax deduction. It is not designed to affect underlying economic behaviour.				
Impact on individuals and households	The measure will not impact on individuals and households as it applies to general insurance companies and Lloyd's corporate and partnership members only.				
Equalities impacts	The measure applies to general insurance companies and Lloyd's corporate and partnership members only. No impacts on people with protected characteristics are anticipated.				
Impact on business including civil society organisations	The measure applies to general insurance companies and Lloyd's corporate and partnership members only. No impact on other businesses is anticipated. Compliance and administrative costs are anticipated to be negligible. The measure does not require companies to collect and process additional data.				
Operational impact (£m) (HMRC or other)	There will be some training/familiarisation costs for HMRC specialists.				
Other impacts	There are no other impacts anticipated.				

Monitoring and evaluation

Tax returns will provide the information required to make a reliable assessment of the tax impact of the new rules.

HMRC has an established programme of liaison with industry which will capture issues around implementation and ongoing compliance and administrative costs.

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).

HM Revenue & Customs

Lloyd's: Stop-Loss Insurance

Who is likely to be affected?

Corporate members of Lloyd's of London (Lloyd's) and corporate partners in a partnership that is a member of Lloyd's (both referred to as 'corporate bodies' from this point) who take out stop-loss insurance at member-level.

General description of the measure

This measure will amend the tax treatment of premiums incurred by Lloyd's corporate bodies for member-level stop-loss insurance. It aims to align the timing of the tax deduction for the premiums with the recognition of the profits to which they relate.

Policy objective

To ensure that member-level stop-loss reinsurance premiums cannot be deducted at an earlier date than the date on which profits from the reinsured underwriting business are taxed.

Background to the measure

Stop-loss insurance is a type of re-insurance contract which can be used by members of Lloyd's to insure against exposure to risk. This is in addition to insurance taken out at Lloyd's syndicate level.

The premiums incurred by Lloyd's corporate bodies for stop-loss insurance taken out at member-level will be taxed on the declaration basis and not on an annual basis as is currently the case.

The declaration basis is a tax treatment specific to Lloyd's. It allows the recognition of the profit or loss arising directly from the corporate body's syndicate membership for any particular underwriting year to be deferred for tax purposes until after that underwriting year has closed. The underwriting year closes after three years (that is at the 36 month point) with the result that the profit or loss is recognised for tax purposes in year four, the period in which the profit or loss is declared.

This measure was first announced at Budget 2011. The Government has held informal consultations with Lloyd's and interested parties.

Detailed proposal

Operative date

The measure will have effect from 6 December 2011.

Current law

The current law, set out in Chapter V Part IV of Finance Act 1994 (FA 1994), allows a deduction for stop-loss premiums incurred at member-level by participants in a Lloyd's syndicate in the year in which the expense is incurred rather than in the year in which the profits from the reinsured business are declared under the declaration basis.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend FA 1994 to provide that any stop-loss reinsurance (as defined for tax purposes in FA 1994) taken out by a Lloyd's corporate body is to be dealt with for tax purposes on the declaration basis.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">This measure is expected to increase receipts by approximately £200 million a year over the period in which the timing advantage unwinds. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">No impact on investment, employment or consumption is anticipated. The objective is to address the timing mismatch. It is not designed to affect underlying economic behaviour.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure will not impact on individuals and households as it applies to Lloyd's corporate bodies underwriting insurance at Lloyd's only. It will not affect individual Lloyd's members (often referred to as 'Names') or individuals who are partners in a partnership that is a member of Lloyd's.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The measure applies to Lloyd's 'corporate bodies' only. No impacts on people with protected characteristics are expected.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">Where processes for taking out stop-loss reinsurance need to be changed to factor in the change in the timing of the tax deduction, the cost of this change is expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The impact on HM Revenue and Customs is likely to be negligible. There will be training/familiarisation costs for a small number of specialists.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> The Government's informal consultation included discussions with representatives of small business. The impact of the measure on these businesses is expected to be negligible

<u>Competition assessment:</u> A decision to take out stop-loss insurance is a commercial rather than a tax decision, and so the measure should not impact on insurers' ability to compete.

No other impacts are expected.</td></tr>
</table>

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, companies are required to prepare tax returns and computations which will provide data to inform any such monitoring and 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).

HM Revenue & Customs

Corporation Tax: Distributions in the Form of Assets and Liabilities

Who is likely to be affected?

Companies resident in the UK which transfer value, assets or liabilities (other than cash) between them when one company is a member of (usually a shareholder in) the other company.

General description of the measure

This measure will ensure that the tax treatment of a transfer of an asset or liability is not determined by the country of residence of the participants in the transaction. This measure will ensure that the transfer of assets and liabilities between UK resident companies can be treated as a distribution for the purposes of corporation tax in all cases. A detailed change will also be made to clarify the interface between two overlapping provisions in the distributions rules.

Policy objective

The measure ensures that the tax treatment of transfers of assets and liabilities between UK resident companies is the same as that which applies to transfers between UK resident and non-UK resident companies.

Background to the measure

Finance (No.3) Act 2010 amended the tax treatment of company distributions received. In the course of related consultations areas of uncertainty were identified in other parts of the distributions legislation. A joint working group was formed with interested tax professionals in order to clarify points of uncertainty.

At Budget 2011, it was announced that HM Revenue & Customs (HMRC) would identify and resolve the areas of difficulty, including by enacting legislation if necessary.

This measure aligns the tax treatment of transfers of assets irrespective of the territory of residence of the companies involved.

Detailed proposal

Operative date

The measure will have effect for transfers of assets and liabilities made on or after the date Finance Bill 2012 receives Royal Assent.

Current law

The transfer of assets by a company to its members at below the market value, and certain other similar transfers, are treated as distributions under section 1020 Corporation Taxes Act (CTA) 2010 and included within the meaning of distribution for the purposes of the Corporation Taxes Acts by section 1000 (1) paragraph G of CTA 2010.

A transfer of assets can also be a distribution under section 1000 (1) paragraph B of CTA 2010 as being “out of the assets of the company”. This is the case if it is in respect of shares,

providing it does not represent a repayment of capital on shares, and it exceeds the amount of any “new consideration” received for the transfer.

However, legislation at sections 1002 and 1021 CTA 2010 exempt the transaction from treatment as a distribution where both companies are UK resident, and either:

- the distributing company is a 51 per cent subsidiary of the member, or both are 51 per cent subsidiaries of another company that is also UK resident; or,
- the companies are not under common control and neither is a 51 per cent subsidiary of a non-UK resident company.

This means that the tax treatment of transfers of assets between companies differs depending on the residence of the companies concerned.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal sections 1002 and 1021 CTA 2010, so that transfers of assets between UK resident companies can be treated as distributions for the purposes of Part 23 CTA 2010.

Also, section 1020 CTA 2010 will be amended so that it applies only to transfers of assets that are not already treated as distributions under section 1000 (1) paragraph B, or would be so treated if paragraph B did not exclude repayments of share capital. This means that the overlap in the scope of section 1000 (1) paragraphs B and G of CTA 2010 is removed.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">This measure is not expected to have an Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="5">These changes have no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">No impact on individuals and households because the changes affect companies only.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">No impacts on the equality of protected groups as the changes affect companies only.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">These changes will affect only UK resident companies that transfer assets to other UK resident companies.
Any compliance costs will be negligible as the new rules are no more burdensome, involving minor changes to the tax computation only. However, this treatment is generally beneficial for companies as in most cases, it will provide certainty that distributions received will be exempt from corporation tax.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a small cost to HMRC in updating guidance and instructions.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> Small businesses are unlikely to be affected because the measure will primarily impact groups of companies. No other impacts have been identified.</td></tr>
</table>

Monitoring and evaluation

This measure will be monitored through information collected from the tax clearances process.

Further advice

If you have any questions regarding these changes, please contact Clare Dunne on 020 7147 2657 (email: clare.e.dunne@hmrc.gsi.gov.uk).

HM Revenue & Customs

Amendments to the Tax Treatment of Financing Costs and Income (Debt Cap)

Who is likely to be affected?

Large groups of companies that are subject to the debt cap.

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 a number of issues that have arisen on the application of the debt cap rules.

Policy objective

It is designed to make the debt cap rules simpler to apply and eliminate situations where the rules apply unfairly.

Background to the measure

The debt cap legislation was introduced in Finance Act 2009. A number of changes have been made since its introduction to improve the way it applies. The measure was announced in Budget 2011 following which there was a period of consultation on a number of potential changes.

Detailed proposal

Operative date

The measure will have effect for the periods of account of worldwide groups ending on or after the date of Royal Assent to Finance Bill 2012.

Current law

The debt cap rules are contained within part 7 of TIOPA. The rules restrict the amount of interest that large groups can deduct for the purposes of corporation tax. The restriction is made by comparing the UK financing expenses of the group net of financing income with the amounts shown for finance costs in the consolidated accounts of the worldwide group. The computations involve identifying these figures in the accounts.

Proposed revisions

Legislation will be introduced in Finance Bill 2012. This will include the ability to opt-out of the de-minimis limits of the net financing deduction and net financing income amounts.

The changes also include rules to deal with:

- mergers, acquisitions and de-mergers of groups;
- dormant companies and the elections for companies to be treated as 'authorised companies' and treasury companies;
- an anti-avoidance provision; and,
- a power to make regulations to deal with the proposed changes in accounting standards for consolidated accounts.

In addition the Government expects to make regulations under the powers in section 336A TIOPA for mismatches arising from loans to a partnership and for asset backed pension contributions.

Overall the changes will assist in identifying third party debt within the consolidated accounts and assist the administration of the debt cap rules.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	The measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	It is expected that the economic impact will be nil. The majority of changes involve clarification of the current rules to ensure that the debt cap works as intended.				
Impact on individuals and households	There will be no impact on individuals and households as the measure only applies to large corporate groups.				
Equalities impacts	The measure will have no impact on the equality of groups with protected characteristics because it only applies to large groups of companies.				
Impact on business including civil society organisations	The debt cap rules will only apply to large corporate groups of which we estimate there are 1,800, so small and medium enterprises and civil society organisations will be unaffected by the measure. The most recent debt cap measure in Finance (No.3) Act 2010 had no impact and we expect that there will be at most a negligible (beneficial) impact on large groups. The responses to the consultation question on the cost of making a de-minimis election were that it would be negligible.				
Operational impact (£m) (HMRC or other)	There is no operational impact on HMRC.				
Other impacts	The potential for other impacts has been considered and none is foreseen.				

Monitoring and evaluation

This measure will be monitored through receipts and communications with taxpayer groups affected.

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 Fiona Hay on 020 7147 2543 (email: fiona.hay@hmrc.gsi.gov.uk).

HM Revenue & Customs

Changes to UK Generally Accepted Accounting Practice

Who is likely to be affected?

Businesses that change the accounting policies used to compute taxable profits and, in particular, businesses that adopt proposed changes to what constitutes UK Generally Accepted Accounting Practice (UK GAAP).

General description of the measure

This measure will ensure the current tax rules dealing with changes of accounting policy apply to the accounting transition adjustments arising as a result of changes to what constitutes UK GAAP.

Policy objective

The measure will ensure consistency and fairness across businesses. It will also prevent disadvantage to businesses and protect against Exchequer loss by maintaining the existing policy objective underlying current law. The policy remains that income should be taxed once and the expenditure should be relieved once.

Background to the measure

Acceptable accounting policies for computing taxable profits are those contained within International Accounting Standards (IAS) and UK GAAP. The Accounting Standards Board (ASB) announced in October 2010 that it intends to significantly change what constitutes UK GAAP during 2012.

There are a number of areas where the proposed new UK GAAP differs from current UK GAAP resulting in one-off accounting adjustments on transition.

This measure has not been previously announced, but does no more than maintain the existing policy objectives.

Informal consultations with accountancy bodies representatives on the proposed changes took place in October 2011. The representatives were supportive of the measure.

Detailed proposal

Operative date

The measure will apply to changes in accounting policy of the businesses concerned where accounts are prepared after 1 January 2012, including those for accounting periods starting before 1 January 2012.

Current law

Current tax law governing accounting transition adjustments arising from certain specified changes of accounting policy is at Chapter 14, Part 3 Corporation Tax Act 2009 and Chapter 17, Part 2 Income Tax (Trading and Other Income Act) 2005. The law provides that, in particular circumstances, on a change of accounting policy income is taxed once a and expenditure allowed once.

Current tax law would not apply to the accounting transition adjustments arising from the changes to UK GAAP.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to ensure that the law applies to all changes of accounting policy. The revised law will apply to the accounting transition adjustments arising from the changes to UK GAAP.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>nil</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">This measure is not expected to have an Exchequer impact. This measure also supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will not impact on individuals and households as it only affects businesses.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">There will be no impact on the equality of protected groups as the changes only affect companies.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is specific to those businesses changing their accounting policies. The ASB's impact assessment estimates that 96.7 per cent of UK companies will not be affected by their proposals for UK GAAP.

The increase in admin burden arising from making a change in accounting practice is considered to be a negligible one-off cost per business affected with nil ongoing costs.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There is no significant operational impact on HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5">The Government has considered the impacts of these proposals on small firms and, in line with the ASB, have concluded that there is little impact on small firms as they are not expected to be affected by the proposed changes to UK GAAP.</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 Alison Bull on 020 7147 2595 (email: alison.bull@hmrc.gsi.gov.uk) or Tony Linehan on 020 7147 0527 (email:tony.linehan@hmrc.gsi.gov.uk).

HM Revenue & Customs

Scope of the Supplementary Charge

Who is likely to be affected?

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

General description of the measure

Legislation will be introduced in Finance Bill 2012 to ensure the Supplementary Charge (SC) applies to ring fence chargeable gains, and to confirm that the scope of the SC matches the scope of Ring Fence Corporation Tax (RFCT).

The Government announced on 6 December 2011 that the legislation implementing both aspects of this measure will be effective from 6 December 2011, to prevent any potential future loss of tax to the Exchequer.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system. The measure does this by preventing a potential loss of tax through ensuring the SC applies to ring fence chargeable gains, and by confirming that the scope of the SC matches the scope of RFCT.

Background to the measure

The Government has announced that this measure, with legislation effective from 6 December 2011, will be introduced in Finance Bill 2012 and will not be subject to formal consultation.

Detailed proposal

Operative date

The legislative change to ensure the SC applies to ring fence chargeable gains has effect in relation to chargeable gains accruing on or after 6 December 2011. The legislative change confirming that the scope of the SC matches the scope of RFCT also comes into force on 6 December 2011.

Current law

Section 171A Taxation of Chargeable Gains Act 1992 (TCGA 1992), which was introduced in Finance Act 2009, allows a group company to enter into a joint election with another group company to transfer gains and losses between them.

Where there is a transfer within a group of companies of a ring fence chargeable gain from a ring fence company to a non-ring fence company, the ring fence gain is not subject to SC because the non-ring fence company does not fall within the scope of the SC.

The scope of the SC is defined in section 330 Corporation Tax Act 2010 (CTA 2010) by reference to a company's adjusted ring fence profits.

Proposed revisions

The changes in the law will be made by amendments to primary legislation.

Section 171A TCGA 1992 will be amended to provide that an election cannot be made to transfer a ring fence chargeable gain from a company carrying on a ring fence trade to a company not carrying on a ring fence trade.

Section 330 CTA 2010 will be amended to put beyond doubt that SC is charged by reference to a company's ring fence profits chargeable to corporation tax; that is by reference to its chargeable gains and other income, in addition to the trading profits arising to the company as a result of its ring fence trade.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">This measure is expected to increase receipts by approximately £5 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012. This measure also supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant impact on stability and investment in the UKCS, or the wider economy.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The changes apply only to companies involved in the UK or UKCS oil and gas industry.</td></tr>
<tr><td>Equalities impact</td><td colspan="5">This measure applies only to companies involved in the oil and gas industry in the UK or UKCS and is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on businesses including civil society organisations</td><td colspan="5">There are around 350 companies involved in the UK or UKCS oil and gas industry. Industry has already been made aware that the Government would consider clarifying the legislation in this way, and the proposed change will have no material impact on the vast majority of businesses operating in the ring fence.

The measure will have no impact on civil society organisations.

The impacts on administrative costs for businesses arising from this proposed measure are expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible cost to HMRC for updating guidance.</td></tr>
<tr><td>Other impacts</td><td colspan="5">Carbon assessment: By their nature, oil and gas production installations produce carbon emissions and therefore fall within the scope of the EU Emissions Trading System.

Sustainable development, wider environment and health: The changes proposed will not of themselves increase activity and therefore risk. The industry is regulated to seek to ensure the health and wellbeing of its workers and that its activities do not lead to pollution or disturbance to habitat or wildlife.

Small firms impact test: Although small firms may be affected by this measure, the Government is satisfied that any impacted firms will have the capacity to understand and implement the change.</td></tr>
</table>

	Competition assessment: None of the changes has a negative effect on competition. The changes will confirm the scope of the SC, and ensure SC is paid on ring fence chargeable gains.

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 Paul Philip on 020 7438 6993 (email: paul.philip@hmrc.gsi.gov.uk), or Hugh Hedges on 020 7438 6576 (email: hugh.hedges @hmrc.gsi.gov.uk).

A4 Indirect Tax

HM Revenue & Customs

Machine Games Duty

Who is likely to be affected?

Operators, manufacturers and suppliers of machine games in the UK.

General description of the measure

The taxation of gaming machines will be reformed through the introduction of machine games duty (MGD). MGD will be charged on the net takings from the playing of dutiable machine games. These are games played on a machine where customers hope to win a cash prize worth more than they stake. Where MGD is payable, it will replace both Amusement Machine Licence Duty (AMLD) and VAT.

Policy objective

This measure aims to put tax revenues from gaming machines on a more sustainable footing. The VAT treatment of gaming machines has been challenged in the Courts. Introducing MGD and exempting dutiable machine games from VAT will protect tax revenues going forward, and will ensure that operators of gaming machines continue to make a fair contribution to tax receipts.

MGD also supports the Government's objective of a fairer tax system by ensuring the taxation of dutiable machine games will be more closely linked to machine takings.

Background to the measure

A consultation document, *Taxation of gaming machines: consultation on a gross profits tax*, was published in July 2009 on the HM Treasury website and the introduction of MGD was announced in December 2010.

A further consultation document, *Implementing a Machine Games Duty: consultation on policy design*, was published in May 2011 on the HM Treasury website.

The Government has considered all responses received to the consultation, as detailed in the summary of responses published on 6 December 2011.

Detailed proposal

Operative date

The operative date for MGD will be 1 February 2013. Transitional arrangements for AMLD will have effect from when Finance Bill 2012 receives Royal Assent.

Current law

AMLD is provided for in the Betting and Gaming Duties Act 1981.

Section 23 of the Value Added Tax Act 1994 (VATA) provides that payment for play on a gaming machine is, for the purposes of VAT, treated as a consideration for the supply of services.

Group 4 of Schedule 9 to VATA excludes gaming machines from the general exemption for betting and gaming.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to establish MGD and to bring AMLD to an end.

Appropriate secondary legislation will also be made.

VAT law will be amended to provide for an exemption from VAT for supplies relating to the playing of dutiable machine games.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The introduction of MGD, in place of AMLD and VAT on machine games, is not intended to be a revenue raising measure. However, the exact exchequer impact will depend on the rates of MGD, which will be set at Budget 2012.				
Economic impact	The change has no significant impact on the economy.				
Impact on individuals and households	The impact on individuals and households is expected to be negligible as this measure is not expected to have a significant impact on the availability, price and payouts of machine games. Furthermore, only a small proportion of the population play machine games.				
Equalities impacts	This measure is not expected to have different impacts on any protected equality groups.				
Impact on business including civil society organisations	Approximately 42,000 businesses with dutiable machine games will be impacted by MGD. The effects of this measure will not be distributed equally across the sector, creating winners as well as losers. These effects will be within as well as between gambling sectors. On average, operators with lower takings machines and low VAT recovery rates will benefit. A two tier rate will further ensure a lower effective tax rate for low stakes and prize machines. The detailed tax impact on, and within, specific gambling sectors will be estimated after MGD rates are set. There will also be an impact on business compliance costs. Abolition of AMLD will result in an estimated compliance cost saving of around £20 million over ten years. The introduction of MGD will require quarterly returns and lead to an estimated compliance cost of £85 million over ten years. Exempting the takings from dutiable machine games from VAT will change the VAT status of some businesses. Compliance costs would decrease for a small number of businesses that will no longer be required to register for VAT because they will fall below the VAT threshold. However, other businesses will become partially exempt, increasing their compliance costs. As a result, VAT-related compliance costs are anticipated to increase by around £5 million over ten years. Overall, the estimated compliance cost impact of all the changes is an increase of around £70 million over ten years. These figures are the current best estimates, and may be revised. The final administrative burden estimate will be published at Budget 2012.				

<table>
<tr><td rowspan="17"></td><td colspan="3">Figures may not sum due to rounding.</td></tr>
<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>£3m</td><td>1</td></tr>
<tr><td>Average Annual Costs</td><td>£9m</td><td>10</td></tr>
<tr><td>Total Costs (PV)</td><td>£90m</td><td>10</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>0</td><td>1</td></tr>
<tr><td>Average Annual Benefit</td><td>£2m</td><td>10</td></tr>
<tr><td>Total Benefit (PV)</td><td>£20m</td><td>10</td></tr>
<tr><td>Net Benefit (NPV)</td><td>-£70m</td><td>10</td></tr>
<tr><td colspan="3">Impact on Administrative Burden</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£9m</td><td>£2m</td><td>£6m</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="3">HMRC will develop a new information technology system to support MGD, allowing HMRC to manually process registrations and returns as well as enabling customers to register and file returns online. HMRC will incur additional costs of approximately £9 million (including five years support costs) to develop a new IT system in support of MGD. The processing of final AMLD licences and payments will require small changes to existing systems in the region of £200,000 and will create some additional work for HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="3"><u>Competition assessment:</u> The abolition of AMLD is expected to increase competition as it removes a fixed cost which can act as a barrier to entry.

<u>Small firms impact test:</u> The taxation change will impact on small businesses. The impact will vary depending on the specific circumstances of individual businesses, including their current VAT status. It will also depend on the rates of MGD. Following consultation with small businesses on this measure, adjustments have been made to the planned administration of the duty to minimise burdens. Exempting small firms from MGD would disproportionately decrease exchequer revenues.</td></tr>
</table>

Monitoring and evaluation

Following implementation of MGD, this measure will be subject to ongoing monitoring of the amount collected.

Further advice

If you have any questions about this change, please contact Katherine Mansfield on 0161 827 0308 (email: katherine.mansfield@hmrc.gsi.gov.uk).

HM Revenue & Customs

Gambling Duties: Double Taxation Relief

Who is likely to be affected?

UK Gambling companies offering remote gambling to overseas customers.

General description of the measure

Double taxation relief (DTR) will be introduced for General Betting Duty (GBD), Remote Gaming Duty (RGD) and Pool Betting Duty (PBD).

Policy objective

The measure will enhance the competitiveness of the UK tax system by ensuring that UK based operators do not suffer from double taxation as other countries introduce place of consumption based taxation regimes for remote gambling. By encouraging gambling operators to remain in the UK, the relief protects both tax revenues and jobs in the UK.

Background to the measure

A review of remote gambling taxation was announced in July 2011 and an informal consultation was held with stakeholders following the July announcement.

Detailed proposal

Operative date

The measure will have effect for accounting periods for UK gambling duties ending on or after 1 April 2012.

Current law

GBD, RGD and PBD are provided for in the Betting and Gaming Duties Act 1981.

Proposed revisions

Legislation will be introduced in Finance Bill 2012. The Betting and Gaming Duties Act 1981 will be amended to introduce a DTR for operators that pay GBD, RGD or PBD in the UK and also pay qualifying taxes on the same transactions in other countries.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">This measure is expected to decrease receipts by approximately £20 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012. This measure also supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The change has no significant impact on the economy.</td></tr>
</table>

Impact on individuals and households	The impact on individuals and households is expected to be negligible as this measure is not expected to have a significant impact on the availability, price and payouts of remote gambling.
Equalities impacts	This measure is not expected to have different impacts on groups with protected characteristics.
Impact on business including civil society organisations	This measure will benefit UK Gambling companies offering remote gambling to overseas customers. It will provide relief against double taxation incurred in respect of GBD, RGD and PBD as other countries introduce place of consumption based taxation regimes for remote gambling. A negligible compliance cost will be placed on the small number of businesses utilising DTR.
Operational impact (£m) (HMRC or other)	There are negligible costs to HMRC from this measure.
Other impacts	Small firms impact test: This measure is only expected to impact on large businesses. However, any smaller firms attracted to the scheme would also benefit. Competition assessment: This measure will improve the competitiveness of UK based operators. This measure is not expected to have any other significant impacts.

Monitoring and evaluation

This measure will be subject to ongoing monitoring of the amount of relief claimed.

Further advice

If you have any questions about this change, please contact Ian Ayre on 0161 827 0306 (email: ian.ayre@hmrc.gsi.gov.uk).

HM Revenue & Customs

Repeal of Section 22 of the Alcoholic Liquor Duties Act 1979

Who is likely to be affected?

Manufacturers and exporters of rectified and compounded spirit.

General description of the measure

This measure repeals redundant legislation covering the drawback (i.e. repayment) of excise duty on spirit manufactured by licensed rectifiers and compounders that is exported from a producer's premises or placed in a warehouse for approved purposes. Producers and exporters wishing to claim drawback on direct exports of rectified or compounded spirit may do so under the existing provisions of the Excise Goods (Drawback) Regulations 1995 (EGDR).

Policy objective

This measure supports the Government's objective of a simpler tax system by removing redundant legislation from the statute book.

Background to the measure

Informal consultation on this measure was held with the trade and relevant trade associations in October 2010. It confirmed that businesses will not be affected by the repeal. Most producers of rectified and compounded spirit do not claim drawback, while those who wish to do so on product exported directly from the UK can use the alternative provisions in EGDR.

Prior to this measure, rectifiers and compounders could, in principle, claim drawback under either the provisions of Alcoholic Liquor Duties Act (ALDA) s22 and the Spirits (Rectifying, Compounding and Drawback) Regulations 1988 or EGDR. ALDA s22 was intended to meet a specific business need, whereas EDGR was written to make provision for general excise drawback. Although the two arrangements are slightly different, there was common ground occupied by both, which placed a risk to HMRC of identical claims being made using both arrangements. In addition, ALDA s22 still permitted warehousing for export of rectified or compounded spirit, which was out of step with EGDR.

The repeal of ALDA s22 was announced at Budget 2011.

Detailed proposal

Operative date

The measure will have effect on and after Royal Assent of Finance Bill 2012.

Current law

The provision for drawback on rectified and compounded spirit is contained in ALDA s22. It provides for repayment of duty on rectified and compounded spirit that has been warehoused for an approved purpose or exported from a producer's premises.

Proposed revisions

Legislation will be introduced in the Finance Bill 2012 to provide for the repeal of ALDA s22, to take effect from Royal Assent.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>nil</td><td>nil</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">This measure is not expected to have an Exchequer impact.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The change has no significant economic impact.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There is no impact on individuals or households. This measure repeals redundant legislation that only affects business.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The change will have no different effect on groups with protected characteristics and, as the legislation being repealed is redundant, is not considered to have any impact on equality.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The Government does not anticipate any specific impact on businesses, including civil society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HMRC's guidance will need to be updated to reflect the change, but this will be included in business as usual, incurring a negligible additional cost</td></tr>
<tr><td>Other impacts</td><td colspan="5">No other impacts have been identified.</td></tr>
</table>

Monitoring and evaluation

The measure will be subject to ongoing monitoring of the repeal.

Further advice

If you have any questions about this change, please contact Paul Manson on 0161 827 0357 (email: paul.manson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Air Passenger Duty: Business Jets

Who is likely to be affected?

Air passengers (including domestic/international business and tourists), airlines and airports.

General description of the measure

Air passenger duty (APD) will be extended to smaller aircraft and business jets (5.7 tonnes threshold), effective from 1 April 2013. Passengers aboard luxury business jet flights will pay new premium rates of APD set at double the business/first class (standard) rates of APD.

Policy objective

The extension of APD to smaller aircraft and business jets supports the Government's objective of a fairer tax system.

Background to the measure

Budget 2011 announced that APD would be extended to include business jets for the first time, and launched a consultation on APD which included a question on how best to implement the business jets change. The consultation closed on 17 June 2011.

Following the consultation, further meetings were held with the business aviation sector. The evidence presented helped refine the Government's plans, and the announcement at the Autumn Statement of 29 November 2011 sets a new start date of 1 April 2013. This revision to the start date reflects the fact that the reforms will bring a substantial number of new tax payers into the APD regime and the need to design a scheme to minimise administration and compliance burdens.

The majority of passengers flying aboard business jets will pay APD at the same rates as passengers aboard commercial flights. To ensure the tax is fair, the Government is introducing new premium rates of APD for passengers on flights using planes with a certified authorised weight of 20 tonnes or more and fewer than 19 seats. Flights in this category, which tend to offer a luxury service, will pay APD at double the prevailing standard business/first class rates of APD.

Detailed proposal

Operative date

The changes extending APD to business jets and smaller aircraft come into effect on 1 April 2013.

Current law

Legislation setting out what aircraft are considered to be chargeable for the purposes of APD is contained in section 29 of the Finance Act 1994. Section 30 sets out the rates applicable to each destination band while section 31 sets out which passengers are considered to be exempt from APD and section 43(1) defines who is a passenger. Schedule 5A of the same Act lists the countries in each destination band.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the following.

Section 29 will be amended to extend the scope of APD to business jets and smaller aircraft, by reducing the de minimis weight limit below which aircraft are not subject to APD from 10 tonnes to 5.7 tonnes. Provision will also be made to ensure that certain aircraft previously excluded from APD will remain excluded (e.g. emergency flights).

Section 30 will set out the rates to be applied from 1 April 2013 to the business jets and smaller aircraft. Additionally, it will define a combination of weight and seating capacity for business jets considered to be providing a premium service. Flights in this category tend to be luxury services which will pay APD at double the prevailing standard business/first class rates of APD. These new premium rates, effective from 1 April 2013, will be set out in section 30.

Section 43(1) will amend the definition of passenger to ensure that passengers on private jets will be brought within the scope of APD.

Legislation providing for exemptions to APD will be reviewed to ensure that certain passengers currently exempt from APD will remain exempt under this reform.

Summary of impacts

Exchequer impact (£m)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	-	-	+ 5	+ 5	+ 5	+ 5
	These figures were set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	The extension of the tax base to all flights on aircraft of 5.7 tonnes or more is estimated to bring an additional 50,000 flights within the scope of APD. Between five per cent and ten per cent of these flights will be captured by the new premium tax rate (planes with a certified authorised weight over 20 tonnes and fewer than 19 seats). The extension of APD to business jet flights is not expected to have a significant effect on overall demand, given that generally APD will account for only a small fraction of the final price of hiring a business jet. The broader macroeconomic effects of the policy are expected to be negligible.					
Impact on individuals and households	We estimate that the extension of APD to include all flights over 5.7 tonnes will bring around 50,000 additional flights within the scope of APD. Consultation with the industry revealed that, on average, business jet flights carry around three passengers per flight. It is expected that the majority of these passengers are relatively high-income individuals travelling on business.					
Equalities impacts	The majority of business jet passengers are male. No other equalities impacts are expected.					
Impact on business including civil society organisations	Based on consultation with the industry, we estimate around 1,500 business jet operators fly into the UK each year. In recognition of the concerns expressed by stakeholders about administration and compliance burdens, the Government intends to operate a new 'special scheme' which will allow operators who elect into the scheme to estimate their average					

passenger numbers for the purposes of APD. This should help to substantially lower administration and compliance costs for the industry.

By adopting the new APD special scheme, we estimate the total one-off compliance costs for the business aviation sector will be around £1.5 million to £2 million. This includes the time taken for taxpayers to familiarise themselves with the tax regime, update their systems, and carry out a robust sample of passengers numbers over a specified period in cases where taxpayers elect for the new special scheme. This estimate also accounts for the fact that operators will need to be able to estimate how many of their flights will be classified as reduced rate and standard rate, and how many will be liable to pay the new premium rate of APD.

Operators will also incur ongoing administration costs from filling in returns, record keeping, regular passengers sampling (in order to keep their estimates up-to-date). Owing to the much lower numbers of passengers involved, business jet operators will only be expected to submit APD returns on an annual basis. Overall, it is expected that the resulting recurring administrative burden placed on the industry from the policy will be around £0.5 million per year.

	Cost	Time Period (yrs)
Compliance Costs		
One-off Costs	£1.5m - £2m	1
Average Annual Costs	£0.5m	5
Total Costs (PV)	£3.8 - £4.3m	
Compliance Benefits		
One-off Benefit		
Average Annual Benefit		
Total Benefit (PV)		
Net Benefit (NPV)		

Impact on Administrative Burden (included in Net Benefit)		
Increase	Decrease	Net Impact
£0.5m		£0.5m

Impact on public sector

HMRC will incur a one-off cost in the region of £400,000 to bring in the new tax regime for business jets.

HMRC will also need to administer and enforce the tax on an ongoing basis, incurring an initial administrative cost of around £250,000 and continuing administrative costs of around £450,000 per year.

Other impacts

Carbon assessment: The policy is expected to have a negligible impact on carbon emissions, and as aviation enters the EU Emissions Trading Scheme from January 2012 any increase will be offset by emission reductions in other covered sectors.

Monitoring and evaluation

HMRC will monitor receipts and information collected on tax returns, as well as the wider impact of the policy.

Further advice

If you have any questions about this change, please contact Pardip Bans on 020 7270 6178 (email: pardip.bans@hmtreasury.gsi.gov.uk).

HM Revenue & Customs

Air Passenger Duty: Cut in Northern Ireland Rate

Who is likely to be affected?

Air passengers (including business and tourists) departing from airports in Northern Ireland on direct long-haul flights, airlines and airports operating the flights (and potential new flights from Northern Ireland airports).

General description of the measure

This measure cuts air passenger duty (APD) for passengers travelling from Northern Ireland on direct long-haul flights (bands B, C and D) to the prevailing short-haul (band A) rates of duty. The band A rates of duty are currently £12 in economy (reduced rate) and £24 in business/first class (standard rate). As announced at the Autumn Statement on 29 November, the band A rates will rise to £13 and £26 respectively, from 1 April 2012.

Policy objective

The APD cut in Northern Ireland helps to maintain Northern Ireland's vital air link to North America. It also offers a fresh opportunity for airlines to develop new long-haul services, supporting business and tourism in Northern Ireland.

Background to the measure

Budget 2011 launched a consultation on APD, which included a question on whether APD should be devolved to Northern Ireland. The consultation closed on 17 June 2011.

On 27 September 2011, the Government announced that, effective from 1 November 2011, APD for passengers travelling on direct long-haul routes departing from airports in Northern Ireland would be cut to the lower short-haul rate. To provide a lasting solution, the Government has also launched a parallel process to devolve aspects of APD to the Northern Ireland Assembly.

Detailed proposal

Operative date

The rate cut applies to direct long haul flights departing from Northern Ireland from 1 November 2011 (irrespective of when the ticket for the flight was booked or purchased).

Current law

Legislation defining the rates applicable to each destination band is contained in section 30 of the Finance Act 1994. Schedule 5A of the same Act lists the countries in each band.

Proposed revisions

Legislation will be introduced in Finance Bill 2012. Section 30 will be amended to provide for the rates to be applied to direct long haul flights from Northern Ireland.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>negligible</td><td>negligible</td><td>- 5</td><td>- 5</td><td>- 5</td><td>- 5</td></tr>
<tr><td colspan="6">These figures were set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.

The tax base is all direct flights from Northern Ireland to long-haul destinations (bands B, C and D). As a result of this cut in APD, we estimate that the number of passengers on such flights may increase by a small amount. The impact on the cost of the measure is estimated to be negligible.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The reduction in tax on direct long-haul flights from Northern Ireland may lower ticket prices for such journeys and in turn increase demand, but the overall effect is expected to be negligible. Overall, we expect the macroeconomic effects will also be negligible.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">There are an estimated 3.75 million passengers departing from Northern Ireland in 2012-13. Of these between 1 per cent and 2 per cent travel on flights directly to bands B, C and D.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">No different impact on protected groups is expected.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">Currently only three operators (one scheduled, two charter) are affected by this measure. The only change to the APD declaration process for business is that passengers travelling on direct flights to bands B, C and D from Northern Ireland would instead be reported as band A passengers, as the tax rate is the same.

Therefore the one-off compliance costs, as well as the ongoing administrative burden of this change, are expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">Additional operational costs for HMRC will be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Carbon assessment:</u> The policy is expected to have a negligible impact on carbon emissions, and as aviation enters the EU Emissions Trading Scheme from January 2012 any increase will be offset by emission reductions in other covered sectors.</td></tr>
</table>

Monitoring and evaluation

HMRC will monitor receipts and information collected on tax returns, as well as the wider impact of the policy.

Further advice

If you have any questions about this change, please contact Pardip Bans on 020 7270 6178 (email: Pardip.Bans@hmtreasury.gsi.gov.uk).

HM Revenue & Customs

Carbon Price Floor: Additional Legislative Provisions

Who is likely to be affected?

Generators of fossil-fuel based electricity located within the UK and UK-based businesses that supply fossil fuels to generators of electricity, including power stations and auto-generators.

General description of the measure

Following the announcement at Budget 2011 that a carbon price floor would be introduced on 1 April 2013, most of the primary legislative provisions were included in Finance Act 2011. Legislation in Finance Bill 2012 will introduce the following four additional provisions, the first two of which were announced at Budget 2011:

- lower carbon price support (CPS) rates of climate change levy (CCL) and fuel duty for supplies of fossil fuels to good-quality combined heat and power (CHP) stations that are intended to be used to generate electricity. The levels of the lower rates will be announced at Budget 2012;
- abated CPS rates of CCL for supplies of fossil fuels to generation stations fitted with carbon capture and storage (CCS) technology;
- clarification over which person will be responsible for charging and accounting for the CPS rates of CCL; and
- changes to the taxation under the carbon price floor of solid fuels from weight (i.e. kilogram) to heat / calorific value (i.e. joule).

The draft legislation also includes provisions for setting the CPS rates of CCL for the year 2014-15, details of which will be announced at Budget 2012. A number of more detailed provisions are also included in the draft primary legislation.

The draft secondary legislation setting out the detailed administrative provisions to enable HM Revenue & Customs (HMRC) to administer the carbon price floor is also being published today.

Policy objective

The carbon price floor is designed to encourage additional investment in low-carbon power generation by providing greater support and certainty to the carbon price. The introduction of reliefs for supplies of fossil fuels to CHP stations and to generating stations with CCS technology recognises the contribution these technologies make in reducing CO_2 emissions.

This policy supports the Government's desire to make the tax system greener.

Background to the measure

In Budget 2011, the Government announced it would introduce a carbon price floor from 1 April 2013 to support investment in low-carbon generation. Supplies of fossil fuels used in most forms of electricity generation will become liable either to fuel duty or CCL from that date. Such supplies will be charged at newly created CPS rates of fuel duty (oils) or CCL (other fossils fuels), with the rate for each type of fuel determined by its average carbon content. The CPS rates will reflect the differential between the futures market price of carbon and the floor price determined by the Government.

Legislation to implement most of the primary price floor provisions is contained in Finance Act 2011.

Budget 2011 announced that Finance Bill 2012 would include reliefs for supplies of fossil fuels to CHP stations and to generating stations using CCS technology.

Since Budget 2011, HM Treasury and HMRC have continued to discuss implementation issues with interested parties. Draft primary and secondary legislation, published on 6 December 2011, reflects the outcome of those discussions.

Detailed proposal

Operative date

These measures will have effect for supplies of fossil fuels to generators of electricity made on or after 1 April 2013.

Current law

Schedule 6 to the Finance Act 2000 contains the primary legislation for CCL. Paragraph 14 exempts from the levy supplies of solid fuels, liquefied petroleum gas and gas used for the generation of electricity. Section 78 of and Schedule 20 to the Finance Act 2011 removes this exemption and introduces new CPS rates of CCL for leviable fossil fuels used in electricity generation, both with effect from 1 April 2013.

The Climate Change Levy (General) Regulations 2001 (SI 2001/838) govern the administration of CCL.

The Climate Change Levy (Combined Heat and Power Stations) Regulations 2005 (SI 2005/1714) determine, among other things, the extent to which supplies to a CHP station can be exempt from CCL.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) provide relief from fuel duty for oils used to generate electricity in a generating station or CHP station.

Proposed revisions

The changes summarised under *General description of the measure* above will be introduced by both primary and secondary legislation.

Legislation will be introduced in Finance Bill 2012 to amend Schedule 6 to the Finance Act 2000 to make changes affecting the CPS rates of CCL. It will:

- introduce lower CPS rates for supplies of fossil fuels to good-quality CHP stations and specify how CHP stations that do not achieve the threshold efficiency percentage calculate the extent to which these supplies are entitled to the lower CPS rates;
- introduce abated CPS rates for supplies of fossil fuels to power stations fitted with CCS technology – the abatement will reflect the level of performance of the station;
- require electricity generators, who are not auto-generators or CHP stations, that have a capacity of 50 mega watts per hour or more to account, declare and pay the appropriate CPS rates;
- amend the CCL deemed supply rules set out in paragraph 24, to ensure that supplies of fossil fuels on which CPS rates have not been charged become liable to these rates where there is a change of intention of the person receiving the supply;
- amend paragraph 63 to enable a person who has overpaid CPS rates to reclaim the amount overpaid from HMRC; and,

- amend paragraph 61 to enable HMRC to publish on its website a list of all generators that self-account for CPS rates and the location of every UK-based power station operated by those self-accounting generators.

Three statutory instruments are also being published in draft today:

- The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendment) Regulations 2013 will amend the Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 so that oils used to generate electricity in a generating or CHP station will no longer be fully relieved of fuel duty, which will in effect make such oils subject to CPS rates of fuel duty.
- The Climate Change Levy (General) (Amendment) Regulations 2012 will amend the Climate Change Levy (General) Regulations 2001 to:
    - enable HMRC to administer the CPS rates of CCL;
    - introduce definitions for "CPS abated-rate supply", "CPS lower-rate supply", and "supplier" for CPS purposes; and
    - set out the formulae for calculating how much of a supply is subject to the CPS rates of CCL for supplies of leviable fossil fuels to CHP stations and electricity-generating stations using CCS technology.
- The Climate Change Levy (Combined Heat and Power Stations) (Amendment) Regulations 2013 will amend the Climate Change Levy (Combined Heat and Power) Regulations 2005 to ensure that the amended Regulations apply to supplies to CHP stations liable to the CPS rates of CCL.

Summary of impacts

At Budget 2011, the Government published a summary of impacts for the carbon price floor. The boxes below have only been completed where the four measures announced today change that impact assessment.

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The Exchequer impact will depend on the exact rates, which will be set out at Budget 2012.				
Economic impact	There will be no significant wider economic impacts as a result of these changes.				
Impact on individuals and households	All these changes affect only businesses, therefore any impact on individuals and households should be minimal.				
Equalities impacts	The proposed changes will affect businesses and other organisations that are CHPs or use solid fuels to produce electricity. As such, there should be no differential impact on different equality groups.				
Impact on business including civil society organisations	The major electricity generators have indicated that allowing them to self-account will deliver greater certainty for them and reduce the indirect costs of complying with the carbon price floor. The change in compliance costs from this change is estimated to be negligible.				

Operational impact (£m) (HMRC or other)	Additional operational costs for HMRC will be negligible.
Other impacts	Competition assessment: The change from taxing solid fuels by weight to heat will lower the amount of the carbon price support rate of CCL payable per tonne on most indigenous coal as this fuel, on average, contains fewer gigajoules (GJ) per tonne (around 23GJ) than coal extracted in other parts of the world (on average 25.1 GJ). It will also lower the tax payable on “inferior coal” (coal that contains a high proportion of incombustible material) also known as “coal slurry”. This type of coal has an energy content of between 8 and 15 GJ per tonne. A substantial proportion of this coal is located on waste heaps in the UK and can be used, when mixed with regular coal, for electricity generation. The decision to tax heat rather than weight will reduce the cost of this “inferior coal” and by doing so should support the continued reclamation of UK colliery sites currently being undertaken by UK businesses. Geographically, these changes will benefit the UK regions with lower energy coal and reserves of “inferior coal”, especially Wales and the North East of England.

Monitoring and evaluation

The Government will consider how best and when to evaluate the policy against its objective to encourage investment in low-carbon power generation.

Further advice

If you have any questions about these changes, please contact Ian Moules on 020 7147 0653 (email: ian.moules@hmrc.gsi.gov.uk).

HM Revenue & Customs

Climate Change Levy: Change to the Reduced Rate on Electricity

Who is likely to be affected?

Gas and electricity utilities, suppliers of solid fuels and liquefied petroleum gas (LPG) and energy-intensive businesses with climate change agreements (CCAs).

General description of the measure

The measure amends the reduced rate of climate change levy (CCL) on electricity only from 35 to 10 per cent, with effect from 1 April 2013, rather than to 20 per cent as announced at Budget 2011. The measure will also correct a legislative omission made when changes were made to the reduced rate in Finance Act 2010.

Policy objective

To help manufacturing and the most energy-intensive businesses to remain competitive during the shift to a low-carbon economy, by reducing the cost of electricity.

Background to the measure

The CCL is a tax on business energy use, with different tax rates for electricity, gas, solid fuels and liquefied petroleum gas. CCAs are voluntary agreements made with the Department of Energy and Climate Change that entitle participating facilities within energy-intensive sectors to pay a reduced rate of CCL in return for meeting challenging energy efficiency or carbon reduction targets.

Finance Act 2010 amended the reduced rate of the levy for those in CCAs from 20 to 35 per cent for all commodities that are liable to CCL, with effect from 1 April 2011. This was to ensure that the relief remains compliant with European state aid rules.

Following a consultation in 2010-11, the Government confirmed at Budget 2011 that a carbon price floor would be introduced on 1 April 2013. This will be achieved by taxing fossil fuels used in electricity generation under the existing CCL and fuel duty regimes. Supplies of fossil fuels used in most forms of electricity generation will become liable to CCL, charged at new carbon price support rates of CCL.

Budget 2011 announced that, to mitigate the impacts of the carbon price floor on energy intensive businesses while remaining in line with European State aid rules, the reduced rate of CCL on electricity only would be amended to 20 per cent from 1 April 2013.

The reduced rate of CCL on gas, LPG and solid fuels will remain at 35 per cent of the main CCL rates.

Detailed proposal

Operative date

These changes will have effect for supplies of electricity treated as taking place on and after 1 April 2013 apart from the correction to the omission to the reduced rate provisions included in Finance Act 2010, which will have retrospective effect for all taxable commodities from 1 April 2011.

Current law

Paragraph 42(1)(c) of Schedule 6 to the Finance Act 2000 provides for the CCL reduced rate. Paragraph 45A of Schedule 6 deals with circumstances in which a supply has been treated as a reduced rate supply but it is later determined that it should not have been, and specifies the amount payable by way of levy where too much CCL relief has been received.

Paragraph 2 of Schedule 1 to the Climate Change Levy (General) Regulations 2001 (SI 2001/838) sets out the formula used by businesses in CCAs to calculate their CCL relief entitlement.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend paragraph 42 of Schedule 6 to provide for the new reduced rate for electricity.

Finance Bill 2012 will also amend paragraph 45A of Schedule 6 to correct an omission in the Finance Act 2010 provisions which amended the reduced rate of CCL on all taxable commodities supplied on and after 1 April 2011. This will retrospectively change the amount of levy payable from this date from 80 per cent to 65 per cent where a supply was treated as a reduced rate supply but it is later determined that it should not have been. This provision in paragraph 45A will be further amended by Finance Bill 2012 from 1 April 2013 to reflect the revised reduced rate on electricity from that date.

Following Royal Assent to the Bill, secondary legislation will provide for amendment to the formula set out in the Climate Change Levy (General) Regulations 2001.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-	-15	-20	-20	-20
	These figures were set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	This measure is not expected to have any significant economic impacts on its own.					
Impact on individuals and households	The CCL is not levied on the supply of energy to individuals and households so this measure will not have any direct impact on their energy bills. The reduction in business energy bills may be passed through to the prices paid by consumers for goods and services, with the degree of reduction likely to vary by sector.					
Equalities impacts	The proposed changes will affect energy-intensive businesses that pay CCL on their qualifying energy consumption. There will be no direct impact on individuals. As such, the Government expects that there will be no differential impact on different equality groups.					
Impact on business including civil society organisations	CCAs are available for up to 5,000 target units (a single facility or group of facilities) across 54 energy intensive sectors. CCA participants pay a reduced rate of CCL levied on electricity consumed by these facilities of 35 per cent. That rate was due to change to 20 per cent from April 2013 following an announcement in Budget 2011. As a result of this change the reduced rate for electricity will be 10 per cent from 1 April 2013, reducing electricity bills for these facilities. There will be some one-off familiarisation costs and administration costs					

	associated with the change to the level of CCL discount for electricity. The total of these costs is negligible. The correction to the omission in the Finance Act 2010 should take effect before there is a chance for the omission to have a practical impact on relief recipients.
Operational impact (£m) (HMRC or other)	Introducing a different level of reduced rate for electricity compared with other taxable commodities will result in negligible additional costs in administering the tax for HM Revenue & Customs.
Other impacts	This measure is not expected to have any other significant impacts.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Climate Change Levy: Electricity Produced In Combined Heat and Power Stations

Who is likely to be affected?

Operators of fully-exempt or partly-exempt combined heat and power (CHP) stations, electricity utilities that make supplies of electricity generated in such stations, and business and public sector consumers of such electricity.

General description of the measure

Budget 2011 announced the ending of the exemption from climate change levy (CCL) for electricity produced in a CHP station that is supplied by an electricity utility indirectly to an energy consumer ('the CCL CHP indirect supplies exemption').

Legislation will be introduced in Finance Bill 2012 to provide that regulators will no longer issue levy exemption certificates (LECs) for electricity generated in a CHP station from 1 April 2013. Electricity utilities will be able to continue to allocate CHP LECs that they acquired relating to CHP generation made before 1 April 2013, but only for a limited number of years. This will give them time to use up their stocks, while ensuring that CHP electricity generated after 1 April 2013 does not benefit from exemption from CCL. The Government will announce the length of this transitional relief at Budget 2012.

This measure will also provide for transitional arrangements, for example to deal with reconciling provisional allocations of LECs with those due in practice. It will also reinstate certain arrangements that existed before the introduction of CHP LECs in 2003.

Policy objective

The objective of this change is to ensure that Government support for CHP through the tax system is more direct than at present, and thereby provides both greater certainties over the long term for business and better value for money for taxpayers.

Background to the measure

When CCL was introduced in 2001, CHP-generated electricity supplied directly to a final consumer (including self-supplies) was exempted. In April 2003, to encourage greater CHP electricity generation, this exemption was extended to "indirect supplies", those made via an electricity utility to an energy consumer. CHP-generated electricity is electricity that has been produced in a CHP station meeting the criteria set out in the CHP Quality Assurance (CHPQA) Standard run by the Department of Energy and Climate Change (DECC). Under the CHPQA Standard, a CHP station is certified as being either fully- or partly-exempt for the purposes of CCL.

Once electricity enters the national grid, the technology used to generate that electricity is no longer distinguishable. As a result of the extension of the CCL exemption to indirect supplies in 2003, the CHP LEC regime was introduced to provide evidence that CHP electricity had been generated. CHP LECs are issued by the regulators of the regime: the Office of Gas and Electricity Markets Authority (Ofgem) and the Northern Ireland Authority for Utility Regulation (NIAUR). Utility companies buy LECs from CHP generators. When the utility company supplies electricity to the final consumer under a contract that contains a CHP declaration, they are entitled to apply the CCL exemption to those supplies. They notify the regulator of the LECs associated with that supply and redeem them.

Following a consultation in 2010-11, the Government confirmed at Budget 2011 that a carbon price floor would be introduced on 1 April 2013. This will be achieved by taxing fossil fuels used in electricity generation under the existing CCL and fuel duty regimes. Supplies of fossil fuels (apart from oils) used in most forms of electricity generation will become liable to CCL, while oils used in electricity generation will no longer be fully relieved of fuel duty. In both cases, supplies will be charged at new carbon price support rates.

The Government reviewed its support for CHP under the tax system in the light of the proposed introduction of the carbon price floor and the expiry on 31 March 2013 of state aid approval for the CCL CHP indirect supplies exemption. Budget 2011 announced that from 1 April 2013:

- the indirect supplies exemption would end, meaning that no new LECs would be issued for CHP electricity generated after that date; and,
- fossil fuels used to generate electricity in a CHP plant registered under the CHPQA programme as either fully- or partly-exempt would, subject to state aid approval, be liable to lower carbon price support rates of CCL and fuel duty.

The efficiency of a CHP, and therefore the proportion of 'qualifying' electricity generated, is determined retrospectively at the end of the year by DECC, who issue an annual CHPQA certificate to CHP operators. The regulators of the LEC system use this retrospective data to allocate CHP LECs provisionally for the year ahead. Once a new certificate has been issued providing accurate data for the year gone by, the regulator undertakes a reconciliation exercise between the provisional allocation of CHP LECs and those actually due. They will then either issue additional LECs or withhold further LECs to make good the difference. From 1 April 2013 these arrangements will cease in their current form as no new CHP LECs will be issued.

LECs are necessary for the administration of the CCL exemption for indirect supplies of CHP-generated electricity made by utilities. There is no change to the levy-exempt status of direct supplies of CHP electricity to the final consumer, including self-supplies.

Detailed proposal

Operative date

The regulators will not issue LECs to electricity generators for electricity generated in a CHP station from 1 April 2013. Electricity utilities will be able to continue to allocate CHP LECs that they acquired on CHP electricity generation made before 1 April 2013, but only for a limited number of years.

Current law

The CCL CHP indirect supplies exemption is contained in paragraph 20A of Schedule 6 to the Finance Act 2000 ('Schedule 6').

To cater for variations in supply and demand, paragraph 20B of Schedule 6 enables electricity utilities to match the acquisition of CHP electricity with supplies that are exempt from CCL because they were made under the terms of a contract that contains a CHP declaration. The matching is carried out over quarterly periods with the facility to carry forward credit and debit balances to subsequent periods.

A credit occurs where acquisition in a period exceeds supply. A debit occurs where supply exceeds acquisition. A credit can be carried forward continuously until the electricity utility stops making supplies under the terms of CHP source contracts. A continuous debit can be

carried forward for a maximum of two years at which point the electricity utility must account to HMRC for the CCL shortfall.

As CHP electricity can be supplied to a consumer either directly by the generator or indirectly by an electricity utility, paragraph 149A of Schedule 6 enables HMRC to allow Ofgem and NIAUR to certify that a quantity of electricity has been produced in either a fully-exempt CHP station; or in a partly-exempt CHP station and then supplied from the station without causing its qualifying limit to be exceeded.

Part IV(A) of and Schedule 2 to the Climate Change Levy (General) Regulations 2001 (SI 2001/838) ('the general regulations') provide for electricity produced in either a fully-exempt CHP station or a partly-exempt CHP station to be certified as such by the regulators in circumstances where any of that electricity produced will be the subject of an indirect supply. The general regulations also make provision for other requirements, including record-keeping and LEC reconciliation.

The Climate Change Levy (Combined Heat and Power Stations) Regulations 2005 (SI 2005/1714) ('the CHP regulations') relate to the reliefs from CCL that may apply in respect of certified CHP stations. They apply to both the exemption for supplies of leviable fuel to such station; and, in relation to the output electricity of a station, the circumstances in which a full CHP exemption certificate will be issued. Where a part exemption certificate is issued, they also set the limit of the electricity that may be supplied exempt from CCL.

Proposed revisions

Paragraphs 20A, 20B and 149A of Schedule 6 will be repealed by provisions in Finance Bill 2012 from a day to be appointed by HM Treasury. Where an electricity utility has a credit balance at 31 March 2013 relative to the provisions of paragraph 20B of Schedule 6, it will be able to continue to make CCL exempt supplies in order use up that credit balance but only for a limited number of years. The Government will announce the length of this transitional relief at Budget 2012.

The general regulations will be amended to provide that electricity produced in either a fully- or partly-exempt CHP on or after 1 April 2013 will not be the subject of a CHP LEC. They will also be amended to introduce transitional LEC reconciliation requirements on the regulators as a result of the phasing out of CHP LECs.

The CHP regulations will be amended so that the efficiency percentage achieved by a CHP station relative to the threshold efficiency percentage will also apply for defining the extent to which reduced carbon price support rates of CCL are applicable; and also for the purposes of calculating the limit on the quantity of electricity that may be produced in and supplied direct from a partly-exempt CHP station exempt from CCL to reinstate the arrangements that existed before the introduction of CHP LECs in 2003.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">The Exchequer impact will depend on how long electricity utilities will be allowed to continue redeeming CHP LECs, which will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">There will be no significant wider economic impacts as a result of these changes.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">CCL is not chargeable on supplies to individuals and households, so they will not be impacted.</td></tr>
</table>

Equalities impacts	The proposed changes will affect businesses and other organisations that obtain CHP-generated electricity from an electricity utility that has to pay CCL. There will be no direct impact on individuals. As such, the Government expects that there will be no differential impact on different equality groups.
Impact on business including civil society organisations	CHP stations will no longer receive a premium tariff for their electricity sold to electricity utilities, which those utilities may pass on to business or public sector electricity consumers. However, it is envisaged that the lower carbon price support rates applicable to the CHP sector will broadly achieve the same benefit. There will be a negligible one-off and continuing administrative saving to CHPs as they no longer have to obtain and allocate LECs. Electricity utilities will have to start accounting for CCL on supplies to business and public sector consumers once they have used up any credit balance of LECs left over after April 2013 and consumers of such electricity will incur CCL on those supplies. However, it is envisaged that the lower carbon price support rates applicable to CHP will mean the impact on consumers will be negligible.
Operational impact (£m) (HMRC or other)	HMRC costs are estimated to be negligible and would fall as part of the existing operational cost of administering CCL. The costs of the regulators involved, Ofgem and NIAUR, are expected to reduce by approximately £100,000 a year.
Other impacts	Carbon assessment: Small benefits may come from reduced carbon emissions through energy efficiencies and environmental benefits of CCL. Removal of the exemption may reduce the incentive for large-scale CHP to export excess electricity, but consumers incurring CCL may marginally reduce their consumption. Small firms impact test: Some small businesses may be affected by the proposals insofar as the transitional compliance costs might represent a slightly higher burden relative to larger businesses as a percentage of their fixed operating costs. However, arrangements for the smaller businesses should be less complex than those of larger businesses. This should mean that less time is spent on the transitional compliance burdens and therefore they would not be expected to incur any material disadvantage implementing this change relative to larger businesses.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups. HMRC will also work closely with Ofgem and NIAUR to monitor the redemption of electricity utility LEC holdings.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

HM Revenue & Customs

Climate Change Levy: Metal Recycling Processes

Who is likely to be affected?

Suppliers of taxable commodities liable to account for the climate change levy (CCL) and recyclers of steel and aluminium.

General description of the measure

The measure will introduce a lower rate of 20 per cent of the full rates of CCL for supplies of taxable commodities used in recycling of steel and aluminium, from 1 April 2012. This is the equivalent of an 80 per cent discount on the full rates of levy.

The scope of the relief, the conditions for it and the method of administration will all be identical to what existed under the full exemption for supplies used in these recycling processes between 1 April 2001 and 31 March 2011.

The Government is implementing this 20 per cent rate while at the same time continuing to explore the potential for increasing the level of relief.

Policy objective

Relieving supplies of energy products used in the recycling of steel and aluminium from CCL reduces distortion of competition between supplies used in metal recycling and in primary production of these metals as the latter are already relieved from CCL.

Background to the measure

The CCL was introduced on 1 April 2001. Its purpose is to encourage energy efficiency in the business and public sectors and the take up of electricity from renewable sources.

When CCL was introduced one of the exemptions introduced for policy reasons benefited the primary production (the smelting from ores) of certain metals, including steel and aluminium. In order not to distort competition between the primary production of metals and the recycling of the same metals, taxable commodities used in the recycling processes for the same metals were also exempted from the levy.

The recycling exemption was originally approved by the European Commission in 2002 as a state aid. This approval expired on 31 March 2011 and the exemption was suspended from 1 April 2011 while the Government continued to seek a further period of approval. However, the Commission has not been persuaded that a further period of full exemption from the levy is justified. In November 2011, it approved as allowable state aid a six year relief from CCL for energy products used in the recycling of steel and aluminium, provided that recyclers pay 20 per cent of the full rates of levy.

Detailed proposal

Operative date

The 20 per cent lower rate will have effect for relevant supplies of taxable commodities made on or after 1 April 2012.

Current law

Schedule 6 to the Finance Act 2000 sets out the main primary legislation provisions for CCL. A table in paragraph 42 sets out the rates for each taxable commodity. Paragraph 18A of Schedule 6 provides for an exemption from CCL for supplies of taxable commodities used in metal recycling processes. Regulation 4 of, and Schedule 2 to, the Climate Change Levy (Fuel Use and Recycling Processes) Regulations 2005 (SI 2005/1715) prescribe the metal recycling processes to which the exemption applies.

Section 80 of the Finance Act 2011 gave HM Treasury a power, by order, to suspend the operation of paragraph 18A of Schedule 6 (thereby suspending the exemption). The exemption was suspended by the Climate Change Levy (Suspension of Recycling Exemption) Order 2011 (SI 2011/1023), with effect from 1 April 2011.

Part 3 of, and Schedule 1 to, the CCL (General) Regulations 2001 (SI 2001/838) provide for the supplier certification regime to apply to various reliefs from CCL (including, until 31 March 2011, the metal recycling processes exemption). This is the regime by which certain CCL reliefs are claimed by businesses and administered by energy suppliers.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to:

- repeal paragraph 18A of Schedule 6 and replace it with a provision for a 20 per cent lower rate with effect from 1 April 2012; and,
- to amend paragraph 42 of Schedule 6 to specify that a 20 per cent lower rate for taxable commodities used in the recycling of steel and aluminium is applicable to the full rates of levy shown in the table in that paragraph.

Secondary legislation will be introduced to amend part 3 of, and paragraph 2 of Schedule 1 to, the CCL (General) Regulations 2001 to enable energy suppliers to apply the lower rate to supplies of taxable commodities made to steel and aluminium recyclers.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Introducing a new lower rate is not expected to have significant economic impact.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will have no impact on individuals and households as the lower rate will only be available for steel and aluminium recycling processes.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">There should be no differential impact on different equality groups.</td></tr>
</table>

Impact on business including civil society organisations	The lower rate is likely to affect fewer than 30 recycling businesses. Steel and aluminium recyclers will need to provide new relief certificates to their energy suppliers. The cost of doing so is expected to be negligible. The administrative procedures for claiming the 20 per cent lower rate will operate in the same way as for businesses claiming the CCL exemption for metal recycling that had effect until its suspension on 1 April 2011. Since the exemption's suspension some businesses in the metal recycling sector have been paying the full rates of CCL on energy used in recycling. Others have been able to take advantage of the reduced rate that applies to businesses that have signed climate change agreements with the Department of Energy and Climate Change. In either case there will be a negligible administrative costs to these businesses of starting to use the administrative procedures again, most notably the one-off costs of submitting new supplier certificates to their energy suppliers. Aluminium and steel recyclers will need to present new supplier certificates to their energy suppliers showing the change in relief entitlement. This could result in some one-off costs but these are expected to be negligible. This change will not impact upon civil society organisations.
Operational impact (£m) (HMRC or other)	HM Revenue & Customs will incur negligible costs in establishing and administering the lower rate.
Other impacts	Small firms impact test: Businesses with fewer than 20 employees are familiar with the procedures for claiming CCL reliefs and will have the capability to deal with any of the administrative issues that may arise. Wider environment impact: The change will have a negligible environmental impact.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

HM Revenue & Customs

VAT: Low Value Consignment Relief

Who is likely to be affected?

Businesses based in the Channel Islands, who supply goods to UK customers and UK consumers who purchase these goods.

General description of the measure

This measure removes low value consignment relief (LVCR) from mail order goods imported into the UK from the Channel Islands. This will end the exploitation of LVCR by suppliers established in the Channel Islands for the purpose of selling low value goods on a large scale free of VAT to UK customers. It was never intended that the relief should be exploited in this way.

Policy objective

This will support the Government's objective of a fairer tax system by ensuring that UK businesses, especially small and medium sized enterprises, can compete on a level playing field with businesses with operations in the Channel Islands.

Background to the measure

The Government has concluded that the supply of mail order goods to UK customers from the Channel Islands is affecting the conditions of competition on the UK market. In Budget 2011, the Chancellor of the Exchequer announced a reduction in the threshold for LVCR from £18 to £15 for goods from all non-EU countries with effect from 1 November 2011. The Government also announced its intention to explore further measures to prevent exploitation of the relief. The Government announced further proposals, in accordance with that plan, on 9 November 2011.

Detailed proposal

Operative date

The measure will have effect for goods imported on or after 1 April 2012.

Current law

Article 23 of Council Directive 2009/132 provides for member states to exempt from VAT goods of negligible value imported into the European Union. Member states may set the threshold for exemption at between €10 and €22 (between £9 and £20). The relief is implemented in the UK by the Value Added Tax (Imported Goods) Relief Order 1984 (Schedule 2, Group 8, Item 8) SI 1984/746. The threshold set by the UK has been £15 since 1 November 2011.

Recital 5 of Council Directive 2009/132 makes granting of the relief (at any level) subject to the condition that it is not liable to affect the conditions of competition on the market. Article 23 of the Directive also allows member states to exclude from the relief goods which have been imported on mail order.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend Value Added Tax (Imported Goods) Relief Order 1984 to withdraw the relief completely for goods imported from the Channel Islands, with effect from 1 April 2011.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</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>+90</td><td>+95</td><td>+95</td><td>+100</td><td>+110</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 of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The removal of LVCR from all goods imported into the UK from the Channel Islands will raise revenue and is likely to have a modest but positive impact on the UK economy as businesses which have set up offshore supply arrangements in the Channel Islands return to the UK.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Individuals and households importing goods from the Channel Islands will now incur VAT on their purchases, at the same rate and amount applicable to goods purchased in the UK. The people mostly impacted will be on-line shoppers. However, this change may not automatically lead to higher prices as the decision on how much of the increased cost to pass on to the customer is a commercial matter for those companies who have based their operations in the Channel Islands. There are no figures available that indicate how many individual consumers import goods or how they will be affected financially.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">There are no impacts on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">There will be no increase to administrative costs for UK mainland businesses.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be no material impact on HM Revenue & Customs (HMRC) operations because businesses based in the Channel Islands can continue to participate in HMRC's 'Import VAT Accounting Scheme'.
.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Competition assessment:</u> There will be a positive impact on competition as it levels the playing field between UK businesses and those with operations based in the Channel Islands. Small companies will benefit from fairer competition without increased costs.</td></tr>
</table>

Monitoring and evaluation

On a monthly basis, HMRC receives data from the Channel Islands providing the value of exports to the UK. The impact of this policy will be monitored, using that data and any other available information on diversion of trade to other non-EU jurisdictions, and assessed by HM Treasury, HMRC and the UK Border Agency.

Further advice

If you have any questions about this change, please contact our helpline on either 0151 672 2775 or 0151 672 2737.

HM Revenue & Customs

VAT: Cost Sharing Exemption

Who is likely to be affected?

All businesses and organisations that have exempt and/or non-business activities for VAT purposes and that want to join with similar businesses and organisations to share costs. Eligible businesses and organisations include charities, universities, further education colleges, banks, housing associations, and insurance companies.

General description of the measure

This measure allows groups to exempt from VAT, supplies made to their members, provided certain conditions are satisfied.

Policy objective

This measure supports the Government's objective of a fair tax system by reducing one of the barriers to cooperation and collaboration between qualifying businesses and organisations by removing the associated VAT costs that currently inhibit such practices.

Background to the measure

The March 2010 Budget announced that discussions would take place with relevant sectors to consider options for implementing this exemption.

Following informal discussions, a formal consultation began on 28 June 2011 and ended on 30 September 2011.

Detailed proposal

Operative date

The measure will have effect on and after the date of Royal Assent to the Finance Bill 2012.

Current law

There is currently no provision in the VAT Act 1994 for the Cost Sharing Exemption, as set out in Article 132(1)(f) of the Principal VAT Directive (PVD).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to implement Article 132(1)(f) of the Principal VAT Directive (PVD). The wording of the PVD will be transposed with the minimum feasible variation into UK legislation.

The legislation will introduce a new Group 16 to Schedule 9 of the VAT Act 1994 – Supplies of services by groups involving cost sharing.

A new subsection (3) will be included in section 31 of the VAT Act 1994, allowing regulations to be made in accordance with Article 131 of the PVD.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</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>-50</td><td>-75</td><td>-100</td><td>-125</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 of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.</td></tr>
<tr><td>Economic impact</td><td colspan="6">Organisations such as charities, universities, further education colleges and housing associations are looking to achieve efficiency savings by sharing services with each other and the VAT charge can be a barrier to this collaboration. Implementing the cost sharing exemption will remove the VAT cost in certain circumstances.

It is anticipated that introducing the exemption could facilitate efficiencies for educational institutions, charities and housing associations, tentatively estimated at £100 million in cost savings for businesses (excluding VAT savings).</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">There is no direct impact on individuals and households as the measure is intended to benefit businesses or organisations that perform exempt and/or non-business activities. However individuals and households could ultimately benefit if lower costs are passed through to prices.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">The Government does not believe that the exemption will have any impact on people with protected characteristics. However, by enhancing the scope for cost sharing it can help civil society organisations who support equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The exemption will, in certain circumstances, remove the VAT charge that is often seen as a barrier to businesses and organisations that undertake VAT exempt and/or non-business activities sharing services. It is also expected that the exemption will facilitate efficiency savings.

As a result of responses to the consultation we have adjusted the criteria that must be met in order to establish the necessary independence of the group from its members. This modification is expected to increase the number of businesses and organisations able to benefit from the exemption.

To take advantage of the exemption businesses and organisations are expected to form new cost sharing vehicles. The associated administrative costs come mainly from registering for VAT and filing returns, setting up and running a PAYE and pension scheme, registering and filing for corporation tax, and the time taken by businesses to familiarise themselves with the conditions of the exemption. It is estimated that the average annual additional administrative costs will be in the range of £350,000 to £550,000.

<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>£350K - £550K</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>Negligible</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>Negligible</td><td>N/A</td></tr>
</table>
</td></tr>
</table>

	Total Benefit (PV)	N/A	N/A
	Net Benefit (NPV)	N/A	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£350K to £550K	Negligible	+£350K to £550K
Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will not be introducing any bespoke arrangements regarding the operation of the exemption and the usual compliance processes will apply. HMRC does not anticipate that the implementation of the exemption will have any material operational impact.		
Other impacts	<u>Small firms impact test:</u> Responses to the consultation document indicated that the model proposed would be of greater use to larger businesses and organisations. Therefore, the model proposed in the consultation document has been revised to make the exemption more usable by smaller sized businesses and organisations. <u>Competition assessment:</u> The measure is not expected to cause a distortion of competition, which is a specific condition of the exemption, as any cost sharing groups will be in the same position as if they had provided the services internally.		

Monitoring and evaluation

The measure will be monitored through engagement with businesses and organisations affected. Areas that could help assess the extent to which the policy is achieving its objectives include the number of businesses adopting shared services business models and the value, and benefit, of services moving to a shared services arrangement.

Further advice

If you have any questions about this change, please contact David Bond on 020 7147 0058 (email: david.bond2@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tackling VAT Evasion on Road Vehicles Brought into the UK

Who is likely to be affected?

Anyone who brings a road vehicle into the UK for permanent use on UK roads.

General description of the measure

At Budget 2011, the Government announced a joint HMRC and Driver and Vehicle Licensing Agency (DVLA) initiative to combat VAT fraud on road vehicles brought into the UK.

From 2013, a person bringing a new or used road vehicle into the UK from within the EU or outside of the EU for permanent use on UK roads will have to notify HMRC within 14 days of the arrival of the road vehicle in the UK and before registering it with the DVLA. In the case of an acquisition of a new road vehicle from within the EU, private individuals and non-VAT registered businesses will be required to pay any VAT due at the time of notification. VAT registered customers will continue to make payment via their VAT return.

Until HMRC is notified and any VAT due has been paid, or for VAT registered businesses is assessed as "secure", it will not be possible to licence and register a road vehicle with the DVLA.

Some arrivals into the UK will be specifically excluded from the requirement to notify i.e. visitors bringing their vehicles into the UK temporarily, UK residents returning from a holiday with their road vehicle, private importers, and vehicles brought into the UK under secure schemes approved by the DVLA.

Policy objective

To support the government objective of a fair tax system by reducing the opportunity for evasion.

Background to the measure

This measure was announced at Budget 2011 with a commitment to consult. A consultation document was issued on 31 May 2011 and the consultation period ended on 31 August 2011. A summary of responses document was published on 6 December 2011.

Detailed proposal

Operative date

The new system will come into force during 2013 at a date to be confirmed in due course.

Current law

The Vehicle and Excise Registration Act (VERA) 1994 provides the legal framework for the DVLA to refuse to licence a road vehicle brought into the UK if the tax due has not been paid. The Road Vehicle (Registration and Licensing) Regulations 2002 (2742/2002) provide the legal basis for the disclosure of registration and licensing particulars to law enforcement agencies.

The VAT Act 1994 (VATA) defines the scope of the charge to tax for an acquisition of goods from another member State and for the importation of goods from outside the EU. It also provides the legal basis for HMRC to make regulations requiring non-taxable persons to notify specified particulars of a new means of transport (including a road vehicle) acquired from another member State and to pay the VAT due on the acquisition (see paragraph 2(4) of Schedule 11 VATA and regulation 148 of the VAT regulations 1995 (SI 1995/2518).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 with supporting secondary legislation. Paragraph 2 of Schedule 11 to VATA will be amended to provide the power for HMRC to make regulations which require the arrival in the UK of goods which are a means of transport (whether new or used) to be notified in any such form and manner as HMRC direct and to make provision as to how any VAT due should be accounted for. This will apply to all means of transport but the power will only be exercised for the time being in relation to road vehicles.

New regulations will be introduced to provide for the new notification system for the arrival of new and used road vehicles in the UK and to make provision as to how and when any acquisition VAT due on an arrival is to be paid to HMRC.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>+ 125</td><td>+ 110</td><td>+ 105</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The changes will significantly reduce the scope for fraud, preventing unfair competition with legitimate trade.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Individuals and households (around 18,000 in 2010) who currently bring road vehicles into the UK will be required to pay the VAT earlier in comparison to the current system. There will be a cash flow impact for these persons, and they will be subject to a penalty regime in respect of the late notification of the road vehicle to HMRC. However, they will benefit from the online notification process which will streamline the process for EU movements of road vehicles.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Evidence from consultation suggests that a mandatory online channel could cause problems for some disabled customers, therefore a paper channel will be offered as an alternative.

Consultation also identified a potential impact on those customers where English is not their first language. HMRC provides accessible products for all its customer services and the new system will also be accessible. HMRC does not consider that translation into foreign languages would be a cost effective service for customers bringing in cars. The Government therefore plans to follow existing HMRC practices and provide online and paper services in English. Upon request HMRC will provide a Welsh language option in respect of guidance and public notices.</td></tr>
</table>

Impact on business including civil society organisations	The consultation exercise did not identify any major impacts on business. HMRC are in the process of developing the information technology solution to deliver this measure and will assess the impact upon businesses when the requirements are finalised. Businesses that previously were evading payment of VAT will face an administrative burden as they comply with their obligations.
Operational impact (£m) (HMRC or other)	An initial estimate for the information technology cost is £11 million. However, recent changes to our requirements should significantly reduce the estimated cost, which will be confirmed shortly. HMRC does not expect to incur any significantly increased staff costs itself as a result of this measure.
Other impacts	Small firms impact test: There will be an efficiency benefit to all customers including small firms who opt to notify the arrival of road vehicles to HMRC using the online communication channel. A paper communication channel will also be available, therefore all customers who prefer to use this method of communication will see no significant change to their operations.

Monitoring and evaluation

The new notification system will result in a comprehensive database of road vehicles brought into the UK, the VAT paid by individuals and the tax due from VAT registered businesses. This information will be used to evaluate the effectiveness of the system in tackling fraud and will support targeted compliance interventions.

Further advice

If you have any questions about this change, please contact Richard Bysouth on 020 7147 0328 (email: richard.bysouth@hmrc.gsi.gov.uk).

HM Revenue & Customs

VAT: Online Registration and Removal of the Threshold for Non-UK Established Businesses

Who is likely to be affected?

Businesses who wish to use online services to register for VAT or notify a variation of their registration details (such as a change of address or to deregister).

Businesses without a UK establishment who make taxable supplies of goods or services in the UK will be affected by the removal of the VAT registration threshold.

General description of the measure

In October 2012 HM Revenue & Customs (HMRC) will introduce an enhanced and streamlined online service for VAT registration, deregistration and variations of business details. The measure will remove the requirement to prescribe 20 VAT forms in secondary legislation. Instead the particulars of these forms will be determined by the Commissioners for HMRC and made available publicly. The measure will also enable the use of electronic communications for registration, deregistration and variations.

The measure will require non-UK established businesses to register for VAT regardless of the value of taxable supplies they make in the UK. These businesses will no longer benefit from the UK VAT registration threshold.

Policy objective

This measure will provide incentives for customers to use online services by offering quicker and more accurate processing in line with the Government's digital agenda. Smart forms will reduce the scope for error, driving down costs for businesses and HMRC. This will contribute to the UK's goal of improving its international ranking in terms of 'ease of doing business'.

The process of amending existing forms will be simplified, as it will no longer be necessary to go through the lengthy process of amending secondary legislation. This will allow HMRC to respond more quickly to customer concerns and address potential risks.

The removal of the UK VAT registration threshold for non-UK established businesses will bring UK law in line with that of other Member States, following the recent Court of Justice of the European Union (CJEU) case on Schmelz C-97/09.

Background to the measure

This measure was announced at Budget 2011, and a consultation document entitled 'VAT: Consultation on the next steps for moving online' was published on 8 August 2011.

HMRC has considered all responses received to the consultation, as detailed in the summary of responses published on 6 December 2011, available on the HMRC website.

Detailed proposal

Operative date

VAT online registration, and the removal of certain forms from the law, will have effect from October 2012. The removal of the registration threshold for non-UK established businesses will take effect from 1 December 2012.

Current law

The current law on the requirement to notify VAT registration, deregistration and changes to registration details is contained in the VAT Act 1994, Schedules 1 to 3A and Schedule 11 paragraph 7(1). Where a notification or other communication is required, the form of that requirement is required to be prescribed in regulations. Sections 132 and 133 of the Finance Act 1999 provide for legislation to enable the use of electronic communication. Regulations 5(4) to 5(14) of the VAT Regulations 1995 provide for notification by electronic means.

The VAT Regulations 1995 (SI 1995/2518) require communications to be in the form set out in Schedule 1 to those regulations.

The current VAT Act 1994 allows non-established businesses to use the UK VAT registration threshold. Schedules 1 to 3A, Schedule 11 paragraph 7(1), and VAT Regulations 1995 (SI 1995/2518) regulation 5 and Schedule 1 to those regulations, apply equally to UK and non-UK established businesses. All businesses are subject to the same law on notifying VAT registration, deregistration and changes to VAT registration details.

Proposed revisions

Secondary legislation will amend the VAT Regulations 1995 to enable the use of electronic channels for online registration, de-registration and variation of registration details where existing provisions are inadequate.

Legislation will be introduced in Finance Bill 2012 to allow the forms contained in Schedule 1 to the VAT Regulations 1995 to be determined by the Commissioners for HMRC rather than provided for in regulations. Schedule 1 to the VAT Regulations 1995 will therefore be omitted and the provision for the form will be determined by tertiary legislation.

Legislation to be introduced in Finance Bill 2012 will also remove the threshold for non-UK established businesses making taxable supplies in the UK. A new registration Schedule 1A will be created, and existing Schedules will be amended where appropriate.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. This also supports the Exchequer in its commitment to protect revenue.				
Economic impact	No significant economic effects are expected from VAT online registration and the changes to forms. The cost of goods or services provided by non-UK established businesses that register for VAT may be higher than comparable UK non-registered businesses, if they are unable to absorb the increase caused by inclusion of VAT on their products. Whilst this is less likely to affect business to business sales where the recipient is VAT registered, it could distort other competition in favour of non-registered UK businesses. There is a risk that non-compliance may occur, but we will make sure that the change is well publicised and will monitor the position. The changes are not expected to have any effect on the OBR's macro-economic forecast.				

Impact on individuals and households	VAT online registration will have no impact on individuals and households, since any impact will be on businesses. The removal of the VAT threshold for non-UK established businesses will have no direct impact on individuals and households as only non-UK businesses are affected. However the cost of goods and services provided to individuals by previously unregistered non-UK businesses will be increased by the inclusion of VAT on their products. As the number of businesses affected by these changes is expected to be negligible, the overall effect on individuals is also expected to be negligible.
Equalities impacts	Use of the new online channel will not be mandatory, therefore paper channels will remain available for those unable to use the online system, including the disabled. Consultation also identified a potential impact on those customers where English is not their first language. HMRC does not consider that translation into foreign languages would be cost effective for online VAT registration. The vast majority of businesses will require a working knowledge of English to set up bank accounts, contract with suppliers, meet legal obligations to employees etc or will apply through agents/ tax representatives. Therefore we plan to follow existing HMRC practices and provide online and paper services in English and, upon request, provide a Welsh language option in respect of guidance and public notices. No other impacts have been identified on any other group with protected characteristics.
Impact on business including civil society organisations	The measure will potentially affect all businesses registering for VAT, deregistering from VAT or changing their registration details using online services. There are 395,000 applications for changes to the VAT register each year, and around 210,000 new applications for VAT registration. The measure will make access to HMRC systems quicker and easier and reduce the cost to HMRC of providing their services. It is not yet possible to quantify the impact on business as the specification for the new system has not yet been finalised. For the same reason, it is also not currently possible to quantify the impact of the removal of the VAT threshold for non-UK established businesses. However, as the number of businesses that are affected by this change is believed to be negligible, the overall impact on the compliance cost for business is also estimated to be negligible. An updated table of impacts with estimated costings and savings will be issued in 2012.
Operational impact (£m) (HMRC or other)	It is not yet possible to quantify the cost to HMRC of delivering the changes to the online system, as the specification for the new system has not yet been finalised. Similarly any staff efficiencies arising as a result of greater automation of the online registration and variation process cannot be quantified at this time. However introduction of the online system is expected to drive down costs for HMRC. The cost to HMRC of removing the VAT threshold for non-UK established businesses is estimated to be negligible.

Other impacts	Small firms impact test: Small businesses that are or are likely to be registered may be affected by this measure if they choose an online rather than a paper route. Responses to consultation with small businesses that was launched by HMRC in March 2005 indicated that small businesses are willing to conduct business with HMRC electronically provided that online services are reliable, easy to access and simple to use. Research conducted during summer 2008 showed that even among the smallest VAT businesses and employers around 90 per cent have access to a computer at work or home. Since then, of course, there will have been a further expansion in business ownership of, or access to, computers/ the internet.

Monitoring and evaluation

Successful implementation of the changes to VAT online registration will be assured through performance data obtained from ongoing monitoring of the automated system.

Successful implementation of the removal of the VAT threshold for non-UK established businesses will be assured through data identifying an increase in registration of non-established businesses with a turnover below the UK registration threshold.

Further advice

If you have any questions about this change, please contact Gareth McDonnell (email: gareth.mcdonnell@hmrc.gsi.gov.uk) or Craig Benn (email: craig.benn@hmrc.gsi.gov.uk) or ring 0151 703 8656/8302.

HM Revenue & Customs

VAT Grouping Extra-Statutory Concession

Who is likely to be affected?

This measure legislates for an Extra-Statutory Concession (ESC) and preserves the existing treatment.

The ESC applies to partially exempt VAT groups with overseas members that make charges to the UK group. Affected bodies will mainly be in the financial or insurance sectors.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to replace a concession that allows reverse charges (which obliges the recipient of a supply to account for VAT on that supply as output tax) to be based on the cost of services purchased by the group members established overseas.

Policy objective

The concession ensures affected taxpayers pay a fair amount of tax where services are purchased by overseas members of the VAT group and subsequently supplied within the group. This measure seeks to preserve this status quo by providing for the calculation of the charges in legislation.

Background to the measure

It was announced at Budget 2011 that this concession will be legislated for in Finance Bill 2012 and HM Revenue & Customs (HMRC) consulted interested parties in summer 2011.

Detailed proposal

Operative date

The new legislative rules will apply to the valuation of the charges from the date of Royal Assent to the Finance Bill 2012, and the concession will continue to apply until that date.

Current law

Sections 43(2A) to 43(2E) of the VAT Act 1994 provide for reverse charges to be applied within VAT groups in certain circumstances. The valuation of such charges is subject to a concession that prevents excessive charges arising. That concession is set out at 3.2.2 of Notice 48: Extra-Statutory Concessions. Changes to the VAT place of supply of services rules were made on 1 January 2010. HMRC set out the impact of these changes on the concession in Revenue and Customs Brief 16/11.

Applied together, the current law and the concession ensure a fair VAT charge on services purchased outside the UK and used within the UK.

Proposed revisions

Changes will be made through Finance Bill 2012 to amend Schedule 6 of the VAT Act which sets out the valuation rules applicable to reverse charges.

The amended law will confirm how a reverse charge due under sections 43(2A) to 43(2E) is valued.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure has no economic impact.				
Impact on individuals and households	There is no direct impact on individuals and households as the ESC only affects VAT Business groups.				
Equalities impacts	There are no impacts on people with protected characteristics.				
Impact on business including civil society organisations	There will be no impact on business, including civil society organisations. This measure will have benefits for VAT registered businesses by putting the existing concession on a statutory basis.				
Operational impact (£m) (HMRC or other)	There will be no operational impacts.				
Other impacts	The reverse charge, which is maintained by this measure prevents offshore tax avoidance arrangements by larger firms and thus preserves the competitiveness of smaller firms.				

Monitoring and evaluation

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

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

VAT: Supplies of Goods or Services by Public Bodies

Who is likely to be affected?

Central and local government bodies in the UK, which for these purposes includes the Scottish Administration and the Welsh Assembly Government. However, in practice the measure will not change the way in which VAT applies to them.

General description of the measure

This clarifies the UK VAT position of public bodies who make supplies of goods or services.

Policy objective

This provision puts the effective implementation of Article 13 of the Principal VAT Directive (PVD) beyond doubt.

Background to the measure

There is no explicit transposition of Article 13(1) into UK legislation. HM Revenue & Customs (HMRC) has given effect to the Article by interpreting existing legislation in a way that achieves the correct result for the Article's purposes. However recent statements by the Courts have cast doubt on whether this approach amounts to an effective implementation of Article 13(1).

This measure was announced as part of Budget 2011. Since the measure simply involves the technical implementation of EU law, which is already implemented in practice, there has not been a consultation period.

In practice public bodies should see no change to their existing tax treatment as a result of the legislative changes.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2012 receives Royal Assent.

Current law

Under section 4(1) of Value Added Tax Act (VATA), tax becomes chargeable on any supply of goods or services made in the United Kingdom by a taxable person in the course or furtherance of any business carried on by him. The meaning of the word ‘business’ is defined in section 94 in a broad and non-exclusive way.

Any individual or body might be engaged in both business and non-business activities and this is particularly true of public bodies that have statutory functions.

HMRC interprets 'business' in accordance with the flexibility afforded by section 94 and European jurisprudence to encompass activities that are economic in nature and this would include (but is not confined to) the supply of goods and services by public authorities operating within their statutory framework where they compete with private sector providers.

Section 41 VATA applies the provisions of VATA to the Crown (the legal presumption otherwise would be that the Crown is not subject to the statute). Section 41(2) makes particular provision for treating supplies made by the Government departments and other central government bodies, which are not made in the course of furtherance of a business, as taxable where there are competing providers in the private sector.

There is no equivalent to this provision in VATA for other public bodies such as local authorities nor is there any general exemption for public bodies (including the Crown) when engaged in making taxable supplies within an exclusive statutory legal framework.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to enact article 13 of PVD. Section 41(2) will be repealed.

The new section, 41A, of the VAT Act 1994 will be enacted. Where public bodies supply goods or services pursuant to public statute which is unique to them, they are not regarded as doing so in the course or furtherance of a business carried on by them unless:

- the exemption would cause distortion of competition; or,
- the supplies arise from activities described in Annex 1 of the PVD which are engaged in to a degree which is more than merely negligible

'Public body' is defined by reference to Article 13(1). European case law has clarified what falls within this definition. A public body must be "part of the public administration" or to put it another way 'it must be identified as part of the public administration of the state.'

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This measure has no significant economic impact.				
Impact on individuals and households	There is no direct impact on individuals and households as the measure is purely for public bodies.				
Equalities impacts	The measure applies equally to all public bodies and does not impact on people with protected characteristics.				
Impact on business including civil society organisations	The Government does not anticipate any specific impact on business or civil society organisations.				
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible.				
Other impacts	This will benefit public bodies by putting existing treatment on a statutory basis.				

Monitoring and evaluation

The Government does not expect there to be any change in how public bodies operate, but this will be monitored on an on-going basis by HMRC.

Further advice

Any public body with a Customer Relationship Manager should contact them for guidance. All other queries should be addressed to the VAT Helpline on 0845 010 9000.

HM Revenue & Customs

Stamp Duty Land Tax and Stamp Duty: Relief for NHS Bodies

Who is likely to be affected?

NHS Trusts, NHS Foundation Trusts, Primary Care Trusts, The NHS Commissioning Board and clinical commissioning groups, Local Health Boards in Wales, and Health and Social Services Boards in Northern Ireland.

General description of the measure

This is a technical measure which re-enacts and updates an existing stamp duty land tax (SDLT) relief for acquisitions of interests in land by certain NHS bodies. It repeals an equivalent stamp duty relief, which is obsolete.

Policy objective

The objective of this measure is to re-enact this relief in a simplified and more robust form and to take into account forthcoming changes in the pattern of NHS service provision.

Background to the measure

This measure has not been previously announced. It will simplify the tax system as the existing relief is unduly complex and arguably defective.

The relief also needs to be updated to take account of the introduction of NHS Commissioning Board and clinical commissioning groups, and the abolition of NHS trusts in England and Primary Care Trusts, under provisions of the Health and Social Care Bill.

Detailed proposal

Operative date

The measure will have effect from when Finance Bill 2012 receives Royal Assent.

Current law

The SDLT and stamp duty reliefs are currently contained in section 61(3)-(3C) National Health Service and Community Care Act 1990, as amended by the Stamp Duty Land Tax (Consequential Amendment of Enactments) Regulations 2005 (S.I. 2005/82). Section 58 National Health Service Act 2006 extends the reliefs to NHS Foundation Trusts.

Paragraphs 132-133 of Schedule 1 National Health Service (Consequential Provisions) Act 2006 amend section 61(3) to refer to NHS Trusts constituted under the National Health Service Act 2006 and the National Health Service (Wales) Act 2006. This amendment applies to section 61(3) as it stood before it was amended by S.I. 2005/82. It is therefore defective and the provision still refers to Trusts constituted under the 1990 Act.

Proposed revisions

Legislation will be introduced in the Finance Bill 2012 to re-enact the SDLT relief in a new section 67A Finance Act 2003 (Part 4 Finance Act 2003 is the main SDLT legislation). It will repeal Sections 61(3)-(3C) National Health Service and Community Care Act 1990, section

58 National Health Service Act 2006 and paras. 132-133 of Schedule 1 National Health Service (Consequential Provisions) Act 2006.

New section 67A will provide relief for acquisitions by the NHS Commissioning Board and clinical commissioning groups provided for by the Health and Social Care Bill, NHS foundation trusts, NHS trusts and Local Health Boards in Wales, and Health and Social Services trusts in Northern Ireland.

Pending abolition of the bodies concerned under the Health and Social Care Bill, new section 67A will provide relief for acquisitions by NHS trusts in England and by Primary Care Trusts.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	The measure is not expected to have an Exchequer impact.				
Economic impact	There is no significant economic impact because the scope of the re-enacted relief reflects existing policy.				
Impact on individuals and households	None. This relief applies only to prescribed NHS bodies.				
Equalities impacts	We are aware of no evidence that suggests any impact on people with protected characteristics.				
Impact on business including civil society organisations	This measure will have no impact on businesses as it applies only to prescribed NHS bodies. There will be no impact on the compliance costs for those affected as the change reflects existing policy.				
Operational impact (£m) (HMRC or other)	No additional costs will be incurred. No process changes are involved.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

This measure will be subject to ongoing monitoring of information collected from land transaction returns.

Further advice

If you have any questions about this change, please contact Keith Brown on 020 7147 2790 (email: keith.brown@hmrc.gsi.gov.uk).

A5 Anti-Avoidance

HM Revenue & Customs

Capital Allowances: Anti-Avoidance Rules for Plant and Machinery

Who is likely to be affected?

Businesses incurring capital expenditure from April 2012 to buy or hire-purchase plant or machinery where there is a tax avoidance purpose.

General description of the measure

The measure will make the capital allowances anti-avoidance rules more effective. Broadly, the transactions that will be affected are those involving plant or machinery where there is avoidance or that are part of a scheme or arrangement that involves avoidance.

Where there is a 'transaction to obtain a tax advantage' - essentially one where the parties to the transaction have an avoidance purpose - the effect of the anti-avoidance rules will be:
- to deny first-year allowances or annual investment allowance for expenditure on plant or machinery; and
- to restrict the amount of allowances the 'buyer' of the plant and machinery can claim so that the tax advantage that was sought is cancelled out.

Policy objective

This measure will support fairness in the tax system by protecting the Exchequer from loss of tax as a result of transactions to acquire plant and machinery which involve avoidance or which are part of a scheme or arrangement that does. It will support HM Revenue & Customs (HMRC) anti-avoidance strategy to prevent, detect and counter tax avoidance.

Background to the measure

Proposed changes to the capital allowances anti-avoidance rules that apply to transactions involving plant or machinery were announced at Budget 2011. A consultation document was published on 31 May 2011.

Detailed proposal

Operative date

Generally, the legislative changes will have effect in relation to expenditure incurred on or after 1 April 2012 (for businesses within the charge to corporation tax) or 6 April 2012 (for businesses within the charge to income tax).

On 12 August 2011 the Government announced that the repeal of the exception from the anti-avoidance rules where the plant or machinery is acquired from a manufacturer or supplier of such plant and machinery (one of the changes proposed in the consultation document) would be effective - in part - from that date in order to counter a marketed avoidance scheme.

Current law

Chapter 17 of the Capital Allowances Act 2001 (CAA) contains rules to counter abuse of the legislation where there is a relevant transaction in plant or machinery. Relevant transactions

are defined in section 213 CAA and include sales, hire-purchase contracts and assignments of hire purchase contracts.

Where there is a relevant transaction, the legislation can currently

- deny first-year allowances or annual investment allowance for expenditure on plant or machinery (section 217 CAA); and
- restrict the amount on which the 'buyer' of the plant or machinery may claim capital allowances (section 218 CAA).

The scope of the legislation applies to restrict allowances only where relevant transactions are one of the following:

- a transaction between connected persons (section 214 CAA); or
- a 'transaction to obtain allowances' (section 215 CAA); or
- a sale and leaseback (section 216 CAA).

A transaction to obtain allowances is one where the sole or main benefit expected from the transaction is the capital allowances on the plant or machinery.

Where unused plant or machinery has been 'bought' from a manufacturer or supplier in the normal course of the manufacturer's or supplier's business, then section 230 CAA may provide an exception from the anti-avoidance rules.

Proposed revisions

Legislation will be introduced in Finance Bill 2012, to do the following:

The meaning of the word 'assigns' is being clarified in legislation in new section 268E CAA. The definition will apply for the purposes of all plant and machinery allowances in Part 2 CAA including in determining whether a transaction is a relevant transaction within section 213 CAA. This definition confirms the transactions that are within Chapter 17 CAA currently, putting it beyond doubt.

The changes in the operation of Chapter 17 CAA will only affect 'transactions to obtain allowances'. The legislation will continue to operate as it does now for transactions between connected persons and sale and leaseback transactions, as long as there is no avoidance purpose.

As currently drafted, it is not clear that the definition of 'transactions to obtain allowances' catches all transactions designed to obtain capital allowances that are contrary to the underlying policy objective. Section 215 CAA is therefore being amended to apply to transactions to obtain tax advantages. It will apply where relevant transactions have an avoidance purpose or are part of, or occur as a result of, a scheme or arrangement with an avoidance purpose. A transaction will have an avoidance purpose if the main purpose, or one of the main purposes, of a party in entering into the transaction is to enable a person to obtain a superior plant and machinery allowance than that intended.

Section 217 CAA will continue to deny first-year allowances and annual investment allowance where a transaction falls within section 215 CAA. In addition, where a transaction is within section 215 CAA the legislation will operate to cancel out the advantage the avoidance sought to obtain. Where the advantage sought by the avoidance is excessive allowances then the advantage will be cancelled out by restricting the amount of expenditure on which the buyer can claim capital allowances. Conversely, where the advantage sought is a timing advantage then that timing advantage will be reversed.

The exception from the anti-avoidance rules, where the plant or machinery is acquired from a manufacturer or supplier, is being repealed - other than in certain circumstances. The exception from section 217 CAA and section 218 CAA provided by section 230 CAA will still

apply from April 2012 for connected party transactions and sale and leasebacks, as long as no avoidance purpose is involved.

However, on 12 August 2011 the Government announced that legislation would be included in the 2012 Finance Bill to repeal section 230 CAA, to the extent that it provides an exemption from section 217 CAA, for all relevant transactions within sections 214, 215 and 216 with effect from 12 August. This change applies in relation to expenditure incurred on or after 12 August 2011 but before the relevant April 2012 date.

Summary of impacts

Exchequer impact (£)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to increase receipts by approximately £5 million a year. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and set out at Budget 2012. This measure also supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have a significant impact on the UK economy in overall terms and the anti-avoidance rules will not disrupt or distort normal commercial activities.				
Impact on individuals and households	This measure will have no direct impact on individuals or households.				
Equalities impacts	The changes are not likely to impact differently on groups with protected characteristics. The legislative changes will only impact on businesses in situations where an avoidance purpose is involved.				
Impact on business including civil society organisations	The proposed changes will not affect capital allowances for real business costs; the impact will be focused on preventing businesses obtaining over-generous allowances through engaging in tax avoidance. While there will be some relatively minor one-off costs associated with familiarisation with the new rules the changes are estimated to have a negligible impact on businesses' ongoing administrative burdens.				
Operational impact (£m) (HMRC or other)	The additional costs or savings for HMRC in implementing this change are anticipated to be negligible.				
Other impacts	Small firms impact test: There may be some impact on small firms but only in that these changes are designed to impact on all businesses in situations where an avoidance purpose is involved. The consultation responses did not indicate that there would be any impact on small firms. Therefore the impact on small firms is considered to be negligible. Competition assessment: As an anti-avoidance measure this should have a positive effect on competition by levelling the playing field for all businesses.				

Monitoring and evaluation

HMRC will monitor businesses' tax affairs to ensure that the types of avoidance these changes are intended to prevent do not occur.

Further advice

If you have any questions about these changes please contact Sue Pennicott on 020 7147 2610 (email: sue.pennicott@hmrc.gsi.gov.uk) or Malcolm Smith also on 020 7147 2610 (email:malcolm.smith3@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp Duty Land Tax: Disclosure of Tax Avoidance Schemes

Who is likely to be affected?

Users and promoters of stamp duty land tax (SDLT) avoidance schemes.

General description of the measure

There will be two changes to the Disclosure of Tax Avoidance Schemes (DOTAS) regime for SDLT. The first will remove the DOTAS 'grandfathering' rules for certain avoidance schemes. This will include requiring certain grandfathered schemes, still in use but disclosed before April 2010, to be disclosed one additional time by promoters so that new users of those schemes must be identified to HMRC. The second change will remove the property valuation thresholds for disclosure.

Policy objective

These changes will increase HMRC's awareness of SDLT avoidance schemes and those using them. They will support HMRC's anti-avoidance strategy to prevent, detect and counter tax avoidance. This will help to make the tax system fairer by ensuring that everyone pays their fair share.

Background to the measure

This measure has not been previously announced. These changes are in response to developments in the marketing and use of SDLT avoidance schemes. There has been an increase in the use of old avoidance techniques and schemes are now being marketed for use in relatively low-value transactions.

Detailed proposal

Operative date

The operative date for the regulation-making power will be the date of Royal Assent to the Finance Bill. HThis measure will only have effect once new regulations come into force at a later date.

Current law

The DOTAS regime in Part 7 (sections 306 to 319) of the Finance Act 2004 requires certain persons, normally the promoter of the scheme, to provide early information, 'a disclosure', to HMRC about tax avoidance schemes that fall within certain descriptions.

Part 7 provides that HMRC may allocate and issue a scheme reference number (SRN) within 30 days of a disclosure and imposes various obligations on promoters, clients and users to transmit and report SRNs. Since 1 January 2011, promoters have to provide HMRC with periodic information about clients to whom they become required to issue a SRN.

Section 308(5) provides that a promoter has to disclose a scheme once only so long as it remains substantially the same.

The descriptions of schemes required to be disclosed for SDLT are in The Stamp Duty Land Tax Avoidance Schemes (Prescribed Descriptions of Arrangements) Regulations 2005, SI 2005/1868 (the SDLT Descriptions Regulations), as amended by SI 2010/407.

These regulations provide for the disclosure of schemes that concern either commercial property with an aggregate value of £5 million or residential property with an aggregate value of £1 million (the valuation thresholds). Schemes are excepted from disclosure if they either fall within a list (the Schedule to the regulations) or were first made available before 1 April 2010, by any promoter, for implementation ("the grandfathering rule").

The information required to be provided and the time limits for providing it are prescribed in the Tax Avoidance Schemes (Information) Regulations 2004 (SI 2004/1864).

Proposed revisions

The SDLT Descriptions Regulations will be amended to remove the grandfathering rule for SDLT avoidance schemes that incorporate the use of the sub-sale rules (section 45 Finance Act 2003) and remove the valuation thresholds.

Finance Bill 2012 will include a new power for regulations to provide for section 308 Finance Act 2004 to apply with modifications. Regulations will be made to modify the application of section 308 to proposals or arrangements that incorporate the sub-sale rules and that were disclosed before 1 April 2010. The regulations will require one further disclosure of such a scheme to bring them within the SRN regime. Before 1 April 2010 SRNs were not issued to promoters and HMRC did not obtain details of those using disclosed arrangements.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. It supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have any significant macroeconomic impacts.				
Impact on individuals and households	This measure will only affect individuals and households entering into certain SDLT avoidance schemes.				
Equalities impacts	The proposal is not expected to have any different impact on people with protected characteristics.				
Impact on business including civil society organisations	We anticipate that this change will only affect businesses or other organisations entering into (or marketing) certain SDLT avoidance schemes. Those entering into (or marketing) certain arrangements to avoid SDLT will have to disclose those arrangements to HMRC. This will have a negligible impact on business's administrative costs.				
Operational impact (£m) (HMRC or other)	This will require negligible extra HMRC resource because additional disclosures will be handled within existing available resources.				
Other impacts	Small firms impact test: Some of the scheme promoters and users are likely to be small firms (i.e. have fewer than 20 employees) but the Government is confident they will have the capacity to understand and implement this change.				

Monitoring and evaluation

This measure will be monitored through avoidance scheme disclosures and communication with the taxpayers affected.

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).

A6 Tax Administration

HM Revenue & Customs

Tax Agreement Between the United Kingdom and Switzerland

Who is likely to be affected?

Individuals with financial assets held directly or indirectly in Switzerland.

General description of the measure

The measure will give effect in the United Kingdom to the Agreement dated 6 October 2011 between the governments of the UK and Switzerland and contain further provisions. The Agreement itself has three main effects.

First, it provides for a one-off levy to be applied to accounts in Switzerland held directly or indirectly by individuals who are resident in the UK unless the individual authorises disclosure of those accounts. Compliant individuals should authorise disclosure and so avoid the levy.

Secondly, it applies a withholding tax to income and gains arising on those Swiss accounts from 1 January 2013. Compliant individuals may authorise disclosure and avoid the withholding tax.

Thirdly, it provides for enhanced exchange of information between the tax authorities of the two countries.

The measure also provides that the fact that arrangements with a territory contain significant protection for UK tax revenue may be taken into account in classifying a territory for the purposes of the offshore penalty legislation.

Policy objective

The objective is to provide for bilateral co-operation between the UK and Switzerland to ensure effective taxation in the UK of individuals with financial assets in Switzerland. The effect will be equivalent to that achieved through an agreement to exchange information about such individuals on an automatic basis.

Background to the measure

The intention to explore whether an agreement could be reached was announced in October 2010. The Agreement was initialled in August 2011 and signed and published on the HM Revenue & Customs (HMRC) website on 6 October 2011. The measure gives effect to the Agreement.

Detailed proposal

Operative date

Subject to ratification both in the UK and Switzerland, the Agreement will apply on and after 1 January 2013.

Current law

The body of law about the UK taxation of income and gains arising in the UK (and deposited abroad) or arising abroad continues to apply, subject to the new provisions affecting assets in Switzerland.

The existing double taxation agreement between the United Kingdom and Switzerland provides for exchange of information on request, consistent with the OECD standard for such requests.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 in three parts:

Regularisation of the past. The agreement provides for a one-off levy to be applied on financial assets held in Switzerland which are identified as being beneficially owned by a UK resident individual unless authority is given to disclose those assets to HMRC. Subject to certain exclusions and limitations, the individual will cease to be liable to UK income tax, capital gains tax, inheritance tax and value added tax in respect of the assets to which the levy is applied.

New withholding tax for periods from 1 January 2013. A levy will be applied to income and gains arising on the financial assets in Switzerland unless disclosure is made. The levy will satisfy liability to UK income tax and capital gains tax on those income and gains.

Enhanced exchange of information. For a certain number of cases each year HMRC may require information about accounts held in Switzerland by individuals who are identified to the Swiss tax authorities.

The legislation will also add to the list of factors that may be taken into account in classifying a territory for the purposes of the offshore penalty legislation, so that the fact arrangements with a territory contain significant protection for UK tax revenue may be taken into account.

Summary of impacts

Exchequer Impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to yield between £4 to £7 billion. The final costing will be subject to scrutiny by the Office for Budget Responsibility (OBR). The OBR has noted the uncertainties around this measure in their Economic and Fiscal Outlook published alongside the Autumn Statement.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This agreement applies to individuals resident in the UK who are beneficial owners of funds held in Switzerland. Compliant individuals are expected to disclose and will not be liable to the one-off levy. It is expected that the majority of the impact will fall on those that are non-compliant. Tax compliant individuals may suffer negligible administration costs, involving familiarisation with the terms of the agreement and the cost of proving that they are already compliant.				
Equalities impacts	Equality has been carefully considered and it has been concluded that there are no adverse impacts from this change on groups with different protected characteristics.				
Impact on business including civil society organisations	This Agreement applies to UK individuals only and not businesses, but it may have an impact on individuals who are taxed on their self-employment income. Those that are compliant will not be liable to the one-off levy and it is expected that the majority of impact will fall on those that are non-compliant.				

	It is expected that there may be negligible administration costs for compliant businesses in the self-employed sector, involving the cost of familiarisation or proving existing compliance. There are around 320 banks in Switzerland that are likely to be affected by this measure. These banks will incur the one-off cost of implementing the appropriate information technology changes to apply this agreement.
Operational impact (£m) (HMRC or other)	Negligible. Any non-compliance issues will be dealt with through the offshore co-ordination unit.
Other impacts	Privacy impact: HMRC will be allowed to request account details where they suspect tax evasion, whether the individual authorises their bank to provide the information or not. To do so, HMRC will have to present the Swiss authorities with grounds based on strict procedures that are in place to demonstrate that the interference with privacy is proportional and justified, and thus lawful. Competition assessment: The measure specifies that the certification of status of non-domiciled persons can only be authorised by agents who are members of relevant professional bodies.

Monitoring and evaluation

The impact of this measure will be assessed through monitoring receipts, information collected on tax returns, and data collected through the joint commission set up under the terms of the Agreement and enhanced exchange of information received under the Agreement.

Further advice

If you have any questions about this change, please contact Richard Davey on 020 7147 2391 or send via email to powers.review-of-hmrc@hmrc.gsi.gov.uk.

HM Revenue & Customs

Information Powers

Who is likely to be affected?

Businesses holding details of a customer's name and address as well as other data which identifies a customer, for example, a bank which can identify a customer from a bank account number.

General description of the measure

A new power allowing HM Revenue & Customs (HMRC) to require a data-holder to provide a person's name, address and date of birth from identifying information held by HMRC and provided to the data-holder.

Policy objective

HMRC or an overseas tax authority may hold information which identifies a person but without knowing that person's name and address. In order to check that person's tax position the full identity is required. The new power will allow that person's identity to be ascertained. Once the identity is known, HMRC's existing information powers can be used to obtain any further information that may be required.

Background to the measure

The fact that HMRC's information powers do not work satisfactorily where identifying information is held, but full identity of the person is not known was highlighted in the recent report by the Global Forum on Transparency and Exchange of Information for Tax Purposes about the UK's ability to exchange information to the international standard. This measure remedies that shortcoming.

The Exchequer Secretary to the Treasury announced at Report Stage debate of Finance Bill 2011 that the UK would introduce regulations in 2012 to allow HMRC to exchange information to the international standard. A full consultation on the proposal was issued on 7 July 2011 and closed on 29 September 2011.

Detailed proposal

Operative date

The new power will be effective from Royal Assent to the Finance Bill 2012.

Current law

Schedule 36 of Finance Act 2008 contains a power to require information about a person from a third party where the identity of the person is known (paragraph 2) and a power to require information where the identity of the person is not known, but only where there is a likelihood of serious loss of tax (paragraph 5). Neither power covers the unusual situation where there is suspicious activity (but insufficient evidence of a serious loss of tax) by a person whose identity is not known but for whom information is held from which identity can be ascertained.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to insert a new power into Schedule 36. It will apply only where HMRC holds information from which a person's identity can be ascertained and will be limited to obtaining basic identifying information of the person whose tax position is being checked, i.e. name, address and date of birth. The new power will not require tribunal approval, but in line with the existing paragraph 5, power may only be exercised by an authorised officer of HMRC and the data-holder will have the same right of appeal against a notice.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	There will be no direct impact on compliant UK individuals and householders.				
Equalities impacts	Equality has been carefully considered and it has been concluded that there are no adverse impacts from this change on groups with different protected characteristics.				
Impact on business including civil society organisations	The only direct impact on businesses will be the provision of the name, address and, if known, date of birth of a person from identifying information provided by HMRC. A notice will only be issued to a person who can be expected to have that information readily available. The cost is expected to be negligible.				
Operational impact (£m) (HMRC or other)	As it is anticipated that few additional notices will be issued, the costs incurred by HMRC will be negligible.				
Other impacts	Privacy impact: Strict procedures will be in place to demonstrate that the interference with privacy is proportional and justified, and thus lawful.				

Monitoring and evaluation

The implementation oversight forum will consider changes brought about by this measure. The forum, with a majority of external members, was established to consider the changes brought about by the Review of Powers, Deterrents and Safeguards.

Further advice

If you have any questions about this change, please contact Richard Davey on 020 7147 2391 or send via email to powers.review-of-hmrc@hmrc.gsi.gov.uk.

HM Revenue & Customs

Tax Agents: Dishonest Conduct

Who is likely to be affected?

Tax agents who assist clients with their tax affairs.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to allow HM Revenue & Customs (HMRC) to issue a tax agent with a conduct notice if it has determined that they have engaged in dishonest conduct. This notice would be subject to appeal.

Subject to prior approval by the first-tier tribunal, HMRC would be able to issue a File Access Notice requiring production of the working papers of tax agents found to have engaged in dishonest conduct. Where working papers are no longer in the power or possession of the tax agent, HMRC would be able to request these from a third party.

There will be a civil penalty for dishonest conduct in an amount of up to £50,000. In cases where full disclosure was not made, HMRC would be able to publish details of the penalised tax agent.

Policy objective

This measure supports the Government's objective of a fairer tax system. It introduces a modern, effective civil penalty to allow HMRC to take action against the small number of dishonest tax agents, which will apply across all taxes.

The new power to publish details of agents penalised will act as a powerful deterrent to those agents who are prepared to act dishonestly, reassure the public and support honest agents by protecting them from unfair competition. It will also encourage disclosure, making it easier for HMRC to establish the tax loss at the client level as a result of the tax agent's dishonesty.

Background to the measure

This measure was last announced at Budget 2011. HMRC has consulted three times on this measure:

- a consultation document *Working with Tax Agents* was published in April 2009;
- a consultation document *Working with Tax Agents: the next stage* was published in December 2009 together with draft legislation in February 2010; and
- a discussion document *Working with Tax Agents: Dishonest Conduct* was published on 14 July 2011 together with legislation revised to take account of consultation responses.

A response document: *Working with Tax Agents: Dishonest Conduct – Summary of Responses* was published on 6 December 2011 on the HMRC website.

Detailed proposal

Operative date

The measure will be brought into effect by Treasury Order. The measure will have effect for dishonest conduct on and after the date specified in that order. It is intended that the legislation will be effective from 1 April 2013.

Current law

Section 99 of the Taxes Management Act (TMA) 1970 provides for a civil penalty on any person who assists in or induces an incorrect tax return or other document.

Section 20A of TMA allows HMRC to call for the papers of a tax accountant who had been penalised under section 99 in order to establish the extent of the inaccurate returns and the tax lost as a result.

There are equivalents for other direct taxes, but no similar provisions in respect of VAT and other indirect taxes.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to replace current law, principally sections 20A and 99 TMA 1970 and equivalents for other direct taxes.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There is no direct impact on individuals or households because this measure only includes tax agents who assist clients in the course of business. There may be a small indirect beneficial effect on individuals if the change leads to a reduction in the number of dishonest tax agents.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Equality has been considered and it has been concluded that there are no adverse impacts from this change on groups with different protected characteristics.

HMRC do not routinely collect personal data relating to the agent population. However HMRC research found that the agent community is dominated by men (68 per cent) and the middle aged (51 per cent aged 35-54 years). Most are employed full time (85 per cent), but dispersed across different business structures.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure will target the small minority of tax agents who are dishonest and non-compliant. Some tax agents may incur costs if they need to comply with or appeal against a dishonest conduct notice and any subsequent file access notice.

There may be some costs where third parties have to provide working papers in the small number of cases where the working papers are not in the possession or power of the dishonest tax agent. The third party will have a right of appeal on grounds that it would be onerous for them to comply. It is expected that the impact on third parties will be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">Changes will need to be made to existing HMRC processes and Information Technology systems to identify cases, record progress and to charge and collect penalties. It is estimated that the costs to make the initial changes and ongoing costs for the first five year life cycle would be in the range of £300,000 to £800,000 depending on the extent to which the process is automated.</td></tr>
</table>

	Civil investigation of tax agents is likely to be restricted to specialist teams. It is estimated that the cost to resource these teams over a five year period will be in the range of £2 million to £3 million.
Other impacts	Small firms impact test: HMRC want to deter all tax agents from acting dishonestly. HMRC received almost 50 responses from sole practitioners or small firms with fewer than 20 employees during the last two consultations. These have been considered and HMRC has concluded that excluding individuals working within firms with less than 20 employees would reduce the effectiveness of this measure. Competition assessment: HMRC consider that by deterring tax agents from acting dishonestly and penalising those who do, HMRC will help honest businesses to compete against those who seek an unfair advantage. Privacy: this measure will give HMRC access to some client information through access to the working papers of dishonest tax agents, subject to Tribunal approval. HMRC will be able to publish details of tax agents who have been charged a penalty for dishonesty once all avenues of appeal are exhausted. When a tax agent complies with a tribunal approved notice and makes full disclosure their details will not be published. Strict procedures will be in place to demonstrate that the interference with privacy is proportional and justified, and thus lawful.

Monitoring and evaluation

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

The Implementation Oversight Forum will consider changes brought about by this measure. The Forum, with a majority of external members, was established to consider the changes brought about by the Review of Powers, Deterrents and Safeguards.

Further advice

If you have any questions about this change, please send an email to powers.review-of-hmrc@hmrc.gsi.gov.uk or contact Maria Richards on 020 7147 3223.

HM Revenue & Customs

Incapacitated Persons: A Modern Approach

Who is likely to be affected?

The legislation concerns people with mental health conditions and children, as well as people who represent or act for them. However there is no practical impact expected on any group.

General description of the measure

This measure will remove the current definition of “incapacitated person” from the Taxes Management Act (TMA) 1970 and in doing so remove the offensive terms within that definition from the statute book.

The measure will remove the current legal provisions that transfer certain rights and obligations under the TMA (and other similar legislation) to the person that represents an incapacitated person. Instead, those rights and obligations will apply to the person with mental health conditions or child with taxable income, these individuals' representatives will then continue to be able to act for them on their behalf (as the law allows).

Policy objective

This change supports the Government's objectives of a simpler and fairer tax system. The policy objective is that incapacitated persons should have the same rights and obligations under tax law as they currently would if they were not incapacitated, and that those rights and obligations can be exercised or met with the help of the incapacitated person’s representative.

Background to the measure

In 2010 the Exchequer Secretary to the Treasury gave a commitment to consult with an intention to update the current definition. The consultation document was published on 24 May 2011 and invited comments by 16 August 2011 on:

- whether the way the existing definition currently works is satisfactory; and,
- how a new definition should be constructed.

An assessment of tax impacts, including equalities impacts, was published in part two of the consultation document. In addition to a number of meetings with interested parties, 18 formal written replies were received in response to the consultation document.

Having considered the responses to the consultation document it became clear that rather than just updating the definition of incapacitated person the Government should also consider the need for keeping the provisions that relied on that definition. The approach taken here both removes the offensive terminology of the definition and removes the superfluous provisions. Rather than creating a new tax-specific legal framework for incapacitated persons the changes will instead allow the general legal framework for assisting people who lack capacity to operate in its place.

Detailed proposal

Operative date

The intention for stamp duty land tax is that this measure will apply to all land transactions with an effective date on or after the date on which the Finance Bill receives Royal Assent. For income tax and all other purposes it is intended that this measure will have effect for the 2012-13 tax year and subsequent years.

Current law

The current definition is at section 118(1) TMA. It provides that an ""incapacitated person" means any "infant, person of unsound mind, lunatic, idiot or insane person".

The Taxes Management Act relies on this definition in a number of places for direct taxes.

Section 42 TMA 1970 allows an incapacitated person's trustee, guardian, tutor or curator to make certain types of claim (e.g. for relief) on behalf of the incapacitated person.

Section 72 TMA 1970 provides that where an incapacitated person's trustee, guardian, tutor, curator or committee directs controls or manages the person's property the trustee, etc is personally assessable and chargeable to income tax in the same way as the person would be if they were not incapacitated. It also makes the trustee etc answerable for everything that has to be done under the Income Tax Acts for the purpose of assessment and payment of income tax.

Section 73 TMA 1970 provides that where a person chargeable to income tax is an infant and that infant fails to pay that tax then the parent or guardian of that infant is liable to pay that tax.

References are also made at section 13 and section 76 TMA.

Further legislation applies similar rules in relation to stamp duty land tax. See here sections 81B and 106 Finance Act (FA) 2003. Similarly section 72 TMA 1970 is applied with modifications in relation to stamp duty reserve tax by virtue of Paragraph 20 and Schedule 1 to SI 1986/1711 (The Stamp Duty Reserve Tax Regulations 1986).

A number of related provisions are listed below:

- Student Loan repayments; Regulation 38 of the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470);
- Child Trust Funds; Reg 29(4) of the Child Trust Fund Regulations (SI 2004/1450);
- Pension Schemes: S267 and S268 Finance Act 2004 and SI 2005/3452; and,
- Social Security contributions; Paragraph 5(a) of Schedule 2 to the Social Security Contributions and Benefits Act 1992 (SSCBA).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal those provisions in the TMA, the FA 2003 and the SSCBA 1992 which relate to incapacitated persons (or, where their scope is wider, to amend them so that they no longer make provision in relation to incapacitated persons). Further changes will also be needed to amend the related subordinate legislation.

The removal of these provisions concerning incapacitated persons will mean that those covered by the current definition will in future have the same rights and obligations under tax law as they would if they were not incapacitated. Rights and obligations will not in future be transferred to that person's representative so the representatives will no longer be personally liable under tax law (although their duties under the wider law will of course remain). Those

rights and obligations will though be able to be exercised and met by the person's representative acting in a representative capacity (i.e. making decisions, signing documents etc on their behalf).

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	This measure will remove a separate tax framework applying to incapacitated people but will continue to allow their representatives to act on their behalf. This should impose negligible new burdens or costs other than the cost of reading and understanding the changes.				
Equalities impacts	In terms of law, this change technically imposes new obligations on people with mental health conditions and children with taxable income. However, people in these groups will not be affected financially and will still have the assistance of representatives who can act on their behalf. This assistance will be within the framework of the wider law providing for representatives to be appointed to assist people who lack capacity rather than under specialist tax provisions. There will be no detrimental impact on any group and there are small positive impacts from the removal of outdated language which is now widely held to be offensive and from bringing tax obligations within the framework of wider law.				
Impact on business including civil society organisations	The Government does not anticipate any specific impacts on businesses or civil organisations, since only individuals are directly impacted.				
Operational impact (£m) (HMRC or other)	The operational impacts will be negligible and will be delivered as part of our normal business processes.				
Other impacts	No significant impacts have been identified.				

Monitoring and evaluation

HM Revenue & Customs will monitor any impacts through ongoing monitoring of queries and correspondence on the issues these changes raise. HMRC also regularly bring together a number of interested representative bodies at the Individuals Stakeholders Forum which will provide a forum for any difficulties to be raised.

Further advice

If you have any questions about this change, please contact Tax Administration Policy on TAP@hmrc.gsi.gov.uk.

A7 Office of Tax Simplification Review of Reliefs

HM Revenue & Customs

Mineral Royalties Relief: Repeal

Who is likely to be affected?

Those in receipt of mineral royalties.

General description of the measure

Mineral royalties relief was introduced in the 1970s, when income tax and corporation tax rates were very high. These high rates of taxation deterred mineral exploitation, as land owners were faced with either releasing their minerals for a negligible after tax sum, or with holding on to them. To the extent that the relief has affected landowner behaviour, much of this impact could be expected to have occurred already, given the length of time the relief has been in existence. As tax rates are now much lower than they were in the 1970s, the Government believes that the relief is no longer necessary and it is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

This relief will be withdrawn in respect of mineral royalties a person is entitled to receive on or after 1 April 2013 in respect of businesses subject to corporation tax and 6 April 2013 in respect of businesses subject to income tax.

The reliefs in respect of capital losses on mineral leases or agreements will no longer be available for leases or agreements entered into on or after the operative dates.

Current law

Mineral royalties would ordinarily be chargeable to income tax or corporation tax as income. This relief, found at sections 157, 319 and 340 of the Income Tax (Trading and Other Income) Act 2005, sections 135, 258 and 273 of the Corporation Tax Act 2009 and sections 201-203 of the Taxation of Chargeable Gains Act 1992 (TCGA), allows businesses to treat 50 per cent of the total amount of eligible mineral royalties received as a chargeable gain and liable to tax at the generally lower rates of tax on gains, leaving the remaining 50 per cent subject to income tax or corporation tax on income.

Section 202 of TCGA also allows landowners who receive mineral royalties to claim relief for the loss of value of the land in question. The section allows losses to be crystallized at the time the mineral lease or agreement ends. The losses may then be either relieved in the year in which the mineral lease ends or carried back up to 15 years and set off against the chargeable gains on the mineral royalties in those earlier years. Section 202 also permits losses on disposal of the land to which the mineral lease or agreement relates to be carried back up to 15 years.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal mineral royalties relief in respect of mineral royalties a person is entitled to receive after the operative dates. Consequently any mineral royalties a person is entitled to receive on or after the operative dates will be fully subject to either income tax or corporation tax (as income), depending on the recipient.

The new rules will apply to mineral royalties under existing agreements or leases, as well as to mineral royalties under leases or agreements entered into after 31 March 2013 (for companies within the charge to corporation tax) or 5 April 2013 (for other cases).

Relief available under section 202 of TCGA for capital losses will not apply to mineral leases or agreements entered into on or after the operative dates. The ability to crystallize losses and the entitlement to carry back losses for up to 15 years will be preserved for mineral leases or agreements entered into before the operative dates.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	egligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	Withdrawal of the relief is not expected to impact significantly on landowners' willingness to make their land available for future mineral exploitation.				
Impact on individuals and households	This measure is likely to affect less than 800 individuals or households and trusts (including beneficiaries and trustees) that are in receipt of mineral royalties. The relief's abolition will result in the full mineral royalty becoming liable to income tax from 2013 resulting in some individuals or households and trusts paying more tax.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	There may be some impact on companies in receipt of mineral royalties as this income will now become fully subject to corporation tax. It is difficult to determine precise numbers as take-up of the relief is unknown, but these are expected to be low on the basis that about 700 mineral quarries are thought to be leased, with many of those being leased out by individuals and trusts. It is expected that the impact of this measure on businesses' administrative burdens will be negligible.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				

Other impacts	This measure applies to all sizes of business. The consultation did not identify anything to suggest that the relief's abolition would have a disproportionate impact on small firms.

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

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

Stamp Duty Land Tax: Disadvantaged Areas Relief: Repeal

Who is likely to be affected?

Purchasers of residential property in areas designated as 'disadvantaged', where the purchase price does not exceed £150,000.

General description of the measure

Legislation provides relief from stamp duty land tax (SDLT) for purchases of residential property in areas designated as 'disadvantaged' where the purchase price does not exceed £150,000. There is no evidence to suggest that the availability of this relief encourages ownership in disadvantaged areas, and it is therefore being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

This measure will have effect for transactions with an effective date on or after 6 April 2013. All claims for relief for purchases of residential property must be made on or before 5 May 2014. The transitional provisions that were introduced when disadvantaged areas relief for non-residential properties was abolished in 2005 will be retained.

Current law

Section 57 and Schedule 6 of the Finance Act 2003 set out the main provisions relating to disadvantaged areas relief.

The Stamp Duty (Disadvantaged Areas) Regulations 2011 (SI 2001/3747) lists the disadvantaged areas to which the relief applies.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to withdraw the relief and make consequential amendments.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">This measure is expected to increase receipts by approximately £40 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">No significant macroeconomic impacts are anticipated. There may be a small negative microeconomic impact on the volume and value of residential transactions in the price range and areas affected.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Around 30,000 individuals each year will be affected by the withdrawal of this relief. The cost per individual buying a property in an affected area will be between £1,250 and £1,500. The impact on compliance costs for these individuals will be insignificant.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potential impacts have been considered and no different impact has been identified on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There will be no direct impact on business. There may be a small negative impact on the revenue of some businesses, due to the small negative microeconomic impact on the volume and value of residential transactions in the price range and areas affected. There will be a small benefit to conveyancers who will not need to check whether the relief is due and work out the value of the relief for their client. The administrative burden saving is expected to be insignificant.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The estimated costs of making changes to HMRC's information technology system are expected to between £250,000 and £450,000. This change is not expected to have any significant impact on HMRC operational costs.</td></tr>
<tr><td>Other impacts</td><td colspan="5">The potential for other impacts has been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Grants for Giving Up Agricultural Land: Repeal of Relief

Who is likely to be affected?

Occupiers of agricultural land.

General description of the measure

The relief exempts certain grants received by individuals for giving up agricultural land from capital gains tax. No such grants have been made for a considerable number of years. The last scheme through which grants could be made came into effect in 1976 and has since lapsed. There are no plans to make new grants. The relief is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs websites.

Detailed proposal

Operative date

The relief exempting certain grants received by individuals for giving up agricultural land from capital gains tax is to be withdrawn from 6 April 2013.

Current law

Section 249 of the Taxation of Chargeable Gains Act 1992 (TCGA) exempts grants made under section 27 of the Agriculture Act 1967 from liability to capital gains tax.

Section 27 of the Agriculture Act 1967 sets out circumstances under which particular grants can be made for giving up agricultural land and the conditions for doing so.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 249 of TCGA.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This change has no significant economic impacts.				
Impact on individuals and households	No qualifying grants have been made for a number of years and it is therefore expected that the repeal will have no impact on individuals and households.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	No qualifying grants have been made for a number of years and it is therefore expected that the repeal will have no impact on business.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

As this change is not expected to have any impact any correspondence will be dealt with on a case by case basis. The Government will return to this issue if, in future, grants are made under section 27 of the Agriculture Act 1967.

Further advice

If you have any questions about this change, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

HM Revenue & Customs

Angostura Bitters: Repeal of Relief

Who is likely to be affected?

The sole manufacturer in Trinidad & Tobago, importers and consumers of the aromatic bitters (i.e. a type of flavouring) known as Angostura Bitters.

General description of the measure

The relief exempts from excise duty the importation of Angostura Bitters into the UK. Angostura Bitters are a type of flavouring made in Trinidad & Tobago by Angostura Limited. Production is relatively limited (around 240,000 bottles per year for the UK) and it is used as a low volume ingredient in the preparation of both food and drink, particularly cocktails. Angostura Bitters were granted the excise duty exemption in 1970, in order to support Trinidad's economy at that time. There is no evidence to suggest that this support continues to be required. The exemption is distortive because it applies to only one brand of bitters rather than all similar products, and is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The excise duty exemption will be withdrawn from 1 April 2013.

Current law

The exemption from excise duty on importation for Angostura Bitters is contained in subsection 1(7) of the Alcoholic Liquor Duties Act 1979 (ALDA) and in Commissioners' directions made using a power in section 6 of ALDA. The exemption is provided for in Article 28 of Council Directive 92/83.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal sections 1(7) and 6 of ALDA to take effect on and after 1 April 2013. Angostura Bitters will then become subject to duty under section 1 of ALDA.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impact.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There will be a small negative impact on individuals and households who consume Angostura Bitters. If changes to the duty treatment of Angostura Bitters were passed on in the price of the product, then a 200ml bottle may increase in price by between £2-£3, although the product is typically consumed as a ‘dash’ (a few drops only) at a time.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potential impacts have been considered and no different impact has been identified on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There will be a negative impact on the single producer of Angostura Bitters in Trinidad & Tobago. There may also be an impact on businesses importing, distributing and supplying Angostura Bitters in the UK, but this is likely to be minimal, as only relatively small quantities of the product are imported each year.

The removal of the duty exemption will render Angostura Bitters liable to excise duty, making it more expensive.

Unless the product is duty paid at importation, it will have to be consigned to an excise warehouse, which could impose additional storage costs on importers.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible operational impact for HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> the consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms. The measure is pro-competitive, as it removes a duty exemption that applies to a single producer of aromatic bitters to distortive effect.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes a distortive duty exemption. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Paul Manson on 0161 827 0357 (email: paul.manson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Black Beer: Repeal of Relief

Who is likely to be affected?

Producers and consumers of the fermented beverage known as Black Beer.

General description of the measure

The relief exempts from excise duty a particular type of black beer. The product, known as Black Beer in the UK, is a black beer with an original gravity of 1200 degrees or more and is a concentrated beverage made from malt. There is only one known producer of Black Beer, based in Yorkshire, producing around 35,000 bottles annually. In its concentrated form, it has an alcoholic strength of 8.5 per cent abv. Black Beer is generally used as a mixer, with lemonade or milk, or in cooking. It is also taken for its perceived medical and nutritional benefits (e.g. it has a high level of vitamin C). An excise duty exemption in 1931 ensured its continued production, which would have been put at risk by substantial increases to beer duty at the time. The duty exemption is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The excise duty exemption will be withdrawn from 1 April 2013.

Current law

Section1(3) of the Alcoholic Liquor Duties Act 1979 (ALDA) defines beer which is subject to excise duty under that Act and excludes black beer of an original gravity of 1200 degrees or more. The exemption is permitted by Article 28 of Council Directive 92/83.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend section 1(3) of ALDA to take effect on and after 1 April 2013. This will bring this type of black beer within the definition of beer and it will then become subject to duty under section 1 of ALDA.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure has no significant economic impact.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">There will be a small negative impact on individuals and householders who consume Black Beer. If changes to the duty treatment of Black Beer were passed on in the price of the product, then a 68cl bottle may increase in price by about £1 – £2.

Black Beer is mainly consumed by small numbers of people in the over 65 age group in Yorkshire. Any increase in the retail price may have some impact on individuals and households where the product is bought.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Evidence from the consultation suggests that there may be an impact among the over 65s who consume Black Beer if the retail price of the product increases, perhaps reducing the number of people who remain loyal to the product.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The withdrawal of the duty exemption will have a negative impact on the sole producer of Black Beer, based in Yorkshire. It will make the product more expensive making it less affordable, particularly for consumers of pensionable age.

There may also be an impact on distributors, suppliers and retailers of Black Beer, but this is likely to be minimal, as only relatively small quantities of the product are made each year (less than 10,000 cases).</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible operational impact for HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test:</u> The consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms.

<u>Competition assessment:</u> The measure is pro-competitive, as it removes a duty exemption that affects a single producer of an alcoholic beverage to distortive effect.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes a distortive duty exemption affecting one single trader. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Paul Manson on 0161 827 0357 (email: paul.manson@hmrc.gsi.gov.uk).

HM Revenue & Customs

Luncheon Vouchers: Repeal of Relief

Who is likely to be affected?

Employees, mainly working for businesses without workplace canteens, who are provided with meal vouchers, and their employers who provide them.

General description of the measure

There is a tax and national insurance contributions (NICs) exemption on the first 15 pence per working day of a meal voucher provided by an employer to an employee. However, any benefit provided above 15 pence per working day is liable to tax and NICs. The relief was introduced in 1946 when food rationing was in place with the objective of helping individuals afford healthy meals. The benefit of this relief has been almost entirely eroded by inflation. It is therefore very low in value and no longer achieves a clear objective, and is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

This relief will cease to be available for luncheon vouchers provided on or after 6 April 2013. The mirroring NICs exemption will be repealed by regulations with effect from the same date.

Current law

Section 89 of the Income Tax (Earnings and Pensions) Act 2003 exempts from income tax the first 15 pence per working day of a meal voucher provided by an employer to an employee. The mirroring NICs exemption is paragraph 6A of Part 5 of Schedule 3 to the Social Security (Contributions) Regulations 2001. However, any benefit provided above 15 pence per working day is liable to tax and NICs.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 removing income tax reliefs relating to luncheon vouchers provided by an employer by repeal of Section 89 of the Income Tax (Earnings and Pensions) Act 2003 to take effect from 6 April 2013. NICs regulations to take effect from the same date will repeal paragraph 6A of Part 5 of Schedule 3 to the Social Security (Contributions) Regulations 2001 and make two consequential amendments:

- regulation 40(2)(za) of the Social Security (Contributions) Regulations 2001 will also be repealed; and
- paragraph 14(3)(b) of Schedule 2 to the Social Security (Contributions) Regulations 2001 which allows the first 15 pence of the cost of a meal to be ignored will no longer be required and will also be repealed.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure will affect the estimated 15,000 to 20,000 individual taxpayers who currently receive luncheon vouchers from their employers. Employees working in offices without a workplace canteen are most likely to be affected.

The impact for a basic rate taxpayer would be an increase in tax and NICs of approximately £12 a year (assuming vouchers are used on 260 working days in a year). This figure rises to approximately £20 a year for an additional rate taxpayer.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potential impacts have been considered and no different impact has been identified on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There is evidence that over 600 employers run luncheon voucher schemes and that luncheon vouchers are most commonly provided by smaller firms who do not have workplace canteens.

The financial cost to employers will be a small rise in Class 1 NICs – only a maximum of £5 per annum per employee receiving vouchers (assuming vouchers are used on 260 working days in a year).

For those who continue to provide luncheon vouchers there should be a small reduction in administrative burdens.

The existing tax relief is only for a small fraction of the value of luncheon vouchers provided and it is very unlikely that it plays a material role in an employer's decision to offer vouchers to their employees. Therefore it is not expected that removal of the relief will make the use of luncheon vouchers less attractive for businesses or affect the provider of luncheon vouchers.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible operational impact for HMRC.</td></tr>
</table>

Other impacts	Small firms: the consultation did not specifically identify anything to suggest that the abolition of this relief would have a significant impact on small firms.

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Renton Aloysius on 0203 300 9387 (email: renton.aloysius@hmrc.gsi.gov.uk).

HM Revenue & Customs

Certain Payments Arising from a Reduction in Pool Betting Duty: Repeal of Reliefs

Who is likely to be affected?

Pool betting companies and particular trusts they support. The relevant trusts still in operation are the Football Foundation (FF) and the Foundation for Sport and the Arts (FSA). The other relevant trust, the Football Trust (FT), has disbanded.

General description of the measure

This measure therefore repeals a number of reliefs which are expected to have become obsolete. The reliefs ensured that the full benefit of reductions in pool betting duty in 1990, 1991 and 1995, paid to the relevant trusts, flowed through to football ground improvements, sport and the arts, by removing certain tax liabilities that would otherwise arise. The agreement to commit payments to the FT, FF and FSA ceased at the end of March 2004. No qualifying funds are expected to be held in the relevant trusts after March 2012.

Some income tax reliefs that mirrored the corporation tax reliefs being consulted on were identified as being redundant during the course of consultation and are also being repealed although no specific consultation was done for these provisions.

Policy objective

The repeals support the Government's objective to simplify the tax system and are part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs websites.

Detailed proposal

Operative date

These reliefs will be withdrawn for corporation tax purposes for payments made on or after 1 April 2013 and 6 April 2013 for income and inheritance tax purposes.

Current law

The relevant reliefs are:

- section 126(4) of the Finance Act 1990 – this overrides the capital allowances contributions legislation at section 532 of the Capital Allowance Act 2001 which ordinarily would prevent a football club claiming capital allowances on the grant-funded element of a ground improvement. It ensures that the club can claim capital allowances on the full cost of the works where the grant was funded by a contribution from one of the relevant trusts, and as a result of a reduction in pool betting duty.
- section 126(5) of the Finance Act 1990 and section 121(4) of the Finance Act 1991 – these remove any inheritance tax charges on monies received by trustees out of the duty reduction and which are either distributed or held in a trust.
- section 138 of the Corporation Tax Act 2009 (CTA) – this ensures that a pool betting company can deduct the payment derived from the reduced duty when computing its trading profits.
- section 978 of CTA – this ensures that a payment by a pool betting company is not treated as an annual payment and so is not liable to corporation tax where this payment is a consequence of a reduction in pool betting duty and is used in order to meet capital expenditure incurred in improving safety or comfort at a football ground.
- sections 162 and 748 of the Income Tax (Trading and Other Income) Act 2005 – these provide similar reliefs to income tax as sections 138 and 978 of CTA do for corporation tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the above provisions.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	These changes have no significant economic impacts.				
Impact on individuals and households	There is no impact on individuals and households because this is a measure that affects only businesses liable to pay pools betting duty and the trusts they support.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	No associated costs or administrative burden for businesses or the trusts they support are expected as it is likely that all use of these reliefs will have ended before this measure is implemented.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				

Other impacts	The potential for other impacts has been considered and none have been identified.

Monitoring and evaluation

These changes do not require monitoring or evaluation as they remove unnecessary reliefs. Any correspondence received on the impact of the repeals will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

HM Revenue & Customs

Stamp Duty: Certain Transactions in Shares: Repeal of Reliefs

Who is likely to be affected?

No one is expected to be directly affected by these changes, which repeal reliefs that have no current or expected future application.

General description of the measure

Stamp duty legislation provides:

- relief for transfers to the Crown or to a body appointed by the Crown in connection with nationalisation schemes;
- partial relief for transfers made in connection with certain company acquisitions; and
- an exemption for certain transfers that prior to 2008 would otherwise have been chargeable with fixed stamp duty of £5.

These reliefs have no current or expected future application, and are therefore being repealed.

Policy objective

The repeals support the Government's objective to simplify the tax system and are part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

These reliefs will cease to be available for instruments executed on or after 6 April 2013. Any outstanding claims for relief for company acquisitions must be presented to HMRC, together with any stamp duty due, on or before 5 April 2013.

Current law

The current law is set out in:

- section 52 of the Finance Act 1946 which provides relief from stamp duty on certain transfers made to the Crown or to a body appointed by the Crown under nationalisation schemes;

- section 76 of the Finance Act 1986, section 113 of, and Schedule 35 to the, Finance Act 2002 and paragraph 6(3) of Schedule 19 to the Finance Act 2003 which provide for a reduced rate of stamp duty, of 0.5 per cent, on transfers taking place in the context of certain company acquisitions; and
- section 87(2) of the Finance Act 1985 and the Stamp Duty (Exempt Instruments) Regulations 1987 (SI 1987/516) which provide for the certification of certain instruments as exempt, where they were previously chargeable with fixed duty of £5.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to withdraw these reliefs and make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	These changes have no significant economic impacts.				
Impact on individuals and households	These reliefs have no current application and their repeal will have no impact on individuals or households.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	These changes are not expected to have an impact on business. The reliefs for company acquisitions and transfers chargeable with fixed duty are not expected to have any impact as they have no current application. The repeal of the relief for nationalisation schemes will have no impact on business as it only applies to the Crown or bodies appointed by the Crown.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

These changes do not require monitoring or evaluation. They remove unnecessary reliefs. Any correspondence received on the impact of the repeals will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Tax Reserve Certificates Issued by HM Treasury: Repeal of Relief

Who is likely to be affected?

Individuals and companies who hold tax reserve certificates issued between 1941 and 1975.

General description of the measure

This measure will repeal the reliefs which provide an exemption from income tax and corporation tax respectively for interest earned from tax reserve certificates (TRC) issued by HM Treasury. TRCs have not been issued since 1975, when they were replaced by certificates of tax deposit. Therefore, on the basis that they have not been issued for sometime, the relief is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Whilst this measure focuses on the removal of a corporation tax relief, since the consultation process it was recognised that an equivalent income tax relief existed which could also be removed. Opportunity is provided to comment on the repeal of the income tax relief, with a further opportunity to comment on the repeal of the corporation tax relief. The information is set out in the Government's consultation response document.

Detailed proposal

Operative date

The repeal will have effect from 6 April 2013 in the case of individuals and 1 April 2013 in the case of companies.

Current law

Section 750 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) gives exemption from income tax in respect of interest from TRCs and section 1283 of the Corporation Tax Act 2009 (CTA) has the same effect for corporation tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 750 of ITTOIA and section 1283 CTA.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	Government records show that the total amount deposited in TRCs is less than £300,000. The average nominal value of the certificates is under £130. A small amount of interest will be accrued for the period the certificates are held until 1975, although this is only payable on redemption of the certificate. The exemption from tax for interest payable will remain for certificates redeemed before April 2013. Even if all holders of certificates encashed them prior to these changes, the impact on Government finances and the wider economy would be negligible.				
Impact on individuals and households	This change will impact on those individuals and households who encash their certificates after the date of the change as they may be liable to pay income tax on any interest payable.				
Equalities impacts	These certificates have not been issued since 1975, therefore, individuals who hold TRCs are likely to be older persons. However, the impact overall on those people with protected characteristics, based on the numbers in the economic impact section, is not significant. This change aligns the tax treatment of interest payable on these certificates with that of other income-producing investments.				
Impact on business including civil society organisations	This change is expected to have a negligible impact on business as the number of businesses who hold TRCs is small and the nominal value is low.				
Operational impact (£m) (HMRC or other)	If, in response to this change, there is a large-scale encashment, there will be a one-off operational impact on HMRC resources although the likelihood of this is considered to be low.				
Other impacts	Small firms: the number of businesses who hold TRCs is small and the consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Angela Roach on 020 7147 0002 (email: angela.roach@hmrc.gsi.gov.uk).

HM Revenue & Customs

Payments for the Benefit of Family Members: Repeal of Relief

Who is likely to be affected?

Individuals who are required by their employer, or under an Act of Parliament, to make payments to secure provision after their death for their spouse/civil partner or children.

General description of the measure

Individuals may claim income tax relief of up to a maximum of £20 per year where they are required by their employer, or under an Act of Parliament, to make payments that secure a provision for their surviving spouse/civil partner or children. The pensions code provides more generous relief for similar expenditure therefore the relief is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs websites.

Detailed proposal

Operative date

The relief will no longer be available for payments made by an individual on or after 6 April 2013.

Current law

A UK resident individual who is required under an Act of Parliament, or by their employer to make payments for the provision after their death for their spouse/civil partner or children, can claim tax relief under section 459 of the Income Tax Act 2007 (ITA).

Whilst the amount of the relief is equal to income tax on the basic rate on the amounts an individual is required to pay, the maximum relief available is equal to £20 (tax at the basic rate on £100).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 459 of ITA so that relief is no longer available for payments made on or after the operative date for the benefit of family members.

Where the payments made by an individual and eligible for this relief have been used to acquire an annuity, payments from that annuity are already treated as pension income through section 609 of the Income Tax (Earnings and Pensions) Act 2003. This section will be adjusted so that payments from this type of annuity will continue to be treated as pension income.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	The change has no significant economic impacts.				
Impact on individuals and households	Around 1,000 individuals and households who claimed the relief in previous tax years will no longer be eligible for a tax relief of up to £20 per year, and the impact is not expected to be significant as the amount of relief available is small. A greater amount of relief is already available under the pensions code for similar provisions. Individuals may need to discuss arrangements with their employers to enable them to obtain relief under pensions code arrangements.				
Equalities impacts	As the change removes a small amount of relief, and because relief for similar benefits is available under the pensions code, no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	Some employers may need to discuss with employees how relief can be given under the pensions code and 'net pay' arrangements. However with fewer than 1,000 employees affected it is unlikely that many employers would need to familiarise themselves with the policy change and engage with their staff. Consequently the impact on administrative burdens is expected to be negligible.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms: as this relief is only claimed by few individuals, it is very unlikely that there will be a significant impact on small employers.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jon Prothero on 0207 147 2785 (email: insurancequeries.ct&vat@hmrc.gsi.gov.uk).

HM Revenue & Customs

Capital Allowances - Safety at Sports Grounds: Repeal of Relief

Who is likely to be affected?

Businesses intending to carry out required safety precautions at sports grounds.

General description of the measure

Capital allowances are not generally available for capital expenditure incurred on the fabric of buildings. The safety at sports grounds reliefs were introduced between 1975 and 1988, specifically to reduce some of the capital costs sports ground operators were incurring as a result of having to upgrade their existing sports grounds to comply with revised safety standards, and which otherwise would not have qualified for capital allowances. The reliefs are no longer required as the Government considers that the stock of existing sports grounds have been brought up to the standards appropriate for their size and use, and the reliefs are therefore now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

These reliefs will be withdrawn in relation to capital expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax and on or after 6 April 2013 for businesses within the charge to income tax.

Current law

Plant and machinery is not specifically defined in the Capital Allowances Act 2001 (CAA). However, Chapter 3 of Part 2 provides that capital expenditure on buildings, or structures is not eligible for plant and machinery allowances (PMA), subject to a number of exceptions. Sections 30 to 32 of Part 2 of CAA set out three of these exceptions in respect of making various safety improvements carried out at sports grounds.

Section 30 applies to safety expenditure incurred at sports grounds designated under the Safety at Sports Grounds Act 1975. PMAs are only available if a person carrying on a qualifying activity takes required safety precautions at a designated sports ground for the purposes of the Safety of Sports Grounds Act 1975. Section 31 is similar but it applies to safety expenditure incurred under the Fire Safety and Safety of Places of Sport Act 1987. Section 32 covers safety expenditure at grounds which are not specifically covered by the Safety at Sports Grounds Act 1975 but are capable of designation.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the above provisions.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	egligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This change is not expected to have any significant economic impacts as the majority of required safety improvements works at existing sports grounds have now been completed. There will be no impact for new sports grounds as they do not qualify for the reliefs.				
Impact on individuals and households	This measure is not expected to impact on individuals or households, as all sports ground operators will have to continue complying with all relevant safety legislation.				
Equalities impacts	There is expected to be no impact on people with protected characteristics as these reliefs apply to general safety. They do not apply to improvements that may be required for other purposes, e.g. under disabilities legislation.				
Impact on business including civil society organisations	The repeal will impact on sports grounds operators, and apply to most stadia based sports. The main impact of repeal will be on those operators whose existing ground becomes subject to additional safety requirements. There will be no impact on the construction of new sports grounds, or the general refurbishment of existing sports grounds as the relief is not available for such expenditure. Overall this measure is expected to have a negligible impact on businesses' administrative burdens. As these changes only apply to business expenditure the changes will have little or no impact on charities who do not generally pay tax on business profits.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms: this relief applies to all businesses, including small firms, but will in practice only affect those businesses that operate existing sports grounds that need upgrading to meet safety standards, and it is not considered that any such businesses will be "small" within the meaning of the small firms impact test.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

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

Capital Allowances - Flat Conversion Allowances: Repeal of Relief

Who is likely to be affected?

Those businesses that have renovated or converted vacant or under-used space above shops and other commercial premises to provide flats for rent, or that are planning to renovate or convert such space.

General description of the measure

Flat conversion allowances (FCAs) were introduced in 2001. The scheme was designed to increase the availability of low cost rental accommodation in urban areas by providing 100 per cent capital allowances for the conversion of empty or under-used space above shops and other commercial premises to residential use. The flats must be available for short term letting. FCAs are not available if the flats are of high value or the property in which they are situated was built after 1980. Take-up of the scheme has been much lower than anticipated, suggesting that the relief has not been successful in achieving its objective and is now being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

This relief will be withdrawn for expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax, and on or after 6 April 2013 for businesses within the charge to income tax.

The entitlement to claim writing down allowance on any outstanding residue of qualifying expenditure will also cease with effect from the same dates.

Current law

FCAs, which were introduced in 2001, are available under part 4A of the Capital Allowances Act 2001. The relief provides a 100 per cent initial allowance to encourage the conversion or development of empty or under-used space above shops and other commercial premises into residential property for letting.

Where the full allowance is not claimed, the relief provides that any residue of qualifying expenditure is written off at a rate of 25 per cent of the value of the original qualifying expenditure per annum on a straight-line basis.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal FCAs in respect of qualifying expenditure incurred on or after 1 April 2013 for businesses within the charge to corporation tax, and on or after 6 April 2013 for businesses within the charge to income tax.

The entitlement to claim writing down allowances on any residual expenditure will also be withdrawn from that date. However, where the chargeable period of a business falls in more than one financial or tax year, the writing down allowance should be apportioned on a time basis between the financial or tax years in order to determine the amount of the writing down allowance that may be set-off against profits. For example:

- A company has a 12 month chargeable period of 1 January 2013 to 31 December 2013 (365 days);
- It originally incurred £10,000 of FCA qualifying expenditure and has residual FCA expenditure of £5,000;
- For the period 1 January 2013 to 31 December 2013, a maximum writing down allowance of £2,500 (£10,000 x25 per cent) could have been claimed;
- As a result of the repeal, only the period 1 January 2013 to 31 March 2013 (90 days) qualifies for FCA relief;
- Therefore for its 2013 chargeable period the company would be entitled to a maximum writing down allowance of: 90/365 x £2,500 = £616.44.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This change is not expected to have any significant economic impacts on the rented accommodation sector as very few businesses have chosen to claim the allowance.				
Impact on individuals and households	Due to the low uptake of the relief, the impact on individuals and households is considered to be minimal.				

Equalities impacts	The low uptake of the scheme means that there is not expected to be any significant impacts on the supply of rental accommodation to people with protected characteristics.
Impact on business including civil society organisations	One of the FCAs' target groups includes small businesses who own their business premises, e.g. shops, and have unused domestic accommodation over it. It is difficult to estimate how many businesses might be affected by the relief's withdrawal, but as evidence suggests that take-up of the relief has been low (in 2009/10 only around 100 companies made claims) it is expected that any impact will be small. The abolition of FCAs may also impact on some property investment businesses. But again based on the low take-up this is likely to be small. The decision to withdraw the entitlement for writing down allowances in respect of residual expenditure for those chargeable periods starting on or after the operative dates could also have impacts. It is difficult to estimate the number of businesses affected, but based on take up and the assumption that the majority of businesses will have claimed the full 100 per cent initial allowances, the number is likely to be small. Those affected could include both unincorporated and incorporated businesses, and businesses large and small. A 2006 evaluation found that 69 per cent of FCA claims were made by an accountant. Consequently abolition would reduce taxpayers' need for an accountant or agents to calculate the entitlement to FCA with the consequent reduction in administration costs. Overall this measure is expected to have a negligible impact on businesses' administrative burdens. As these changes only apply to business expenditure the changes will have little or no impact on charities who do not generally pay tax on business profits.
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.
Other impacts	Small firms impact test: While the relief is available to small firms, the actual take up is low. The consultation did not identify anything to suggest that its abolition would have a significant impact on small firms.

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an under-used relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

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

Stamp Duty: Certain Transactions in Land: Repeal of Reliefs

Who is likely to be affected?

No one is expected to be affected by these changes which repeal reliefs that have no current practical application.

General description of the measure

Stamp duty legislation provides relief for:

- certain leases granted by registered social landlords under agreements with local authorities to provide temporary housing for the homeless;
- purchases of residential property in designated disadvantaged areas where the purchase price for the property does not exceed £150,000;
- purchases of residential property under shared ownership schemes;
- transfers of land to registered social landlords; and
- transfers of land made in connection with the provision of facilities for visiting forces and allied headquarters.

Since the introduction of stamp duty land tax in 2003 the availability of these reliefs is restricted to land transactions that were entered into but not completed before then and there are not expected to be any outstanding claims for these reliefs. The reliefs are therefore no longer necessary and are being repealed.

Policy objective

The repeals support the Government's objective to simplify the tax system and are part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

These reliefs will cease to be available for instruments executed on or after 6 April 2013. Any outstanding claims for relief must be made on or before 5 April 2013. The transitional provisions that were introduced when disadvantaged areas relief for non-residential properties was abolished in 2005 will be retained.

Current law

The current law is set out in:

- sections 128 to130 of the Finance Act 2003 which provide relief from stamp duty on certain leases granted by registered social landlords;
- sections 92 to 92B and Schedule 30 of the Finance Act 2001 which contain the main provisions relating to disadvantaged areas relief;
- section 97 of the Finance Act 1980, section 108 of the Finance Act 1981 and section 54 of the Finance Act 1987 which provide for individuals buying a share in a property under a shared ownership scheme to elect to pay stamp duty on the market value of the whole of the property. In this case no duty is chargeable on subsequent transfers to the tenant or of the reversion;
- section 130 of the Finance Act 2000 which provides relief from stamp duty on certain transfers to registered social landlords; and
- section 74 of the Finance Act 1960 which provides exemption from stamp duty on transfers of land made in connection with the provision of facilities for visiting forces and allied headquarters.

Proposed revisions

Legislation with be introduced in Finance Bill 2012 to repeal these reliefs and make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	These changes have no significant economic impacts.				
Impact on individuals and households	These changes will have no impact on individuals or households as there are not expected to be any outstanding claims for the reliefs.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	These changes will have no impact on business as there are not expected to be any outstanding claims for the reliefs.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

These changes do not require monitoring or evaluation. They remove unnecessary reliefs. Any correspondence received on the impact of the repeals will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Harbour Reorganisation Schemes: Corporation Tax and Stamp Duty: Repeal of Reliefs

Who is likely to be affected?

Harbour Authorities involved in certified harbour reorganisation schemes under section 18 of the Harbours Act 1964.

General description of the measure

This measure repeals reliefs where the trade or assets of a company are transferred to a Harbour Authority under a certified harbour reorganisation scheme:

- any assets transferred from the company to the Authority are treated as being transferred for a value that creates neither a gain nor a loss for the transferor;
- any capital allowances, allowable capital losses or unused trading losses of the transferor company's trade are available to the Authority; and
- no stamp duty is chargeable on the transfer of stock or marketable securities to the Authority.

The Government believes that the future need for these reliefs is low, and they are therefore being repealed.

Policy objective

The repeals support the Government's objective to simplify the tax system and are part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal these reliefs. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs websites.

Detailed proposal

Operative date

These reliefs will cease to be available for transactions on or after 1 April 2013.

Current law

- The relief from stamp duty for transfers made in connection with certified harbour reorganisation schemes is set out in section 45 of the Finance Act 1966.
- Sections 991-995 of the Corporation Tax Act 2010 disapply the corporation tax rules that apply where a person starts to carry on a trade, or ceases to carry on a trade, where

there is a transfer of a trade to a Harbour Authority under a certified harbour reorganisation scheme. They also provide the reliefs for trade losses, capital allowances and capital losses.

- Section 221 of the Taxation of Chargeable Gains Act 1992 provides relief for the transfer of assets to a Harbour Authority under a certified harbour reorganisation scheme.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to withdraw these reliefs and make consequential amendments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	These changes have no significant economic impacts.				
Impact on individuals and households	There will be no impact on individuals or households as these changes only affect Harbour Authorities involved in certified harbour reorganisation schemes.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	These changes are not expected to have an impact on business as there is no evidence of recent or planned use of the reliefs by Harbour Authorities involved in a certified reorganisation scheme.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

These changes do not require monitoring or evaluation as they remove unnecessary reliefs. Any correspondence received on the impact of the repeals will be dealt with on a case by case basis.

Further advice

Please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk) if you have any queries regarding the stamp duty change or contact Philip Donlan on 020 7147 2633 (email: philip.donlan@hmrc.gsi.gov.uk) for queries regarding the corporation tax changes.

HM Revenue & Customs

Pensions for 1947 Redundancies: Repeal

Who is likely to be affected?

No one is expected to be affected by this measure; it would affect any land tax and income tax assessors made redundant in 1947.

General description of the measure

Section 62(2) and (3) of the Finance Act 1946 make provision for the payment of pensions to those made redundant following the closure, in 1947, of the offices for land tax and income tax assessors. These provisions are no longer required and are being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

The provisions were identified as being redundant during the course of consultation although no specific consultation was done for this repeal.

Detailed proposal

Operative date

The repeal will have effect from 6 April 2013.

Current law

The provisions relating to the pension arrangements for those who were made redundant as a result of the closure of the offices for land tax and income tax assessors are at section 62(2) and (3) of the Finance Act 1946.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal the current legislation, as described above.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	This change will have no economic impact as it relates to redundant legislation.				
Impact on individuals and households	This change will have no impact on individuals or households as it relates to redundant legislation.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	This change will have no impact on business as it relates to redundant legislation.				
Operational impact (£m) (HMRC or other)	This change will have no operational impact on HM Revenue & Customs.				
Other impacts	The potential for other impacts has been considered and none have been identified.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary provision. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Jane Ewart on 020 7147 3794 (email: jane.ewart1@hmrc.gsi.gov.uk).

HM Revenue & Customs

Deeply Discounted Securities: Incidental Expenses: Repeal of Relief

Who is likely to be affected?

Individuals and trusts with deeply discounted securities (DDS) which they have held since at least 26 March 2003.

General description of the measure

DDS are certain kinds of government securities and corporate bonds that are issued at a discount. This discount, which would otherwise be taxed as capital gains, is taxed as income. There is limited relief for incidental expenses incurred on the acquisition and disposal of DDS held before 27 March 2003. Legislation will repeal relief for incidental expenses of disposal which are incurred on or after 6 April 2015. Relief for expenses incurred before 27 March 2003 will remain.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The relief for the incidental costs of disposal of DDS will be repealed for costs incurred on or after 6 April 2015.

Current law

The current law provides for the relief of incidental expenses incurred on the acquisition or disposal of DDS in three circumstances, all of which apply only to disposals of securities held since at least 26 March 2003.

Firstly, section 439(4) of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) provides for the deduction of expenses incurred before 27 March 2003 from the profit of the person disposing of a DDS.

Secondly, section 455(1) of ITTOIA extends the provision for the deduction of expenses to include those incurred on or after 27 March 2003, but only in the case of the disposal of listed securities held since 26 March 2003.

Thirdly, section 455(2) of ITTOIA provides that the deduction of incidental costs of acquisition or disposal may increase the loss on disposal of listed securities held since 26 March 2003. These costs are deductible whenever they are incurred but they cannot create a loss.

Proposed revisions

Legislation will be introduced in Finance Bill 2012. Section 439 will be retained but section 455 of ITTOIA will be amended to remove the reliefs in respect of incidental expenses incurred on or after 6 April 2015 in connection with the disposal of DDS.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td>-</td><td>-</td><td>-</td><td>-</td><td>negligible</td></tr>
<tr><td colspan="5">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The change has no significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure may affect a small number of individuals and households. For any individuals and households who are affected, no incidental costs of disposal incurred on or after 6 April 2015 will be deductible for disposals of DDS held since 26 March 2003 and disposed of on or after 6 April 2015.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Potential impacts have been considered and no different impact has been identified on people with protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure affects individuals and trusts and has no specific business impact. It is possible that a non-corporate business may hold DDS as investments, in which case the impact would be as for individuals above.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be a negligible operational impact for HMRC.</td></tr>
<tr><td>Other impacts</td><td colspan="5">The potential for other impacts has been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes a relief which is of limited application. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

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).

HM Revenue & Customs

Life Assurance Premium Relief (LAPR): Repeal

Who is likely to be affected?

Individuals who continue to pay regular premiums under qualifying life insurance policies issued on or before 13 March 1984. Insurers and Friendly Societies who continue to claim Life Assurance Premium Relief (LAPR) payments from HM Revenue & Customs (HMRC) in connection with these policies.

General description of the measure

Income tax relief of 12.5 per cent is available on regular premiums paid into qualifying life insurance policies issued on or before 13 March 1984. The relief was removed for policies issued on or after 14 March 1984 but continues for premiums payable under policies taken out before this date. The relief is therefore obsolescent but still requires long and complex legislation although the average value of the relief per policy is minimal. Accordingly, the relief is being repealed

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC)websites.

Detailed proposal

Operative date

The measure will have effect for premiums that are either due and payable, or are paid, on or after 6 April 2015.

Current law

LAPR is provided under sections 266 and 274 of, and Schedule 14 to, the Income and Corporation Taxes Act 1988 (ICTA). Provisions for the detailed operation of the scheme are included primarily in the Income Tax (Life Assurance Premium Relief) Regulations 1978, Statutory Instrument 1978/1159 (SI 1978/1159), supplemented by:

- the Industrial Assurance (Life Assurance Premium Relief) Regulations 1977, SI 1977/1144 as amended by the Industrial Assurance (Life Assurance Premium Relief)

(Change of Rate) Regulations 1980, SI 1980/1948 and the Industrial Assurance (Life Assurance Premium Relief) (Amendment) Regulations 1984, SI 1984/322; and

- the Friendly Societies (Life Assurance Premium Relief) Regulations 1977, SI 1977/1143, as amended by the Friendly Societies (Life Assurance Premium Relief) (Amendment) Regulations, SI 1978/1160, the Friendly Societies (Life Assurance Premium Relief) (Change of Rate) Regulations 1980, SI1980/1947, and the Friendly Societies (Life Assurance Premium Relief) (Amendment) Regulations 1984, SI 1984/323.

Under the scheme, an individual resident in the UK who makes an eligible regular premium payment under a qualifying life insurance policy issued before 14 March 1984 is entitled to income tax relief at an amount of 12.5 per cent of the premium paid (subject to a limit on premiums of £1,500 per annum or one sixth of the individuals' total income for the tax year if greater).

Most individuals pay premiums net of the tax relief to insurers or friendly societies, who then claim from HMRC the difference between the net premium received from the individual and the gross amount of premium due under the policy.

Some individuals, who are resident outside the UK, instead pay gross premiums and claim relief directly from HMRC.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to remove entitlement to relief for premiums that are either due and payable, or are paid, on or after 6 April 2015 and to restrict the period in which insurers and friendly societies can reclaim amounts from HMRC relating to premiums paid before this date.

Provisions will also be included to ensure that changes to policies as a direct consequence of the withdrawal of LAPR will not remove Qualifying Policy status.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is expected to reduce tax relief repayments to insurers and friendly societies by approximately £5 million in 2015-16. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2012.				
Economic impact	This change has no significant economic impacts.				
Impact on individuals and households	This change will only affect individuals and households who continue to pay premiums under qualifying life insurance policies issued before 14 March 1984. The impact for individuals will depend on the life insurance policy itself, the expected life of the policy (based on the age of the individual) and the action taken by individuals and insurers/friendly societies in response to the abolition of the relief. Amounts paid into a life insurance policy may, for example, be increased by the amount of relief withdrawn, or benefits from a policy may be reduced proportionately (such as benefits paid on maturity or death of the life assured). In other cases, individuals may choose to stop paying premiums into their policy. The average amount of relief claimed per policy is about £14 per year.				

<table>
<tr><td></td><td colspan="3">Although many policies attract significantly less relief, those individuals or households who pay premiums in excess of the average or into more than one policy will be affected to a greater extent.</td></tr>
<tr><td>Equalities impacts</td><td colspan="3">The withdrawal of the relief will only affect policyholders who have policies that were issued on or before 13 March 1984 and where they continue to pay regular premiums.

As a result of the withdrawal of relief for new policies taken out on or after 14 March 1984, relief is only available to policyholders who are generally now over 40. The removal of this relief treats policyholders who benefited from LAPR in the same way as those who were unable to take out policies before 14 March 1984.</td></tr>
<tr><td rowspan="17">Impact on business including civil society organisations</td><td colspan="3">The change will affect around 70 insurers and friendly societies that currently make claims to HMRC each year.

Responses to the consultation suggest that ongoing operation of the LAPR scheme does not entail a significant administrative burden for providers, but that a significant one-off cost of abolishing the relief is likely to arise.

The impact will vary from provider to provider, depending on the type of policies issued by that provider that are still in force, and the number/age of those policies. However, costs are likely to arise from contacting policyholders, making changes to IT systems, changing collection systems to manage increases to premiums or in calculating a reduction to benefits payable from a policy. One industry representative body has estimated that the cost of abolition will be in the range of £100,000 to £200,000 for each provider.</td></tr>
<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>£10 m</td><td></td></tr>
<tr><td>Average Annual Costs</td><td>£ 0</td><td></td></tr>
<tr><td>Total Costs (PV)</td><td>£ 10 m</td><td>One-off</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>£ 0</td><td></td></tr>
<tr><td>Average Annual Benefit</td><td>£ neg</td><td>Ongoing</td></tr>
<tr><td>Total Benefit (PV)</td><td>£ 0</td><td></td></tr>
<tr><td>Net Benefit (NPV)</td><td>£ -10m</td><td>One-off</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</td><td>£ neg</td><td>£ neg</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="3">There will be negligible costs for HMRC in updating guidance and dealing with claims made, including final claims made in the limited period following abolition of the relief.</td></tr>
<tr><td>Other impacts</td><td colspan="3">Small firms: as the relief is limited to premiums paid by individuals to providers, it is not expected that there will be an impact on small employers although some smaller insurers, friendly societies and financial adviser firms may be affected.</td></tr>
</table>

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an obsolescent relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

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

HM Revenue & Customs

Life Assurance Premiums Paid by Employers Under EFRBS: Repeal of Relief

Who is likely to be affected?

Employees and their employers where the employer is paying premiums in respect of an employee under a life assurance policy issued on or before 13 March 1984. This measure does not affect relief available under other pension or retirement provisions.

General description of the measure

Income tax relief of 12.5 per cent is available on life assurance premiums paid by an employer under an employer-financed retirement benefit scheme (EFRBS) to provide an employee (or their spouse, widow(er), children or dependants) with retirement or death benefits. The relief only applies to payments made under a policy issued on or before 13 March 1984, where the payments are being made in respect of an individual employed before that date who continues to be employed by the same employer.

Very few individuals are likely to still be eligible for the relief which is limited to £12.50 per person per year in connection with policies providing retirement benefits. The relief is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The relief will no longer be available to employees for payments made to life insurance companies by their employers on or after 6 April 2015.

Current law

Where, in connection with an EFRBS, an individual's employer pays premiums under a life assurance policy in order to provide retirement or death benefits to the employee or their spouse/civil partner/children or dependents, the individual employee is eligible under section 266A of the Income and Corporation Taxes Act 1988 (ICTA), for tax relief. The tax relief is limited to 12.5 per cent of premiums (limited to £100) that are used to provide retirement benefits for that employee (that is a maximum relief of £12.50). A higher amount of

premiums may be eligible for relief at 12.5 per cent where the premiums under the policy are used to provide death benefits only.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 266A of ICTA.
The removal of this relief will not affect any other relief, available under the pensions code, for relevant payments.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	-	-	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	The change has no significant economic impacts.				
Impact on individuals and households	A few, if any, individuals and households who are eligible for this relief will no longer be able to claim the relief at 12.5 per cent on very small amounts of premiums paid by their employer. Individuals and households will not be significantly affected as the amount of relief is limited to £12.50 and because the relief is effectively obsolete with few still eligible for the relief. Individuals and households may need to discuss arrangements with their employers to make any necessary adjustments.				
Equalities impacts	As the change removes a small amount of relief and because the relief is in effect obsolete, abolishing this relief is not expected to have a significant impact on any particular groups with protected characteristics.				
Impact on business including civil society organisations	Some employers may need to discuss any necessary arrangements with their employees. The relief is in effect obsolete with few, if any, employees still employed by the employer who they were employed by in early 1984. Where the employer still makes payments that qualify for the relief, the number of employers involved will be small. Consequently the administrative burden on businesses both in terms of familiarisation with the policy change and subsequent engagement with employees is expected to be negligible.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms: as this relief is in effect obsolete, it is not expected that there will be a particular impact on small employers.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

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

HM Revenue & Customs

Class 4 NICs – Deduction for Certain Losses from Income other than a Trade or Profession or Vocation: Repeal of Relief

Who is likely to be affected?

Self employed persons with losses incurred in 1989-90 or a previous tax year where the losses are from income other than a trade or profession or vocation.

General description of the measure

Liability for Class 4 national insurance contributions (NICs) is generally determined on the same amount of profits as is used for income tax, and this allows for certain losses to be deducted in calculating the chargeable amount. For 1989-90, there was a provision that applied for certain losses that arose either to a self-employed person, or their spouse, from income other than that from a trade, profession or vocation to be set off against the amount of profits chargeable to Class 4 NICs. The relief was a transitional provision and maintained the loss relief determined under previous rules. The loss can be carried forward indefinitely, but must be given against the profits of the earliest year possible.

As more than 20 years have elapsed since the latest year in which the relevant losses could have been incurred, the use of this relief is likely to be small if at all. The relief is no longer necessary and is being repealed

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

Abolition of this relief will require primary legislation. As a measure on its own, it would not merit a NICs Bill. Therefore abolition of the relief will be taken forward together with other measures that may be included in a future NICs Bill.

Current law

Following the introduction of independent taxation of spouses from 1990-91 (section 32 of the Finance Act 1988), changes were made for 1990-91 onwards so that only the losses of the self employed person (and not their spouse) could be deducted for these purposes.

Paragraph 3(3) and Schedule 2 of the Social Security Contributions & Benefits Act 1992 provided that any losses incurred under the previous rules could be carried forward and used against the Class 4 NICs liability.

Proposed revisions

The relief will be repealed by primary legislation contained in a future National Insurance Contributions Bill.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	-	-	-
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out once a legislative vehicle has been identified.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	Class 4 NICs paid by the self-employed do not count towards any benefit entitlement. As a person would need to have losses prior to the 1989/90 tax year in order for this relief to apply it is considered that any affected individual would already have made and finalised their claim to this relief against profits liable to Class 4 NICs. It is therefore expected that the abolition of this relief will not impact on any individuals or households.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	As it is more than 20 years since the latest year in which the relevant losses could have been incurred, the use of this relief is likely to be small (if at all), although the losses can be carried forward indefinitely. As such, the impact on micro businesses' compliance costs and administrative burdens is likely to be negligible.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms impact test: Operating the relief would have had an impact on sole proprietors and partners when it was available. The single response (from a representative body) to the consultation specifically about this relief, however, clearly suggests that it is now redundant and that there will, therefore, be no impact on small firms from its abolition.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary exemption. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Raj Nayyar on 020 7147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

HM Revenue & Customs

NICs Exemption for Certain Apprentices and Students Coming to the UK: Repeal of Relief

Who is likely to be affected?

Employees and their employers where the business engages apprentices and students from outside of the UK.

General description of the measure

The relief provides for an exemption from Class 1 national insurance contributions (NICs) for the first 52 weeks where an individual who is not ordinarily resident in the UK meets certain criteria. The exemption does not apply to individuals from within the European Economic Area (EEA) or from countries with which the UK has a Reciprocal Agreement or Double Contribution Convention. It therefore has only limited use and is being repealed.

The objectives behind the exemption were to enable the UK to benefit from the work provided by these groups and for the individuals to acquire new skills to benefit their home country. The exemptions date from a time when the UK experienced acute labour shortages and there was a desire to bring in labour from outside the EEA.

The rationale of supporting those from outside the EEA and who come to work temporarily in the UK is less relevant now, given that immigration schemes (such as the Seasonal Agricultural Workers Scheme) specifically for non-graduate level employment are currently open only to EEA nationals.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC)websites.

Detailed proposal

Operative date

The measure will take effect for payments made on or after 6 April 2012.

Current law

Generally, Class 1 NICs are payable by all employees and employers if resident or present in the UK. However, under regulation 145(3) of the Social Security (Contributions) Regulations 2001 an individual who is not ordinarily resident in the UK, and meets one of the following criteria, is not liable for Class 1 NICs for the first 52 weeks:

- the UK employment occurs during a vacation from a course of full time studies outside the UK, and the temporary employment is of a nature related to the course of studies (the "student exemption"); or
- the UK employment is related to an apprenticeship which the individual is serving under a person outside the UK and it began before he was 25 (the "apprentice exemption").

Where the employee meets one of the above criteria, their employer is also exempt from the liability to pay employer NICs.

Proposed revisions

The exemption in regulation 145(3) of the Social Security (Contributions) Regulations 2001 will be repealed by regulations.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	Employees and their employers where the business engages apprentices and students from outside of the UK will be liable to pay NICs when earnings exceed the primary threshold for employees and the secondary threshold for employers. Such employees may therefore become eligible for contributory benefits and statutory payments provided their earnings are sufficient.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	In the small number of cases where this exemption is currently used, repeal of the exemption will remove complexity, reduce compliance costs and administrative burdens for all employers affected by it, since they will be operating a payroll and reporting to HMRC. These employers will no longer have to apply different procedures to different employees. However, they may become liable to pay NICs in respect of such employees.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms impact test: operating the exemption would have had an impact on small firms (those with fewer than 20 employees) when it was available but the consultation clearly suggests that it is of limited use and that there will, therefore, be no significant impact on small firms from its abolition.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It repeals a little used exemption. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Raj Nayyar on 0207 147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

HM Revenue & Customs

Class 1A NICs – Exemption for Prescribed General Earnings: Repeal of Relief

Who is likely to be affected?

Employers that provide certain specified payments such as relocation expenses.

General description of the measure

The relief provides for an exemption from a liability to pay Class 1A national insurance contributions (NICs) arising on certain specified payments, such as relocation expenses that are disregarded in the calculation of an employee's earnings. The exemption only applies to expenses incurred before April 1998 where the relocation expenses were agreed before that date. The exemption is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The exemption is to be repealed with effect from 6 April 2012.

Current law

The exemptions in regulation 40(4) and paragraphs 2(2)(b) and 2(6) of Part 8 to Schedule 3 of the Social Security (Contributions) Regulations 2001 mean that there is no liability to pay Class 1A NICs which arise on specified payments that are disregarded in the calculation of an employee's earnings. The specified payments are relocation expenses other than removal expenses to which section 271 of the Income Tax (Earning and Pensions) Act 2003 refers.

The exemption only applies if the employee started work in a new location before 6 April 1998 and the relocation expenses were agreed before that date.

Proposed revisions

The exemption in regulation 40(4) and paragraphs 2(2)(b) and 2(6) of Part 8 to Schedule 3 of the Social Security (Contributions) Regulations 2001 will be repealed by regulations.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	As a person would need to have relocated prior to 6 April 1998 in order for this exemption to apply it is considered that any affected individual would already have made and finalised their claim. It is therefore expected that the abolition of this relief will not impact on any individuals or households.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	The exemption is redundant and it is not expected that its abolition will have any impact on businesses.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms impact test: operating the exemption would have had an impact on small firms (those with fewer than 20 employees) when it was available but the consultation clearly suggests that it is now wholly redundant and that there will, therefore, be no impact on small firms from its abolition.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary exemption. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Raj Nayyar on 020 7147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

HM Revenue & Customs

Certain Payments to Mariners to be Disregarded for Class 1 NICs: Repeal of Relief

Who is likely to be affected?

Employees and their employers where such payments (an interim payment of earnings by way of an advance) are made.

General description of the measure

This long-standing relief provides for national insurance contributions (NICs) for certain payments to or in respect of mariners to be exempt in certain circumstances: interim payments to mariners by way of an advance; payment to some other person of any part of such a mariner’s earnings as allocated by him to that person; and a payment of a special payment whilst sick abroad (as defined by the National Maritime Board). The circumstances in which the exemption would have applied all relate to situations which are now no longer current practice. The exemption is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The measure will have effect for payments made on or after 6 April 2012.

Current law

Regulation 123 of the Social Security (Contributions) Regulations 2001 is a long-standing NICs exemption that provides for payments to or in respect of mariners to be exempt in the following three instances.

- The interim payment of earnings. This refers to an advance of earnings typically paid at the beginning of the voyage (when the liability to NIC would arise), and the original rationale was to deal with circumstances where mariners would be paid in cash whilst at sea on account of wages. Before electronic communications it may not have always been practical to have accounted for NICs on such advances.

- Payments to some other person. This refers to payments to some other person and is understood to concern situations where mariners used their own wages to make disbursements to others on a vessel; this practice is understood to have disappeared from the industry.
- Special payments whilst sick. The reference to special payments whilst sick relates to an industry wide employment condition that used to be administered by the National Maritime Board. The National Maritime Board, and the payments that it defined, was abolished in 1990 and consequently this relief is no longer relevant.

Proposed revisions

The exemption in regulation 123 of the Social Security (Contributions) Regulations 2001 will be repealed by regulations.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	Removing the exemption will mean that they will become chargeable to employee NICs. No significant impacts from the abolition of this relief are expected.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	The regulations relate only to mariners, so will involve the water transport sector. As the relevant payments are not thought to be current practice no significant businesses impacts are anticipated. In the small number of cases where this exemption is currently used, repeal of the exemption will reduce compliance costs and administrative burdens for employers although they may become liable to pay NICs in respect of such employees should these type of payments be made.				
Operational impact (£m) (HMRC or other)	There will be a negligible operational impact for HMRC.				
Other impacts	Small firms impact test: operating the exemption would have had an impact on small firms (those with fewer than 20 employees) when it was available but the consultation clearly suggests that it is now likely to be redundant and that there will, therefore, be no impact on small firms from its abolition.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Raj Nayyar on 0207 147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

HM Revenue & Customs

Cycle to Work Days - Provision of Meals: Repeal of Relief

Who is likely to be affected?

Employees taking part in a Cycle to Work day arranged by their employer, which includes the provision of a free meal.

General description of the measure

The relief provides an exemption from income tax for the benefit arising on the provision of the free meal.

The take up of this relief is very low. The value of the relief is minimal and generally outweighed by the time, effort and cost of providing the benefit – for example, the employer would need to publicise the Cycle to Work day and arrange for the breakfast either at a work canteen or to be bought from outside. The relief is no longer necessary and is being repealed.

Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 tax reliefs was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Detailed proposal

Operative date

The measure will have effect relating to claims for meals provided on or after 6 April 2013.

Current law

Regulation 3 of the Income Tax (Exemption of Minor Benefits) Regulations 2002 (SI 2002/205), as amended by the Income Tax (Exemption of Minor Benefits) (Amendments) 2003 (SI2003/1434) provides an exemption in respect of qualifying meals.

Proposed revisions

An amendment will be introduced to the Regulations revoking Regulation 3 with effect from 6th April 2013. There is no corresponding amendment needed for National Insurance Contributions legislation as abolishing the tax relief will have an automatic read-across.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
Economic impact	This measure has no significant economic impacts.				
Impact on individuals and households	The number of individuals who have access to this relief is not known, but the Government believes that very few people use it. The cost to the individual if they continued to benefit from cyclists' breakfasts would be small but would depend on the value and frequency of breakfasts provided.				
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
Impact on business including civil society organisations	The number of businesses affected is not known, and therefore it is not possible to quantify the impact on the business population as a whole. If employers continue to offer this benefit after the tax relief is repealed, there would be a small administrative burden of keeping records of employees who receive the benefit and reporting this information to HMRC. Alternatively, the benefit could be included on a PAYE Settlement Agreement as it is likely to fall within the definition of a minor and irregular benefit.				
Operational impact (£m) (HMRC or other)	This measure removes negligible operational and compliance costs to HMRC.				
Other impacts	Small firms: the consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms.				

Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

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www.hmrc.gov.uk
www.hm-treasury.gov.uk