Overview of Tax Legislation and Rates

20 March 2013

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Introduction

This document sets out the detail of each tax policy measure announced at Budget 2013. It is intended for tax practitioners and others with an interest in tax policy changes, especially those who will be involved in consultations both on the policy and on draft legislation.

The information is set out as follows:

- Chapter 1 provides detail on all tax measures to be legislated in Finance Bill 2013 or that will otherwise come into effect in 2013-14. This includes confirmation of previously announced policy changes and explains where changes, if any, have been made following consultation on the draft legislation. It also sets out new measures announced at Budget 2013.
- Chapter 2 provides details of proposed tax changes announced at Budget 2013 to be legislated in Finance Bill 2014, other future finance bills, programme bills or secondary legislation.
- Annex A includes all Tax Information and Impact Notes published at Budget 2013.
- Annex B provides tables of tax rates and allowances.

Finance Bill 2013 will be published on 28 March 2013.

1 Finance Bill 2013

1.1 This chapter summarises tax changes to be legislated in Finance Bill 2013 or other legislation having effect in 2013-14.

1.2 This includes confirmation of previously announced policy changes and explains where changes, if any, have been made following consultation on the draft legislation. It also sets out new measures announced at Budget 2013. For measures announced before the Budget, the Tax Information and Impact Notes (TIINs) can be found on the HMRC website. Those measures which remain unchanged following consultation are set out at the end of this chapter.

Personal tax

1.3 Statutory residence test – As announced in Budget 2011, the Government will introduce a statutory definition of tax residence for individuals. The legislation will be introduced in Finance Bill 2013 and will also provide for a tax year to be split into a UK part and an overseas part in certain circumstances, and contain new rules for the taxation of certain income and gains arising during a period of temporary non-residence. Following consultation, the legislation contains amendments to the concepts of full-time work, international transportation workers and split-year status. The legislation will take effect from 6 April 2013.

1.4 Ordinary residence – As announced in Budget 2011, the Government will reform the concept of 'ordinary residence' for tax purposes. The legislation will be introduced in Finance Bill 2013. The legislation will eliminate as far as possible the concept of ordinary residence. In particular, overseas workday relief, which is currently accessed by remittance basis users who are resident but not ordinarily resident and who perform employment duties in the UK and abroad, will in future be available to non-domiciled individuals who have been non-resident for three tax years. It will apply for a fixed period of residence in the UK regardless of whether the individual settles or intends to settle here. Following consultation, the legislation contains amendments to the transitional rules for claiming overseas workday relief to better align these with the current position. The legislation will take effect from 6 April 2013.

1.5 Statement of practice 1/09 (SP1/09) – As proposed in the June 2011 document, *Reform of the taxation of non-domiciled individuals: a consultation*, legislation will be introduced in Finance Bill 2013 to put SP1/09 on a statutory basis. Following consultation on the draft legislation, changes have been made to the rules to ensure that they are as straightforward to operate as possible. An updated TIIN for this measure is available at Annex A.

1.6 Seed enterprise investment scheme (SEIS): reinvestment relief - Legislation will be introduced in Finance Bill 2013 to extend the capital gains tax (CGT) relief for reinvesting gains in SEIS shares to gains accruing in 2013-14 when those gains are reinvested during 2013-14 or 2014-15; the relief will apply to half the qualifying re-invested amount. A TIIN for this measure is available at Annex A.

1.7 Seed enterprise investment scheme: income tax relief – Legislation will be introduced in Finance Bill 2013 to prevent a company from being disqualified from SEIS where it was established by a corporate formation agent before sale to its ultimate owners. This will apply in respect of shares issued on or after 6 April 2013. A TIIN for this measure is available at Annex A.

1.8 Employee shareholder status – As announced in December 2012, legislation will be introduced in Finance Bill 2013 to exempt gains made on disposals of up to £50,000 worth of 'employee shareholder' shares from CGT. Following consultation, the legislation has been revised to prevent an income tax charge arising on a distribution where a company buys back CGT-exempt shares and to strengthen the 'material interest' anti-avoidance provision, which denies CGT exemption in certain circumstances. Legislation will also be introduced in Finance Bill 2013 and by statutory instrument so that income tax and National Insurance contributions (NICs) respectively will not be chargeable on the first £2,000 of share value received by eligible employee shareholders. It is anticipated that these changes will have effect from 1 September 2013. An updated TIIN for this measure is available at Annex A.

1.9 Enterprise Management Incentives (EMI) – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 that removes, for shares acquired through the exercise of a qualifying EMI scheme option, the requirement for a person to hold 5 per cent or more of the ordinary share capital in the company in order to qualify for the entrepreneurs' relief. Following consultation, the legislation has been revised to allow the period during which the option is held to count towards the qualifying 12 month holding period requirement. In addition, relief will also apply to the disposal of shares that replace EMI shares following a reorganisation of a company and to certain shares following an exchange for shares in another company.

1.10 Review of tax advantaged employee share schemes – As announced in December 2012, legislation will be introduced in Finance Bill 2013 to implement a number of the recommendations made by the Office of Tax Simplification (OTS) in its review of tax advantaged employee share schemes. Following consultation, the legislation has been revised to:

- protect the position of current Save As You Earn (SAYE) participants who reach a specified age;
- widen the range of circumstances in which tax free exercise of SAYE and Company Share Option Plan options or tax free payments for Share Incentive Plan (SIP) shares, will be available on the cash takeover of a business;
- ensure that SIP partnership shares may not be subject to forfeiture provisions;
- allow businesses flexibility to limit the amount of cash dividends that can be reinvested in SIP dividend shares; and,
- make a number of minor technical and consequential revisions.

Most of these changes will have effect from the date of Royal Assent to Finance Bill 2013, although changes which relate to the reinvestment of cash dividends paid on SIP shares come into effect on 6 April 2013.

1.11 London Anniversary Games tax exemption – As announced on 15 February 2013, legislation will be introduced in Finance Bill 2013 to exempt from UK tax any income arising to competitors who are not UK resident in relation to a performance at the London Anniversary Games to be held in July 2013 at the Olympic Stadium, Stratford. A TIIN for this measure is available at Annex A.

1.12 Pensions tax relief – As announced in Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to reduce the annual allowance to £40,000 for the 2014-15 tax year onwards and to reduce the standard lifetime allowance to £1.25 million also for the 2014-15 tax year onwards. Transitional protection (fixed protection 2014) will be introduced to provide individuals with a lifetime allowance of £1.5 million subject to certain conditions. Following consultation, draft legislation for the restriction to the lifetime allowance has been revised to include various minor adjustments and several consequential changes in connection with previous protection regimes. An updated TIIN for this measure is available at Annex A.

1.13 Pensions drawdown policy – As announced in Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to increase the capped drawdown limit for pensioners of all ages with these arrangements from 100 per cent to 120 per cent of the value of an equivalent annuity. Following consultation, the legislation has been revised to remove the rule requiring the maximum drawdown pension to be recalculated after a pensioner with transitional protection from the Finance Act 2011 rules transfers to another scheme, so ensuring that transfers do not affect the capped drawdown limit. These changes will have effect from 26 March 2013.

1.14 Pensions tax: abolition of contracting out – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to bring tax legislation into line with Department of Work and Pensions legislation which abolished contracting out through a defined contribution pension scheme from 6 April 2012. Following consultation, the legislation has been revised to clarify the types of payment that would be considered a 'member's contribution' for the purposes of a short service refund lump sum.

1.15 Transfer of assets abroad and Gains on assets held by foreign companies – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to allow for changes to be made to these anti-avoidance provisions and ensure their compliance with EU law. Following consultation, the legislation relating to transfer of assets abroad has been revised to partially exempt income from charge when the income is attributable to a transaction where part is genuine and part is not genuine. The change will have effect from 6 April 2012. The proposed changes to clarify the 'matching rules' (the rules governing the calculation of the income chargeable when an individual other than the transferor receives a benefit following the transfer of an asset) have been postponed pending further consultation and legislation will be introduced in Finance Bill 2014. An updated TIIN for this measure is available at Annex A. The gains on assets held by foreign companies legislation to be introduced in Finance Bill 2013 has been amended to remove the requirement in the new 'economically significant activity' exemption for activity to be carried on wholly outside the UK through a non-UK business establishment.

1.16 Income tax rules on interest – Following consultation on changes to the income tax rules on interest, the Government announced in October 2012 that legislation would be introduced in Finance Bill 2013 on disguised interest and on deduction of income tax from interest on compensation payments, specialty debt, and interest in kind. Following further consultation, the legislation on disguised interest has been revised to exclude certain types of share from its application, subject to an anti-avoidance rule.

1.17 Company car tax (CCT) – Legislation will be introduced in Finance Bill 2013 to introduce two new appropriate percentage bands from 2015-16 for company cars emitting 0-50g of carbon dioxide per kilometre (with appropriate percentage set at 5 per cent) and 51-75g CO_2 per km (with the appropriate percentage set at 9 per cent). In addition, as announced in Budget 2012, the remaining appropriate percentages will increase by two percentage points for cars emitting more than 75g CO_2 per km, to a new maximum of 37 per cent. The differential between each of the bottom three CCT bands is set at 4 percentage points in 2015-16. A TIIN for this measure is available at Annex A. Future changes to company car tax are set out in Chapter 2.

1.18 Car and van fuel benefit charge – The rate of fuel benefit charge for company cars, fuel benefit charge for company vans, and the benefit charge for company vans will all increase in line with inflation (based on RPI) for 2014-15. The increase will be based on the September 2013 RPI figure. The changes will be brought in by secondary legislation in the autumn, in time for the normal tax code exercise in January 2014.

National Insurance contributions

1.19 National Insurance: £2,000 employment allowance – The Government will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 secondary NICs bill from April 2014. The allowance will be claimed as part of the normal payroll process through RTI. The Government will engage with stakeholders on the implementation of the measure after Budget 2013 and is seeking to introduce legislation later in the year.

Business tax

1.20 Simpler income tax – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to allow two simpler income tax schemes for small unincorporated businesses. Following consultation, the legislation has been revised to:

- keep the cash basis optional but limit the circumstances under which a business can leave it; and,
- provide for an adjustment on a 'just and reasonable' basis where an individual takes business goods for own use and not require businesses to align reporting with the tax year.

These changes will have effect from the 2013-14 tax year. An updated TIIN for this measure is available at Annex A.

Corporate tax

1.21 Corporation tax rates – Legislation will be introduced in Finance Bill 2013 to reduce the main rate of corporation tax for non ring fence profits to:

- 21 per cent for the financial year commencing 1 April 2014; and,
- 20 per cent for the financial year commencing 1 April 2015.

Finance Bill 2013 also sets the small profit rate at 20 per cent for the financial year commencing 1 April 2013. A TIIN for this measure is available at Annex A. Finance Bill 2013 will also set the marginal rate fraction and rate for ring fenced profits. All corporation tax rates are set out in Annex B. Changes to the small profits rate in Finance Bill 2014 are set out in Chapter 2.

1.22 Bank Levy – As announced in Autumn Statement 2012, to ensure that the Bank Levy raises at least £2½ billion each year the full rate of the levy will increase from 0.105 per cent to 0.130 per cent from 1 January 2013. The half rate for chargeable equity and long term chargeable liabilities will be increased from 0.0525 per cent to 0.065 per cent also with effect from 1 January 2013. As set out in Budget 2013, to offset the benefit to the banking sector from reductions to the main rate of corporation tax announced since 2010, the full rate of the levy will increase from 0.130 per cent to 0.142 per cent from 1 January 2014. The half rate for chargeable equity and long term chargeable liabilities will be increased from 0.065 per cent to 0.071 per cent also with effect from 1 January 2014. Legislation for all rates will be in Finance Bill 2013. A TIIN for this measure is available at Annex A. Bank levy rates are set out in Annex B.

1.23 Research and development (R&D) credits – Following consultation, legislation will be introduced in Finance Bill 2013 to provide an 'above the line' (ATL) tax credit to encourage R&D activity by larger companies. The ATL credit will be paid at a rate of 10 per cent of qualifying expenditure and will increase the visibility and certainty of UK R&D tax relief and provide greater financial and cash flow support to companies with no corporation tax liability. The new rules will be effective for qualifying expenditure incurred on or after 1 April 2013. An updated TIIN for this measure is available at Annex A.

1.24 Foreign currency assets and corporate chargeable gains – As announced in Budget 2012, the Government will introduce legislation in Finance Bill 2013 requiring relevant companies to compute their chargeable gains and losses on disposals of shares in their functional currency (or for UK resident investment companies with a designated currency, that designated currency). Following consultation on the draft legislation, this measure has been extended to also cover disposals of ships, aircraft and interests in shares. This measure will have effect from a day to be appointed by Treasury Order, shortly after Royal Assent to Finance Bill 2013. An updated TIIN for this measure is available at Annex A.

1.25 Oil and gas: decommissioning tax relief certainty – As announced in Budget 2012, the Government will in 2013 enter into contracts with oil and gas companies to guarantee the basis on which tax relief for decommissioning will be available. This involves a package of measures to be introduced in Finance Bill 2013 which enable the Government to meet its liabilities under the contracts and also make changes to the tax regime to support the introduction of the contracts. Following consultation, aspects of the legislation have been revised to ensure it will operate effectively. A TIIN for this measure is available at Annex A.

1.26 Corporation tax: deferring payment of exit charges – As announced on 11 December 2012, legislation will be introduced in Finance Bill 2013 to enable companies to opt for deferred payment arrangements in respect of exit charges. This will allow UK resident companies to defer payment of certain corporation tax charges when they cease to be resident here as a consequence of a transfer of their place of management to another EU or EEA Member State. Following consultation, the legislation has been revised to extend the scope of the charges which can be deferred to include the corporation tax attributable to the revaluation of trading stock. UK permanent establishments of non-resident companies incorporated elsewhere in the EU or EEA will also be able to defer payment of corporation tax attributable to unrealised gains on assets which cease to be held for the purposes of a UK trade. These changes have effect from 11 December 2012. An updated TIIN for this measure is available at Annex A.

1.27 Group relief – As announced on 11 December 2012, legislation will be introduced in Finance Bill 2013 to amend the restrictions when companies resident in the EEA can surrender losses from their UK branches as group relief from corporation tax in the UK. From 1 April 2013, these restrictions will be based on whether the losses are used elsewhere in any period, rather than on whether they could potentially be used elsewhere. A technical note will be published on 28 March 2013 to clarify how this will interact with existing group relief legislation. An updated TIIN was not found to be necessary following consultation.

1.28 Controlled foreign companies (CFC) regime – As announced on 11 December 2012, legislation will be introduced in Finance Bill 2013 to make four amendments to the new CFC rules introduced in Finance Act 2012. These amendments counter two tax planning opportunities and make consequential changes to ensure the rules work as intended. Finance Bill 2013 will also include four new minor mechanical amendments to ensure the CFC rules operate as intended. The amendments, one of which is subject to a transitional rule, will have effect from 1 January 2013 in line with the commencement date for the new CFC rules. A revised TIIN for this measure is available at Annex A.

1.29 Investment trust companies – Legislation will be introduced in Finance Bill 2013 to remove an unintended consequence of changes to the tax rules for investment trust companies (ITCs). This measure makes changes so that all or substantially all of the business of a company (wishing to be approved as an ITC) must be investing its funds in shares, land or other assets with the aim of spreading investment risk and giving members of the company the benefit of the results of the management of its funds. This will ensure that ancillary activities will not prevent a company from being capable of being approved as an ITC. This has effect for accounting periods commencing on or after 1 January 2012. Secondary legislation to provide an exception to the income distribution requirement for ITCs will be published for consultation in spring 2013. The exception will apply in certain circumstances where an ITC has accumulated realised revenue losses in excess of its income for an accounting period, such that a requirement to make a distribution would result in a distribution from capital. Subject to the consultation responses, the changes are expected to take effect for accounting periods commencing on or after 1 July 2013. A TIIN for this measure is available at Annex A.

1.30 Offshore funds amendments – Secondary legislation will be introduced to address certain technical issues in the operation of the Offshore Funds (Tax) Regulations 2009. The changes will make aspects of the regulations fairer for UK investors in offshore funds, and ensure that they are taxed in a similar way to investors in equivalent UK funds. A statutory instrument came into force on 20 March 2013 to put beyond doubt that, in a case where a disposal of an interest in an offshore fund would incur a charge to tax on an offshore income gain then the potential charge will not be avoided by any merger or reorganisation of the fund in which the interest is held. A further statutory instrument will be published for consultation to address the remaining issues. Those issues concern investors in reporting offshore funds and the proposed changes will help to ensure that they are taxed on their correct proportionate share of the income of a reporting fund. Subject to the consultation responses, those changes are expected to take effect by 30 June 2013. A TIIN for this measure is available at Annex A.

1.31 Investment management exemption – The Government will consult on the possibility of expanding the published 'White List' within secondary legislation governing the investment manager exemption, authorised investment funds, investment trusts and offshore reporting funds. The list provides certainty that specified transactions will not be treated as trading activities for the purposes of authorised investment funds, investment trusts and offshore reporting funds. The list also acts to determine the types of investment transactions that may qualify for the investment manager exemption.

1.32 Reform of the withholding tax rules on interest distributions – The Government will consult on a proposal to remove the requirement to withhold tax on interest distributions on UK domiciled bond funds when sold via reputable intermediaries and marketed only to non-UK investors.

1.33 Authorised contractual funds – The Government remains committed to the early introduction of authorised contractual funds (tax transparent funds) and intends to introduce regulations to Parliament shortly.

1.34 Capital allowances for energy-saving plant and machinery in Northern Ireland – Legislation will be introduced in Finance Bill 2013 to ensure that expenditure on plant and machinery in Northern Ireland that qualifies for both first year allowances for energy-saving technologies and the renewable heat incentive is treated in the same way as in the rest of the UK. These changes will apply to expenditure incurred on or after 1 April 2013 (corporation tax) or 6 April 2013 (income tax). Enhanced capital allowances will be available for expenditure incurred on combined heat and power systems until 31 March 2014 or 5 April 2014. The legislation will also apply to any future feed-in tariff that may be introduced in Northern Ireland at a later date. A TIIN for this measure is available at Annex A.

1.35 Capital allowances: railway assets and ships – Legislation will be introduced in Finance Bill 2013 to remove the general exclusions to first year allowances for expenditure incurred on railway assets and ships. These changes will have effect from 1 April 2013. A TIIN for this measure is available at Annex A.

1.36 Enhanced capital allowances: energy-saving and water-efficient technologies – The energy-saving and water-efficient enhanced capital allowances schemes will be updated by Treasury Order in summer 2013, subject to State aid approval. The main changes will be the inclusion of two new technologies to the schemes: carbon dioxide heat pumps for water heating and grey water re-use technology. In addition, four technologies will be removed from the energy-saving scheme, and one will be removed from the water efficient scheme. The qualifying criteria for a number of technologies in both schemes will be revised. A TIIN for this measure is available at Annex A.

1.37 Corporation tax: Chief Constables and Commissioner of Police of the Metropolis – As announced on 17 January 2013, following changes introduced by the Police Reform and Social Responsibility Act 2011, legislation will be included in Finance Bill 2013 to exempt Chief Constables and the Commissioner of Police of the Metropolis from corporation tax.

1.38 Community Amateur Sports Clubs (CASCs) – As announced on 4 March 2013, powers will be introduced in Finance Bill 2013 to allow the Government to change the rules on CASCs through secondary legislation. The Government will consult on a range of issues including fees, allowable income, travel expenses and permitting limited payments to players, before laying regulations after Royal Assent to Finance Bill 2013.

Property tax

1.39 Annual tax on enveloped dwellings – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 for an annual charge on residential properties valued at more than £2 million held by certain non-natural persons. Following consultation on draft legislation, changes have been made to introduce additional reliefs, modify conditions for some of the reliefs, and alter the requirements to make returns if companies cease to be eligible for relief or become liable to an increased charge. The changes also introduce rules for alternative finance arrangements; provide exemptions for charities and certain others; and set rules for claims, appeals, information powers, disclosure of tax avoidance schemes and for penalties. The annual tax on enveloped dwellings will come into effect on 1 April 2013. An updated TIIN for this measure is available at Annex A.

1.40 Stamp duty land tax (SDLT): changes to the 15 per cent rate – Finance Bill 2012 introduced a 15 per cent rate of SDLT on the acquisition by certain non-natural persons of dwellings costing more than £2 million. The scope of the 15 per cent rate was included as part of the consultation on the annual charge. A number of reliefs will be introduced in Finance Bill 2013 to reduce the rate to 7 per cent. The reliefs will, broadly, match those where there is relief against the annual tax on enveloped dwellings. However, these SDLT reliefs will apply only if the property continues to satisfy the qualifying conditions throughout the following three years. If it does not, additional SDLT will become payable.

1.41 CGT: extension to certain non-natural persons disposing of UK residential property valued at over £2 million – The Government will legislate in Finance Bill 2013 to introduce a CGT charge payable by certain non-natural persons when they dispose of interests in high value residential property in the UK on or after 6 April 2013. Broadly, the new tax charge will be payable by these non-natural persons, wherever they are resident, if they were liable to the new annual tax on enveloped dwellings on the property in question. CGT will normally be payable only on gains attributable to periods of ownership after 5 April 2013. However, it will be possible to elect for gains or allowable losses to be computed for CGT purposes by reference to the entire period of ownership. The tax will be charged at 28 per cent. An updated TIIN for this measure is available at Annex A.

1.42 SDLT: transfer of rights – As announced in Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to reform the stamp duty land tax rules for ‘transfer of rights’. Following consultation, the legislation has been revised to:

- improve its clarity and structure;
- address a number of technical issues including identifying who the vendor is in various circumstances; and,
- include a power to make certain changes by way of statutory instrument.

This measure will have effect from Royal Assent to Finance Bill 2013.

1.43 SDLT avoidance – Legislation will be introduced in Finance Bill 2013 to put beyond doubt that certain SDLT avoidance schemes that abuse the transfer of rights rules do not work. These changes will have retrospective effect to 21 March 2012. A guidance note with further detail about the changes is available on the HMRC website. A TIIN for this measure is available at Annex A.

1.44 SDLT: leases simplification – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to simplify the reporting requirements that apply when a lease continues after the expiry of its fixed term and where an agreement for lease is substantially performed before the actual lease is granted. The rules on abnormal rent increases will also be abolished. Following consultation the legislation has been revised to provide clarification of how the provisions apply in certain circumstances. The legislation will have effect from the date of Royal Assent to Finance Bill 2013.

Indirect tax

1.45 Gaming duty – Legislation will be introduced in Finance Bill 2013 to raise the gross gaming yield (GGY) bandings for gaming duty in line with inflation (based on RPI). The revised GGY bandings used to calculate gaming duty must be used for accounting periods starting on or after 1 April 2013. The GGY bandings are published in Annex B.

1.46 Tobacco duty - Legislation will be introduced in Finance Bill 2013 to increase the duty rates for all tobacco products by 2 per cent above the rate of inflation (based on RPI) from 6pm on 20 March 2013. This will add 26 pence to the price of 20 cigarettes, 9 pence to the price of a pack of five small cigars, 26 pence to the price of a 25g pouch of hand-rolling tobacco, and 14 pence to the price of a 25g pouch of pipe tobacco. The rates are set out in Annex B.

1.47 Alcohol duty – Legislation will be introduced in Finance Bill 2013 to increase the duty rates for spirits, wine and made-wine, cider and perry by 2 per cent above the rate of inflation (based on RPI) with effect from 25 March 2013. This will add 2 pence to the price of a litre of cider, 10 pence to the price of a bottle of wine and 38 pence to the price of a bottle of spirits. The duty rates on beer will decrease by 6 per cent for low strength beer (less than 2.8 per cent abv), 2 per cent for the standard rate of beer duty (between 2.8 per cent and 7.5 per cent abv) and 0.75 per cent on high strength beer (above 7.5 per cent abv) with effect from 25 March 2013. This will reduce the price of an average strength pint of beer by 1 penny. A TIIN for this measure is available at Annex A. The rates are set out in Annex B.

1.48 Fuel duty – Legislation will be introduced in Finance Bill 2013 to reflect the cancellation of the 1 January 2013 fuel duty increases and to amend fuel duty rates to reflect the current effective rates of duty. The Government announced in Budget 2013 that the fuel duty increase that was due to take effect on 1 September 2013 would be cancelled. A TIIN for this measure is available at Annex A. Fuel duty rates are set out in Annex B.

1.49 Vehicle excise duty (VED) – Legislation will be introduced in Finance Bill 2013 to increase VED rates in line with inflation (based on RPI) with effect from 1 April 2013. The exceptions to this are VED rates for heavy goods vehicles, buses and other selected vehicles, which will be frozen in 2013-14. VED rates are set out in full in Annex B.

1.50 Air passenger duty – Legislation will be introduced in Finance Bill 2013 to increase air passenger duty rates in line with inflation (based on RPI) from 1 April 2013.

1.51 Climate change levy (CCL) – Legislation will be introduced in Finance Bill 2013 to increase the rates of CCL in line with inflation (based on RPI), from 1 April 2014. The rates of CCL are set out in Annex B.

1.52 Carbon price floor (CPF) – The CPF will be introduced in Great Britain from 1 April 2013. Legislation will be introduced in Finance Bill 2013 to set the carbon price support (CPS) rates of CCL for the years 2013-14, 2014-15 and 2015-16, and to exempt Northern Ireland. The CPS rates of CCL and fuel duty are set out in Annex B. Following consultation on draft legislation, Finance Bill 2013 will also include minor changes to the CPF:

- all solid fuels that are taxed under CCL will be taxable commodities for CPS, with one rate covering all solid fuels;
- the previously announced reliefs from the CPS rates of CCL for coal slurry and stand-by generators will be clarified; and
- where conditions are met, credit from the CPS rates of CCL will be allowed when fuel which has borne CPS tax, but has not been used to generate electricity, is removed from a power station.

Two statutory instruments will be laid before Parliament in March 2013. The first will set the CPS rates of fuel duty on oils used in electricity generation for the years 2013-14, 2014-15, and 2015-16, and exempt Northern Ireland from these rates. The second will deal with the administrative provisions needed to give effect to the CPS rates of CCL. An updated TIIN for this measure is available at Annex A.

1.53 Landfill tax – Legislation will be introduced in Finance Bill 2013 to increase the standard rate of landfill tax by £8 per tonne to £80 per tonne for disposals of waste made, or treated as made, to landfill on or after 1 April 2014. The lower rate will remain frozen at £2.50 per tonne for 2014-15.

1.54 Value of landfill communities fund (LCF) – A statutory instrument laid on 20 March 2013 will maintain the potential value of the LCF for 2013-14 at £78.1 million of claimable landfill tax credit. This will be achieved by amending the maximum credit that landfill site operators may claim against their annual landfill tax liability for contributions made to environmental bodies enrolled under the LCF from 5.6 per cent to 6.8 per cent from 1 April 2013.

1.55 VAT: revalorisation of fuel scale charges – A statutory instrument laid on 20 March 2013 will revalorise fuel scale charges with effect from 1 May 2013. The fuel scale charges are published in Annex B.

1.56 VAT: future revalorisation of road fuel scale charges – As announced in Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to amend the way that VAT law sets out the scale charges and provides for their annual revalorisation. This will bring two concessions into law, simplify the annual revalorisation process and take it out of the Budget. HM Treasury will be given powers to amend the way the annual revalorisation is done, including to change the definition of road fuel and thus the scope of the optional scheme, after a parliamentary debate. A change to the legislation published in December means that a similar power to amend will also apply to the definition of road fuel in the anti-avoidance section of the legislation. This does not affect the way the legislation will operate.

1.57 VAT: revalorisation of registration and deregistration thresholds – The Government has announced that the VAT registration and deregistration thresholds will be increased in line with inflation so that:

- the taxable turnover threshold which determines whether a person must be registered for VAT, will be increased from £77,000 to £79,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £75,000 to £77,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £77,000 to £79,000.

A statutory instrument will apply the revised thresholds with effect from 1 April 2013. The simplified reporting requirement (three line accounts) for the income tax self assessment return will continue to be aligned with the VAT registration threshold. For the 2013-14 tax year and onwards, small businesses will be able to use the new simpler income tax cash basis (see paragraph 1.20) intended to simplify the way in which small businesses can calculate their trade profits. The eligibility conditions for the cash basis will be linked to the VAT registration threshold in place at the end of the tax year.

1.58 VAT: withdrawal of exemption for business supplies of research between eligible bodies – The consultation on the withdrawal of the VAT exemption for business research supplied by one eligible body to another closed on 14 March 2013. Subject to the responses, the Government plans to introduce secondary legislation and proceed with the withdrawal of the exemption on 1 August 2013. The Government will consider the possibility of transitional reliefs.

Anti-avoidance

1.59 General anti-abuse rule (GAAR) – Legislation will be introduced in Finance Bill 2013 for a GAAR to counteract tax advantages arising from abusive tax avoidance schemes. The GAAR will apply to income tax, corporation tax (and amounts treated as corporation tax), CGT, inheritance tax, SDLT, the annual tax on enveloped dwellings and petroleum revenue tax. Before counteraction can proceed under the GAAR, HMRC must refer the arrangements to an independent advisory panel for its opinion. The opinion is not binding, but forms part of the evidence in any subsequent hearing, as does the guidance to be approved by the advisory panel. The legislation applies to abusive tax arrangements undertaken on or after the date of Royal Assent to Finance Bill 2013. Separate legislation will be introduced later in 2013 to apply the GAAR to NICs. An updated TIIN for this measure is available at Annex A.

1.60 Inheritance tax: limiting the deduction for liabilities – Legislation will be introduced in Finance Bill 2013 to amend the inheritance tax provisions which allow a deduction from the value of an estate for liabilities owed by the deceased on death. The changes are being introduced in response to avoidance schemes and arrangements which exploit the current rules that allow a deduction regardless of whether or not the liabilities are paid after death, or how the borrowed funds have been used. In some circumstances, the changes will bring in new conditions for the deduction to be allowable, or will restrict the deduction, so that the tax advantage resulting from the schemes or arrangements does not arise. These changes will have effect from the date of Royal Assent to Finance Bill 2013. A Tax Information and Impact Note for this measure is available at Annex A.

1.61 Trade and property business deductions – As announced on 21 December 2012, the Government will introduce targeted anti-avoidance rules (TAARs) to the income tax and corporation tax provisions governing the relationship between the rules prohibiting and allowing deductions, with effect from that date. The TAARs will apply where a permissive rule would otherwise allow a deduction in calculating the profits of a trade or property business for an amount which arises from tax avoidance arrangements and will ensure that the rules prohibiting a deduction take precedence over those allowing a deduction. Legislation will be in Finance Bill 2013.

1.62 Corporation tax deductions for employee share acquisitions - Legislation will be introduced in Finance Bill 2013 to clarify the rules that determine the availability of corporation tax deductions in connection with share options or awards granted to employees. This legislation will have effect from 20 March 2013 in relation to company accounting periods ending on or after that date. A TIIN for this measure is available at Annex A.

1.63 Close company loans to participators – Legislation will be introduced in Finance Bill 2013 to close three loopholes used to attempt to avoid the tax charge on close company loans to their participators. The changes will:

- charge close companies on loans they make via intermediaries to their participators;
- charge close companies on other payments they make via intermediaries to their participators; and,
- update the repayment rules with an anti-avoidance provision.

These changes will have effect for loans, payments, repayments and repayment arrangements made on or after 20 March 2013. A Tax Information and Impact Note for this measure is available at Annex A.

1.64 Loss buying – Legislation will be introduced in Finance Bill 2013 to prevent 'loss buying', where companies pass the potential to gain access to corporation tax relief to unconnected third parties. The legislation will:

- extend the current 'loss buying' rules, in Part 14 of Corporation Tax Act 2010 (CTA 2010), to apply to a transfer of ownership of a company that is not a trading company nor one with a property or investment business, which holds non trading loan relationship deficits and non trading intangible fixed asset debits and credits;
- amend the rules in Part 14 of CTA 2010 to additionally apply to the trade of a company that has undergone a change of ownership, if that trade or part trade is subsequently transferred to a fellow group company; and,
- amend the rules at Part 5 of CTA 2010 to add to the threshold which 'relevant amounts' must exceed before they can be surrendered by way of group relief. The threshold will be amended to include any apportionments of profits under controlled foreign company rules made to the surrendering company.

These changes have effect from 20 March 2013. A TIIN for this measure is available at Annex A.

1.65 Loss buying: 'targeted loss buying' rule – Further to paragraph 1.64, legislation will also be introduced at a later stage of Finance Bill 2013 to address arrangements which seek to circumvent the longstanding loss buying rules in Part 14 of CTA 2010. The Government proposes, in certain circumstances, to bring the tax treatment of unrealised loss, involved in a transfer between unconnected parties, more closely into line with the longstanding treatment of realised losses. The proposed changes relate to reliefs, deductions, allowances and expenses for which it is possible to dictate or predict in advance the timing of their 'crystallisation'. Three separate rules will be introduced to combat 'loss buying' which, when triggered, will not remove the ability to relieve relevant losses but merely stop their set-off against other profits (including by way of group relief). Draft legislation and a TIIN for this measure will be published on 28 March 2013. The legislation will have effect from 20 March 2013 and a technical note was be published on that day.

Tax administration

1.66 PAYE late payment and filing penalties – As announced in Budget 2012, and following consultation, legislation will be introduced in Finance Bill 2013 to encourage compliance with the real time information payment and information obligations, whilst ensuring those who do not comply do not gain an advantage. The legislation includes new late filing penalties and changes to the current late payment penalties to ensure they can be charged in-year, with effect from 6 April 2014. It will also include minor changes to the existing inaccuracy penalties so they can be charged in a way that minimises the burden on employers and HMRC, with effect from the date of Royal Assent to Finance Bill 2013. An updated TIIN for this measure is available at Annex A.

1.67 Information powers – Following consultation, legislation will be introduced to bring into effect international agreements to improve tax compliance. Primary legislation will be introduced in Finance Bill 2013. Regulations will also be issued shortly to implement the UK-US agreement to *Improve International Tax Compliance and to Implement FATCA* (FATCA refers to the US provisions commonly known as the Foreign Account Tax Compliance Act). An updated Tax Information and Impact Note for this measure will be published alongside the regulations. Further regulations will be introduced to implement subsequent similar automatic exchange agreements entered into.

1.68 Data-gathering from merchant acquirers – As announced in Autumn Statement 2012, legislation will be introduced in Finance Bill 2013 to amend the current data-gathering powers to allow HMRC to issue notices to card payment processors. The notices will require them to provide bulk data about businesses accepting credit and debit cards. This data will help HMRC identify businesses that are not declaring their full tax liability. Following consultation, the legislation has been revised to ensure that all institutions that settle card payments to businesses are covered. This measure will have effect from the date of Royal Assent to Finance Bill 2013. An updated TIIN for this measure is available at Annex A.

Measures unchanged following consultation

1.69 This section lists those measures where draft legislation has been published for consultation and no changes were made as a result or small, technical amendments have been made to the final legislation to be introduced in Finance Bill 2013.

Personal tax

- Income tax basic rate limit and personal allowance 2013-14
- Tax status of Universal Credit
- Cap on unlimited tax reliefs
- Personal services companies and IR35
- Glasgow 2014 Commonwealth Games tax exemption
- Expenses of members of devolved administrations
- Pensions tax relief: family pension plans
- Bridging pensions
- Pensions tax relief: lifetime allowance – technical changes
- Qualifying Recognised Overseas Pensions Schemes
- Life insurance: qualifying policies
- Life insurance policies: time apportioned reductions
- Inheritance tax: spouses and civil partners domiciled outside the UK
- Heritage maintenance funds
- Inheritance tax: investments in open ended investment companies and authorised unit trusts
- Non-domicile taxation

Corporate tax

- Corporation tax reliefs for the creative sector
- Annual investment allowance
- First year capital allowances for gas refuelling equipment
- Capital allowances: emissions threshold for a main rate car
- Disincorporation relief
- Corporation tax: NHS bodies
- Banks' regulatory capital
- Debt cap
- Removing inadvertent restriction on corporate tax group loss relief
- Community Investment Tax Relief

Property tax

- Real Estate Investment Trusts
- Lease premium relief

Indirect tax

- Combined bingo
- Herbal smoking products
- Vehicle excise duty administration
- Air passenger duty: annual accounting scheme
- VAT: reduced rate for energy-saving materials in charitable buildings
- VAT: refunds for NHS bodies

Anti-avoidance

- Manufactured payments
- Review of the taxation of unauthorised unit trusts
- Disclosure of Tax Avoidance Schemes
- Abolition of income tax relief for payments of patent royalties
- Bank levies
- Avoidance schemes involving loan relationships and derivatives

Tax administration

- Withdrawing a notice to file a self assessment tax return
- UK-Switzerland agreement: remittance basis
- Overpayment relief: limiting the effect of prevailing practice and timing of loss mistakes
- Criminal investigations
- Customs and excise modernisation

Cross cutting measures

- Personal Independence Payment and Armed Forces Independence Payment

Secondary legislation

- Building society capital instruments

2 Future Tax Changes

2.1 This chapter summarises new tax changes announced in Budget 2013, where the change is to be made in Finance Bill 2014, other future finance bills, programme bills or secondary legislation. In line with the Government's new approach to tax policy making, the vast majority of these measures will be subject to consultation. To assist those who wish to take part in tax consultations, a "tracker" will be published on the HM Treasury and HMRC websites setting out the planned dates of future consultations. Where the policy changes are straightforward (for example routine rate changes or where the policy is settled and will not be subject to consultation), Tax Information and Impact Notes have been published (see Annex A). For other measures, the Government will assess the impacts as part of the consultation and publish a TIIN alongside the draft legislation in the autumn.

Personal tax

2.2 Income tax personal allowances for 2014-15 – Legislation will be introduced in Finance Bill 2014 to set the personal allowance for people born after 5 April 1948 at £10,000 in 2014-15. As set out in Budget 2011, once the personal allowance has reached £10,000, it will then increase in line with inflation (based on CPI) in future years, starting from 2015-16. As announced in Autumn Statement 2012, the higher rate threshold, which equals the sum of the personal allowance and the basic rate limit, will be increased by 1 per cent to £41,865 in 2014-15. Therefore the basic rate limit will be set at £31,865 in 2014-15. A TIIN for this measure is available at Annex A.

2.3 Government response to Office of Tax Simplification (OTS) review of tax advantaged share schemes – Following a recommendation from the OTS and subsequent HMRC consultation, the Government announced in December 2012 that it would replace the current system of HMRC approval of tax advantaged employee share schemes with self-certification of schemes by businesses. The Government is developing arrangements for self-certification in consultation with businesses, and will publish details of the proposed self certification process shortly. Legislation will be in Finance Bill 2014.

2.4 Government response to OTS review of unapproved share schemes – The Government will consult on a number of recommendations of the OTS review of non tax advantaged (unapproved) share schemes. Legislation will be in future finance bills.

2.5 Employee ownership – The Government will introduce a new capital gains tax relief in Finance Bill 2014 on the sale of a controlling interest of a business into an employee ownership structure. The Government will also look at further incentives in this area, including measures targeted at employees through indirect ownership models.

2.6 OTS review of partnerships – The Government has asked the OTS to carry out a review of ways to simplify the taxation of partnerships. This will include an initial scoping exercise to identify which areas are most complex for taxpayers. If legislation is found to be needed it will be in a future finance bill.

2.7 Social investment tax relief – The Government will consult by summer 2013 on the introduction of a new tax relief to encourage investment in social enterprises, with a view to introducing legislation in Finance Bill 2014.

2.8 Tax relief for employer expenditure on health-related interventions – The Government will introduce a targeted tax relief so that amounts up to a cap of £500 paid by employers on health-related interventions recommended by the Health and Work Assessment and Advisory Service to support employees to return to work after a period of sickness absence, are not treated as a taxable benefit in kind. Consultation on the detail of the implementation of the relief will be held later in 2013. Legislation will be in Finance Bill 2014.

2.9 Exemption threshold for employer provided beneficial loans – Legislation will be introduced in Finance Bill 2014 to increase the exempt threshold for employment-related loans from £5,000 to £10,000 with effect from 6 April 2014.

2.10 Pensions tax relief – In connection with the reduction of the standard lifetime allowance as announced in Autumn Statement 2012, the Government will offer an individual protection regime in addition to fixed protection 2014 when the standard lifetime allowance is reduced from £1.5 million to £1.25 million for 2014-15 and subsequent tax years (see paragraph 1.12). The Government will consult on the detail of this individual protection regime in spring 2013 and legislation will be included in Finance Bill 2014.

2.11 Interest relief on loans to purchase life annuities – The Government will consult on the impact of the future withdrawal of relief for interest on loans to purchase life annuities taken out by pensioners before 1999. Subject to the outcome of consultation, the Government intends to legislate in Finance Bill 2014 to withdraw the relief for interest paid from 6 April 2019 onwards or from another future date.

2.12 Transfer of funds from Child Trust Funds (CTF) into Junior Individual Savings Accounts (ISAs) – The Government will consult on options around transferability of CTF funds into Junior ISAs. Any changes following this consultation will be for future legislation.

2.13 Inheritance tax (IHT): nil-rate band – Legislation will be introduced in Finance Bill 2014 to extend the freeze on the IHT nil-rate band of £325,000 for a further three years from 2015-16 until 2017-18. This supersedes previous announcements on the level of the threshold.

2.14 IHT: periodic charges on trusts – The Government will shortly publish a response to the July 2012 consultation. A further, more detailed consultation setting out options for simplifying the calculation of IHT periodic and exit charges for trusts will be published in the spring. Legislation will be in Finance Bill 2014.

2.15 Company car tax – In 2016-17, the appropriate percentages of the list price subject to tax for the 0-50g CO_2 per km band will be 7 per cent; and 11 per cent for the 51-75g CO_2 per km band. As announced in Budget 2012, all other appropriate percentages will be increased by 2 percentage points to a maximum of 37 per cent. The 3 percentage point diesel supplement will be removed. Legislation will be introduced in Finance Bill 2014. The differential between each of the bottom three CCT bands will be set at 4 percentage points in 2016-17 and at 3 percentage points in 2017-18. The Government is committed to maintaining a 2 percentage point differential between each of the bottom three CCT bands each year in 2018-19 and 2019-20.

2.16 Gift Aid – The Government is looking at options to improve the take-up of Gift Aid on donations through digital channels. The Government will consult after Budget 2013 on a range of options including enabling donors to complete a single Gift Aid declaration to cover all their donations through a specific channel. The consultation will inform policy changes, and should these require primary legislation, this will be in Finance Bill 2014.

2.17 Payroll giving – The Government published a consultation on improving payroll giving on 24 January 2013. It set out a range of options to increase amounts received by charities through payroll giving, including opening up the market to non-charity participants. The consultation closes on 19 April 2013. The Government will take forward any necessary changes to the payroll giving scheme in a future finance bill as appropriate.

National Insurance contributions

2.18 NICs: process simplification for the self-employed – The Government will consult on options to simplify the administrative process for the self-employed by using Self Assessment to collect Class 2 NICs alongside income tax and Class 4 NICs. Following consultation, the Government will decide whether to make changes to the way Class 2 NICs is collected. Plans for legislative change will follow if required.

Corporate tax

2.19 Corporation tax rates – Legislation will be introduced in Finance Bill 2014 to unify the small profits rate and the main rate of corporation tax at 20 per cent in 2015. A Tax Information and Impact Note for this measure is available at Annex A. Rates of corporation tax are set out in Annex B.

2.20 Code of Practice on Taxation for Banks – Following consultation the Government will introduce legislation in Finance Bill 2014 to provide for HMRC to publish an annual report, from 2015, on the operation of the Code of Practice on Taxation for Banks. This report may include the naming of any bank that HMRC considers not to be complying with the Code. The Government will consult on the governance process around determining non-compliance and the nature of the report to be published by HMRC.

2.21 Shale gas: tax incentives to encourage investment – The Government will consult on tax measures to encourage the exploration and production of shale gas, including a new shale gas field allowance and the extension of the Ring Fence Expenditure Supplement for shale gas from 6 to 10 years. Legislation will be in Finance Bill 2014. Additionally, the Government will produce robust planning guidance on shale gas by July. The Government will ensure local communities benefit from shale gas development in their area and will work with industry and communities to bring forward proposals by the summer.

2.22 Consultation on tax support to the visual effects industry – The Government will consult on options to provide further support to the visual effects industry through the tax system.

2.23 Review of loan relationships and derivative contracts – The Government will consult after Budget 2013 on modernising the legislation in Parts 5, 6 and 7 of the Corporation Tax Act 2009 governing the taxation of loan relationships and derivative contracts. It aims to provide simpler and fairer tax treatment, minimising the scope for abuse, reducing uncertainty and improving structural and legislative clarity as well as reducing administrative burdens. Legislation will be in Finance Bill 2014 and Finance Bill 2015.

2.24 Mineral extraction allowances – Following the introduction of the foreign branch exemption, the Government will consult informally on proposals to align the treatment of assets for mineral extraction allowances with that for assets eligible for plant and machinery allowances, where profits are not taxed in the UK. Legislation will be in Finance Bill 2014.

2.25 UK management of offshore funds – The Government will consult on proposals to widen the scope of section 363A of the Taxation (International and Other Provisions) Act 2010. This will provide certainty that locating fund management activities of certain offshore non-UCITS (Undertakings for Collective Investments in Transferrable Securities) funds in the UK will not lead to a risk of that fund being deemed to be tax resident. Legislation will be in Finance Bill 2014.

2.26 Tax treatment of Additional Tier One capital instruments – The Government will, following the conclusion of the Capital Requirements Directive IV, issue secondary legislation to confirm and ensure that banks' Additional Tier One debt capital instruments, both already in issue and yet to be issued, will be deductible for the purposes of a bank in computing profits for corporation tax.

2.27 Abolition of Schedule 19 – Legislation will be introduced in Finance Bill 2014 to abolish the stamp duty reserve tax charge on unit trusts and open-ended investment companies in Schedule 19 to the Finance Act 1999.

2.28 Stamp duty on junior shares – The Government intends, following consultation, to abolish stamp duty on shares quoted on growth markets such as the Alternative Investment Market and the ISDX Growth Market. This will improve financing conditions for around 1,000 quoted UK businesses. Legislation will be in Finance Bill 2014.

2.29 Capital allowances: low emission vehicles – Legislation will be introduced in Finance Bill 2015 to extend the 100 per cent allowance (FYA) for expenditure incurred on cars with low carbon dioxide emissions and electrically propelled cars for an additional three years to 31 March 2018. At the same time, to ensure the FYA remains appropriately targeted, the carbon dioxide emissions threshold below which vehicles are eligible for the FYA will be reduced from 95g/km to 75g/km. The complementary 100 per cent FYA for gas refuelling equipment will also be extended to 31 March 2018. The case for extending the FYA for cars beyond April 2018 will be reviewed at Budget 2016 alongside a review of the 130g/km main rate threshold.

Indirect tax

2.30 Air passenger duty rates – Legislation will be introduced in Finance Bill 2014 to increase air passenger duty in line with inflation (based on RPI) from 1 April 2014.

2.31 Vehicle excuse duty (VED) for heavy goods vehicles (HGVs) – Legislation will be introduced in Finance Bill 2014 to reduce and restructure VED for HGVs, as set out in Annex B. These changes will have effect from 1 April 2014.

2.32 Reduced pollution certificates (RPCs) – Legislation will be introduced in Finance Bill 2014 to remove RPC VED discounts for vehicles within the HGV road user scheme. The discounts for Euro IV-VI vehicles will be replaced with grants, to be provided by the Department for Transport, until 31 December 2016. These changes will have effect from 1 April 2014. Legislation will be introduced in a future finance bill to remove RPC VED discounts for Euro I-III vehicles outside the HGV road user levy scheme. These changes will have effect from 1 April 2016.

2.33 VED: classic vehicles – Legislation will be introduced in Finance Bill 2014 to extend by one year the cut off date from which classic vehicles are exempt from VED. From 1 April 2014, a vehicle manufactured before 1 January 1974 will be exempt from paying VED.

2.34 Climate change levy (CCL): exemptions for energy used in metallurgical and mineralogical processes – The Government will introduce exemptions from the CCL for energy used in metallurgical and mineralogical processes from 1 April 2014. It will seek views from industry after the Budget, with the intention of introducing legislation in Finance Bill 2014.

2.35 VAT: review of the Retail Export Scheme (tax free shopping) – The Government will consult on options for redesigning the Retail Export Scheme. This scheme allows refunds of VAT on goods bought in the UK by non-EU visitors who export those goods in their personal luggage. The consultation will be launched in the summer and will focus on changes that make the scheme easier to use and understand, reduce the scope for error, improve compliance, protect revenue and represent good value for money for the taxpayer. Responses to the consultation will enable HMRC to explore the impact of a range of options, including the potential for introducing a digital scheme.

2.36 VAT: changes to zero-rating of exports from the UK – The Government will consult on secondary legislation on VAT zero-rating of certain supplies of goods for export outside the EU. These changes will treat sales to businesses who are VAT registered in the UK but have no business establishment here as zero-rated where they arrange for the export of the goods to a non-EU destination. Current UK law applies VAT to such transactions and is not compatible with EU law. Following consultation, a statutory instrument will be laid in late summer or early autumn. A minor housekeeping change will also be made to UK law on zero-rating of goods dispatched to other EU Member States to amend an outdated reference to excise law.

2.37 VAT: changes to the place of supply rules – Legislation will be introduced in Finance Bill 2014 to tax intra-EU business to consumer supplies of telecommunications, broadcasting and e-services in the Member State in which the consumer is located. These services are currently taxed in the Member State in which the business is established. The changes will take effect from 1 January 2015 and implement already agreed EU legislation into UK legislation, ensuring that these services are taxed fairly in the Member State of consumption. To save the need for businesses affected by these changes to register for VAT in other Member States, a Mini One Stop Shop will also be introduced from 1 January 2015. This is an IT system that will give businesses the option of registering in just the UK and accounting for VAT due in other Member States using a single return.

2.38 VAT: treatment of refunds made by manufacturers – Legislation will be introduced in Finance Bill 2014 to enable regulations to be made that will allow manufacturers to reduce their VAT payments to take account of refunds they make directly to final customers. These could be adjustments to VAT to reflect refunds made as a result of faulty or damaged products or customer dissatisfaction. The Government will consult to gain a better understanding of industry practices to support the design of the legislation.

2.39 VAT: refunds for the Health Research Authority and Health Education England – Following changes proposed in the Care and Support Bill, the Government will introduce legislation in Finance Bill 2014 to include the Health Research Authority and Health Education England within section 41 of the VAT Act 1994. This is to ensure that these bodies can continue to claim refunds of VAT.

2.40 VAT: extension of the education exemption to for-profit providers of higher education – In Budget 2012, the Government announced that they would consult on and review the VAT treatment of university degree level education with a view to extending the existing exemption to commercial entities supplying such education. The responses to the consultation have identified a number of significant issues and concerns with the options proposed. The Government is seeking to develop alternative options which will also cover possible changes to the exemption for further education (a point that a large number of respondents made). The Government has therefore decided to spend more time exploring the issues raised and will consult again on this matter later in the year with a view to legislation in a future finance bill.

Anti-avoidance

2.41 Offshore employment intermediaries – The Government will consult on strengthening obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries, with a view to legislating in Finance Bill 2014. This is a result of the review announced in Autumn Statement 2012.

2.42 Partnerships – The misuse of the partnership rules has been a feature of many avoidance schemes closed down in recent years. The Government announced in Autumn Statement 2012 that it would consider whether partnerships should be reviewed, as part of the rolling examination of high risk areas of the tax code. The Government has now announced that it will consult on measures to:

- remove the presumption of self-employment for limited liability partnership (LLP) partners, to tackle the disguising of employment relationships through LLPs; and,
- counter the manipulation of profit/loss allocations by partnerships including a company, trust or similar vehicle in order to secure tax advantages.

A consultation document will be published with proposals to address both issues in the spring, with legislation to be introduced in Finance Bill 2014.

2.43 High-risk promoters – The Government will consult this summer on a package of information powers, penalties and other measures, including the possible use of 'naming and shaming' for tackling the behaviour of high-risk promoters of tax avoidance schemes, with a view to bringing forward legislation in Finance Bill 2014.

2.44 Close company loans to participators – The Government will consult later this year on the structure and operation of the tax charge on loans from close companies to their participators. If legislation is found to be needed it will be in Finance Bill 2014.

Tax administration

2.45 Notification requirement for avoidance scheme users – The Government will consult on a proposal to follow up court decisions in HMRC's favour in avoidance cases. This will require taxpayers who have used avoidance schemes which are defeated in another party's litigation to acknowledge to HMRC that the judgment applies to them and amend their returns accordingly, or confirm that they stand by their original return. A tax-geared penalty would be charged subject to safeguards, if they failed to take reasonable care. Legislation will be in Finance Bill 2014

2.46 Coding out – The Government will consult on improving its collection of tax debts through the PAYE system (known as coding out), to make the process fairer and more equitable. This will include increasing the size of debts that can be recovered through coding out from those with higher incomes. Changes will be made through secondary legislation in due course.

2.47 Administration of the Scottish rate of income tax – Legislation will be introduced in Finance Bill 2014 to require the National Audit Office to report direct to the Scottish Parliament annually on HMRC's administration of the Scottish rate of income tax. The Scottish rate was legislated for in the Scotland Act 2012 and will be introduced in April 2016. The legislation will ensure that the auditing and reporting arrangements envisaged during the passage of the Scotland Act 2012 can be fully implemented.

2.48 Customs and excise modernisation – The Government will consult on modernising customs civil penalties to create a fairer, consistent, more transparent and effective system, while securing our borders and protecting revenue. The changes will bring the customs civil penalty regime in line with other HMRC penalties. Legislation will be in Finance Bill 2014.

A Tax Information and Impact Notes: Introduction

A.1 Tax Information and Impact Notes (TIINs) are designed to provide a clear statement of changes the Government proposes making to the tax system, including why it proposed the change and what it expects the impacts of the change to be. A TIIN is published for most tax policy changes at the point at which the policy design is final or near final. Depending on the nature of the policy change, a TIIN could be published alongside the Budget, draft legislation or final legislation. The Government will produce a TIIN for the majority of substantive changes in tax and NICs policy by primary and secondary legislation.

A.2 The TIINs published in this document are for measures that fall into the following categories:

- new tax changes announced in Budget 2013 for inclusion in Finance Bill 2013;
- tax changes that will be legislated for in Finance Bill 2013 that have been previously announced, but where a change in policy or legislation is substantive; and,
- new tax changes announced in Budget 2013 but planned for Finance Bill 2014 or beyond where the changes are straightforward and will no be subject to more detailed consultation.

Impact of policy changes

A.3 The tax changes contained in this document have been tested against the list of possible impacts used in regulatory impact assessments. Except where specified, the commentary on these is recorded under the "other impacts" section of the TIIN. Those tests which result in no impact have not been recorded. The full list of these 'other' impacts against which each policy has been tested is as follows:

- equality;
- competition;
- small firms;
- carbon emissions;
- wider environment;
- health;
- sustainable development;
- rural proofing; and
- 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

Tax Information and Impact Notes Contents

Personal tax

Corporate tax

Income tax personal allowance for those born after 5 April 1948 and basic rate limit for 2014-15

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

For 2014-15, the personal allowance for those born after 5 April 1948 will be increased to £10,000, and the basic rate limit will be reduced to £31,865. As set out at Budget 2011, once the personal allowance has reached £10,000, it will then increase by Consumer Prices Index (CPI) in future years, starting from 2015-16.

Policy objective

The increase to the personal allowance delivers the Government's stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax.

The change to the basic rate limit for 2014-15 reflects the Government's announcement at Autumn Statement 2012 that the 'higher rate threshold' for 2014-15 will be increased by 1 per cent.

Background to the measure

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

For 2011-12, the personal allowance was increased by £1,000 to £7,475. For 2012-13, the personal allowance was increased by £630 to £8,105. For 2013-14, the personal allowance will be increased by £1,335 to £9,440. The cash increase of £560 in 2014-15, meets the Government's longer term commitment to increase the personal allowance to £10,000.

For 2012-13, the basic rate limit was reduced by £630 to £34,370. For 2013-14, legislation will be introduced in Finance Bill 2013 to reduce the basic rate limit by £2,360 to £32,010.

As announced at Autumn Statement 2012, for 2014-15 and 2015-16, 'the higher rate threshold', the level of income after which taxpayers begin to pay the 40 per cent higher rate of tax, will increase by 1 per cent to £41,865 and £42,285 respectively. The higher rate threshold is the sum of the personal allowance and the basic rate limit. The higher rate threshold for 2013-14 will therefore be £41,450 (£9,440 plus £32,010).

As the personal allowance will be £10,000 for 2014-15, this means that the basic rate limit will be £31,865 and the higher rate threshold will increase to £41,865.

Detailed proposal

Operative date

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

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2012 provides for income tax for 2012-13 and sets the main rates for both 2012-13 and 2013-14. Legislation to be introduced in Finance Bill 2013 will provide the charge for income tax for 2013-14.

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

Section 4, FA 2012 made changes to the main income tax personal allowances, detailed in Sections 35, 36 and 37 of ITA 2007. From 2013-14, there are still three main personal allowances, but availability will be by reference to date of birth rather than age in the tax year. The higher allowances for those born before 6 April 1948 will not be increased, and in the long term they will be removed from the statute book when the personal allowance for those born after 5 April 1948 catches up.

Existing legislation within ITA 2007 requires the Government to increase personal allowances and rate limits (except the £150,000 higher rate limit, the £100,000 personal allowance income limit and from 2013-14 the personal allowances for people born before 6 April 1948) by the annual percentage increase in the Retail Prices Index (RPI) for the year to September preceding the new tax year (indexation).The Government made the Order for 2013-14 on 6 December 2012. The annual percentage increase that will provide the basis for indexation for 2014-15 will be published in late 2013. Legislation to be introduced in Finance Bill 2013 will over-ride the amounts set in the Indexation Order for the personal allowance for those born after 5 April 1948, and the basic rate limit for tax year 2013-14.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to over-ride the amounts in the Indexation Order to set for 2014-15, the personal allowance for those born after 5 April 1948 at £10,000, and the basic rate limit at £31,865.

Taking into account the changes set out above, the table below shows the changes to the personal allowance, basic rate limit and higher rate threshold over the lifetime of the Parliament:

£	**2010-11**	**2011-12**	**2012-3**	**2013-4**	**2014-15**
Personal Allowance	6,475	7,475	8,105	9,440	10,000
Basic Rate Limit	37,400	35,000	34,370	32,010	31,865
Higher Rate Threshold	43,875	42,475	42,475	41,450	41,865

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>nil</td><td>-1075</td><td>-1045</td><td>-1060</td><td>-1210</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of the Budget 2013 document and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure will reduce income tax for low and middle income individuals, improving incentives to enter employment and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. Overall employment outcomes will also depend on other measures announced relating to personal tax and national insurance contributions as well as aggregate labour demand and the performance of the wider economy.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5"> The increase in the personal allowance to £10,000 will take 257,000 individuals out of income tax altogether in 2014-15. By April 2014, the cumulative effect of this Government’s increases in the personal allowance will lift 2.7 million people out of the income tax system. In 2014-15, the increase will provide 24.5 million individuals with a real terms gain (over and above that from normal indexation) averaging £50. Of these, 20.4 million will be basic rate taxpayers and 4.2 million higher rate taxpayers (figures may not sum due to rounding). 0.47 million individuals will have an average loss of £50 in 2014-15. All of these have incomes above the breakeven level near £120,000 at which the personal allowance is tapered to zero and so no benefit is derived from the personal allowance increase. </td></tr>
<tr><td>Equalities impacts</td><td colspan="5"> Income tax changes apply regardless of personal circumstances or protected characteristics such as gender, race or disability. Of the categories, HM Revenue & Customs (HMRC) only hold taxpayer data on age and gender. In 2014-15, females are projected to account for 42 per cent of all taxpayers and males 58 per cent. From this measure, 2014-15 estimated impacts are: 24.5 million individuals gain an average of £50, of which 13.9 million (57 per cent) are male and 10.7 million (43 per cent) are female. 23.6 million (96 per cent) are under 67 years old and 0.91 million (4 per cent) are 67 years old or over. Average gains do not differ significantly by gender or between those under and over 67 year olds.
0.47 million individuals lose an average of £50, of which 0.40 million (84 per cent) are male and 0.08 million (16 per cent) are female. 0.44 million (92 per cent) are under 67 years old and 0.04 million (4 per cent) are 67 years old or over. Average losses do not differ by gender or between those under and over 67 year olds.
257,000 individuals taken out of tax altogether, of which 111,000 (43 per cent) are male and 145,000 (57 per cent) are female, and all of which are under 67 years old.</td></tr>
</table>

Impact on business including civil society organisations	Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HMRC.
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible because changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	Small firms impact test: this measure will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is a HMRC P11 calculator on the business link website. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

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

Statement of Practice 1/09

Who is likely to be affected?

Employees who qualify for Overseas Workday Relief (OWR) and carry out duties both in the UK and overseas under a single contract of employment.

General description of the measure

OWR will be placed on a statutory footing alongside the introduction of the statutory residence test and the abolition of the concept of Ordinary Residence. OWR will be available to all arrivers who are not domiciled in the UK regardless of their intention to be based in the UK and will be available for the tax year in which they become UK resident and the following two tax years.

The measure will broadly replicate the treatment which currently exists under Statement of Practice 1/09 (SP1/09) for certain employees who are resident but not ordinarily resident in the UK. The legislation will also include some additional easements over and above the current treatment.

Policy objective

This measure will put SP1/09 on a statutory basis, and continue to give eligible individuals the administrative easement that comes from not having to calculate their tax liability by reference to each individual transfer from their primary overseas bank account. The new rules also introduce greater flexibility in the way the special mixed fund rules are operated.

Background to the measure

Following the announcement at Budget 2011, the Government published *Reform of the taxation of non-domiciled individuals: a consultation* on 17 June 2011. The consultation document included the proposal to put SP1/09 on a statutory basis in Finance Bill 2012.

In the summary of responses published on 6 December 2011, the Government announced that it would put SP1/09 on a statutory basis in Finance Bill 2013 in order to give further consideration to the views expressed in consultation and to align with the implementation of a statutory residence test and abolition of the concept of ordinary residence in the Bill.

The Government published a consultation document focussing on the technical detail of the legislation on 11 October 2012. HM Revenue & Customs (HMRC) has considered all responses received to the consultation, as detailed in the summary of responses published on 11 February 2013.

Detailed proposal

Operative date

The new rules will have effect from April 2013.

Current law

Under the current law the full amount of general earnings of an employee resident in the UK are chargeable to UK tax under section 15 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) no matter where those earnings are received. Earnings of a UK resident employee who is not ordinarily resident (RNOR) and who claims the remittance basis of taxation, are only chargeable under section 15 on general earnings for duties performed in the UK and on general earnings for duties performed outside the UK (under section 26 ITEPA) to the extent that they are received in / remitted to the UK.

Sections 809Q and 809R of the Income Tax Act (ITA) 2007 contain the statutory provisions on how money or other property within a mixed fund is to be treated for tax purposes (the ‘mixed fund rules’). A mixed fund is, broadly, an overseas account which contains a mixture of income, gains and capital from different sources or from more than one tax year. These rules operate on a transaction by transaction basis.

SP1/09 and its predecessor, Statement of Practice 5/84, allowed RNOR individuals to apportion their earnings from an employment between earnings taxable under section 15 and section 26 based on an annual apportionment of UK and non-UK duties.

Statement of practice SP1/09 preserved the annual apportionment of earnings which was previously available under SP5/84 (before the mixed fund rules were introduced) and removed the requirement for RNOR individuals to operate the transaction by transaction basis of the mixed fund rules, provided that they met certain criteria. Instead, individuals are allowed to calculate their tax liability by reference to the total amounts transferred and remitted from their account over the year as a whole.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 15 of ITEPA 2003 and insert a new section 41ZA to allow the extent of apportioning general earnings in respect of duties performed in the UK to be determined on a just and reasonable basis, preserving the apportionment approach of SP1/09.

The legislation will also introduce a new set of rules (the ‘special mixed fund rules’) after section 809Q of ITA 2007. These rules will formalise the administrative easement set out in SP1/09 that allows an eligible employee to calculate their tax liability by reference to the total amounts transferred and remitted from a nominated account over the year as a whole rather than on the transaction basis of the normal mixed fund rules.

They will also provide additional easements, such as allowing the special treatment to apply to joint accounts, and to allow earnings from multiple employments to be paid into the same account without losing access to the special mixed fund rules.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	Legislating SP1/09 will provide certainty to individuals currently using SP1/09. The additional easements in this measure over SP1/09 will be a significant simplification and will lessen the administrative burden for individuals. Around 15,000 individuals are resident but not ordinarily resident and use SP1/09.				
Equalities impacts	These reforms are not expected to have any impact on individuals with protected characteristics.				
Impact on business including civil society organisations	This measure is not expected to impact on businesses or civil society organisations as it only impacts individuals.				
Operational impact (£m) (HMRC or other)	There may be an initial cost for HMRC in providing further guidance to individuals and employers, but in the longer term, costs are likely to reduce because of simplifying the rules.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

This measure will be kept under review through communications with the relevant representative bodies via the HMRC Joint forum on expatriate tax and National Insurance contributions.

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).

Seed Enterprise Investment Scheme: CGT re-investment relief

Who is likely to be affected?

Investors in the Seed Enterprise Investment Scheme (SEIS) and companies eligible for receiving SEIS investment.

General description of the measure

The measure will extend to 2013-14 the capital gains tax (CGT) relief for re-investing gains in SEIS shares, providing the gains are re-invested in 2013-14 or the following year. The extension of the relief is for half the qualifying re-invested amount.

Policy objective

The extension is designed to help maintain momentum in SEIS investment.

Background to the measure

SEIS, which was introduced in 2012, is designed to help small, early-stage companies raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares in these companies. It complements the Enterprise Investment Scheme (EIS), which also offers tax reliefs to investors in higher-risk small companies. SEIS recognises the particular difficulties that very early-stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by EIS.

To help kick-start the scheme and encourage investment in SEIS, CGT relief was given to chargeable gains accruing to an investor in 2012-13 where the gain is re-invested in shares that qualify for SEIS income tax relief. The amount re-invested was exempt from CGT. This was subject to a £100,000 investment limit (which matches a similar cap on SEIS-related income tax relief).

Detailed proposal

Operative date

The measure will have effect in relation to re-invested gains accruing to individuals in 2013-14.

Current law

Section 150G of and Schedule 5BB to the Taxation of Chargeable Gains Act 1992 provides the CGT relief for re-investment in SEIS shares. Condition A at paragraph 1(2)(a) to Schedule 5BB holds that the relief is limited to gains accruing to the SEIS investor in 2012-13.

Paragraph 1(6) to Schedule 5BB holds that gains are not chargeable to CGT to the extent that they are matched by qualifying SEIS investment.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to extend Condition A to gains accruing to the investor in 2013-14; and to limit the amount that is treated as not being a chargeable gain to an amount that is equal to half the matched re-invested gain.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>nil</td><td>-5</td><td>negligible</td><td>nil</td><td>nil</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Individual investors will be able to access a higher rate of relief than they would if the re-investment relief was not extended. The scheme will also encourage individuals to become entrepreneurs with the backing of SEIS investors.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">Compared to the self-assessment population, it is anticipated that SEIS investors will tend to be male, located in the South of England and have higher overall income levels (based on users of the Enterprise Investment Scheme and Venture Capital Trusts). 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.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is expected to have a negligible impact on businesses and civil society organisations. Businesses will incur a negligible one off implementation cost of familiarising themselves with the measure, but there will be no changes to their administrative burdens because the relief is claimed by investors rather than investment companies.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">It is not expected that implementing this change will incur any significant additional costs for HM Revenue & Customs (HMRC).</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Competition assessment</u>: 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 due to better incentives. It should not have any impact on competition as it will not affect or limit suppliers' ability to compete.

<u>Small firms impact test</u>: the proposed reforms are beneficial and will help to increase the provision of equity available to invest in small businesses.

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

Monitoring and evaluation

HMRC will continue to monitor company applications and use of the scheme to ensure that the legislation is delivering its intended policy intention.

Further advice

If you have any questions about this change, please contact Alan McGuinness on 020 7147 2766 (email: alan.mcguinness@hmrc.gsi.gov.uk).

Seed Enterprise Investment Scheme: eligible companies

Who is likely to be affected?

Companies seeking investment under the Seed Enterprise Investment Scheme (SEIS) and investors in those companies.

General description of the measure

This measure will amend the ‘independence’ condition to be met by a company hoping to qualify under SEIS, to ensure that companies established by corporate formation agents will not inadvertently be disqualified from taking advantage of the Scheme.

Policy objective

SEIS was introduced from 6 April 2012 to incentivise equity investment in early-stage companies carrying on, or intending to carry on, qualifying trading activities. This measure aims to simplify the legislation so that some eligible companies will not inadvertently be disqualified from taking advantage of the regime, by virtue of having been established by a corporate formation agent.

Background to the measure

This measure was announced at Budget 2013 following representations from a number of interested stakeholder bodies and individual companies.

Detailed proposal

Operative date

The measure will have effect in relation to shares issued to individuals on or after 6 April 2013.

Current law

In order for an investment in company shares by an individual to be eligible for tax relief, the company issuing the shares must meet certain conditions as provided for in Chapter 4 of Part 5A Income Tax Act (ITA 2007). Section 257DG(2) requires that the company must be ‘independent’: that is, that it must not be controlled by another company at any time from incorporation to the end of the qualifying period for the shares in question. There must also be no arrangements in place by virtue of which the independence requirement could fail to be met.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 257DG(2) ITA 2007 so that companies which are established and controlled initially by another company will not be disqualified, providing that that control exists only during a period where the company has issued only subscriber shares and has not yet begun, or begun preparations for, its trade or business. This will ensure that companies established in the first instance by corporate formation agents before being sold onto their ultimate owners, will not inadvertently be disqualified from taking advantage of SEIS.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	Individual investors who invest in eligible companies inadvertently disqualified because they were set up by corporate formation agents will now be able to benefit from the scheme.				
Equalities impacts	HM Revenue & Customs (HMRC) does not hold data on the protected characteristics of those who have invested in SEIS. However investing individuals are likely to be of above average income and therefore investors are likely to be from groups which are overrepresented in higher income groups.				
Impact on business including civil society organisations	This measure relaxes the eligibility conditions for small companies including some civil society organisations, making access to the scheme easier for those organisations. There may be some one-off negligible savings for companies which might otherwise have incurred some costs in restructuring in order to comply with the legislation.				
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HMRC.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

HMRC will continue to monitor company applications to ensure that the legislation is delivering its intended policy intention.

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 contact Alex Buckley on 020 7147 0083 (email: alex.buckley@hmrc.gsi.gov.uk).

Employee shareholder status: capital gains tax exemption and income tax/NICs treatment

Who is likely to be affected?

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

General description of the measure

The first measure will exempt any capital gains made by individuals on the disposal of shares acquired through the adoption of the 'employee shareholder' employment status from capital gains tax (CGT). The second will reduce or eliminate the income tax and National Insurance contributions (NICs) due when employee shareholders acquire shares, by deeming that they have paid £2,000 for the shares. This will ensure that the first £2,000 of share value received by employee shareholders is not subject to income tax or NICs.

Policy objective

This measure is part of a wider policy to introduce a new 'employee shareholder' employment status to reduce regulatory burdens on business, promote business and employment growth and increase the choices available to businesses and employees. This measure is intended to support take-up of the new 'employee shareholder' status.

Background to the measure

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

The Department for Business, Innovation and Skills published a consultation on the implementation of the 'employee shareholder' status on 18 October 2012. The consultation closed on 8 November 2012 and the Government published its response on 3 December 2012. The new employment status is contained in Clause 27 of the Growth and Infrastructure Bill.

The Government announced at Autumn Statement 2012 that it was considering options to reduce income tax and NICs liabilities that arise when employee shareholders receive shares, including an option to deem that employee shareholders have paid £2,000 for shares they receive. The decision to proceed with this option, which will ensure that the first £2,000 of share value received is free from income tax and NICs, was confirmed at Budget 2013.

This Tax Information and Impact Note (TIIN) replaces the TIIN covering the CGT exemption published on 11 December 2012.

Detailed proposal

Operative date

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

Current law

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

The Income Tax (Earnings and Pensions) Act 2003 provides that income tax is chargeable on earnings and other employment income, including employment-related securities (such as shares) awarded to a person by reason of their employment. Part 7 of this Act sets out special rules for the taxation of employment-related securities, and provides for the amount of tax due in certain cases, as well as specifying the time at which this tax is due.

The Corporation Tax Act 2009 sets out circumstances in which corporation tax relief is available to companies, including, at Part 12, in relation to employee share acquisitions.

The Social Security Contributions and Benefits Act 1992 imposes a Class 1 NICs liability on employees and employers in respect of payments of earnings, including earnings paid in the form of employment-related securities. Section 4(4)(a) of that Act and Regulation 22(7) of the Social Security (Contributions) Regulations 2001 also bring into liability for class 1 NICs amounts which count as employment income in relation to other employment-related securities and securities options. Part IX of Schedule 3 to the Social Security (Contributions) Regulations 2001 contains disregards which remove from the scope of earnings liable for Class 1 NICs certain types of securities – broadly speaking those which are not readily convertible assets and those carrying certain tax advantages.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to exempt any capital gains on the disposal of up to £50,000 of shares acquired by an employee shareholder under their employee shareholder agreement from CGT. Existing share pooling and identification rules will be amended as necessary.

Finance Bill 2013 will also include provisions that will amend the Income Tax (Earnings and Pensions) Act 2003 to reduce the income tax due when employee shareholders acquire shares under their employee shareholder agreement, by deeming that they have paid £2,000 for these shares. Consequential changes will also be made to the Corporation Tax Act 2009 so that where appropriate businesses can claim relief against the acquisition of shares by employee shareholders.

Following Royal Assent to Finance Bill 2013, amendments will be made to the Social Security (Contributions) Regulations 2001. These will ensure that when an employee shareholder acquires shares, the same amount counts as earnings for Class 1 NICs purposes as counts as employment income for Income Tax purposes and that the first £2,000 of the value of the shares also remain NICs free.

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

Summary of impacts

<table>
<tr><td rowspan="6">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>nil</td><td>nil</td><td>negligible</td><td>-10</td><td>-45</td></tr>
<tr><td colspan="5">This element combines the measures announced at Autumn Statement 2012 and Budget 2013. These figures are set out in Table 2.1 and Table 2.2 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>nil</td><td>-15</td><td>-45</td><td>-65</td><td>-75</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside the Budget.</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td>Economic impact</td><td colspan="5">Whilst some companies and individuals may benefit from tax incentives attached to the status, this measure is not expected to have significant macroeconomic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">As it is entirely new, predicting the take up of the new employment status is uncertain. It is broadly expected that about 50,000 to 80,000 individuals a year may eventually benefit from the income tax and NICs changes, of which about 20,000 to 40,000 may eventually benefit from the CGT exemption on disposal of the shares.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The introduction of these tax changes is not expected to have a disproportionate impact on any protected group (beyond that already identified for the wider employment status, which includes provisions relating to maternity leave).

The gender split for CGT payers has been relatively stable over time, with men making up around 60 per cent of those filing a tax return that includes a capital gain and women making up around 40 per cent. Those aged 45-50 and 55-60 are most likely to file a return that includes a capital gain.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The income tax and NICs changes are likely to increase take-up of the employment status. It is anticipated that many of the companies that offer employee shareholder agreements will already be submitting returns to HM Revenue & Customs (HMRC) in connection with employee share awards. The requirement to notify the awards of shares associated with the employee shareholder status is therefore likely to involve minimal additional activity in form returns.

There may be a relatively small number of companies that are attracted by the measure and start awarding shares to employees. No significant additional administrative costs are expected, both in terms of one off implementation costs and ongoing administrative burdens.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The ongoing costs of operating ‘employee shareholder’ employment status, including the provision of valuation services, form processing and compliance work by HMRC, are estimated to be between £500,000 and £1.25 million. However, the exact costs of operating the status will depend on take up, which is difficult to predict at this stage.</td></tr>
</table>

Other impacts	Small firms impact test: the impact on small firms (with fewer than 20 employees) has been considered. These measures are beneficial and excluding companies with fewer than 20 employees would not achieve the stated policy objective. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about these changes, please contact Rob Clay (email: rob.clay@hmrc.gsi.gov.uk).

London Anniversary Games

Who is likely to be affected?

Non-UK resident sportspeople competing in the British Athletics London Anniversary Games (London Anniversary Games).

General description of the measure

This measure provides an exemption from UK income tax for non-resident sportspeople on any income received as a result of their performance at the London Anniversary Games, or as a result of any activity carried out between 22 and 29 July 2013 where the main purpose is to support or promote the London Anniversary Games.

Policy objective

This measure has been put in place to help prolong the legacy of the London 2012 Olympic and Paralympic Games.

Background to the measure

This exemption was announced on 15 February 2013. It is similar to the income tax exemption to be provided for non-resident competitors at the 2014 Commonwealth Games in Glasgow. It applies only to income received by non-resident sportspeople who compete at the London Anniversary Games or carry out activities between 22 and 29 July 2013 where the main purpose of the activity is to support or promote the London Anniversary Games.

Detailed proposal

Operative date

The measure, which will have effect from 6 April 2013, will affect income of non-resident competitors in the London Anniversary Games which arises between 22 and 29 July 2013.

Current law

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

Proposed revisions

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

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	-	-	-
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The exemption means that non-resident sportspeople will not be subject to UK income tax on income related to the London Anniversary Games. They may still be liable to tax on this income by other countries, for instance their home nation. UK resident competitors will not benefit from the exemption. The fact that exempted individuals will not need to fill out tax returns for this income will reduce the administrative burden on them.				
Equalities impacts	The measure benefits non-residents, who are likely to belong to non-UK ethnic or national groups. The measure will benefit non-resident disabled competitors through the para-athletic element of the London Anniversary Games.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. It only affects a small number of non-resident sportspeople and may have a very slight one-off effect in easing the burden on a very small number of associated accountants or management companies in one year.				
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any additional costs nor reap any savings for HM Revenue & Customs (HMRC).				
Other impacts	Small firms impact test: a negligible and non-differential impact is expected on small firms. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact HMRC's Foreign Entertainers Unit on 03000 547395.

Glasgow Commonwealth Games

Who is likely to be affected?

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

General description of the measure

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

Policy objective

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

Background to the measure

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

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

Current law

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

Proposed revisions

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

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	-	-
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The exemption means that non-resident sportspeople will not be subject to UK income tax on income related to Glasgow 2014. They may still be liable to tax on this income by other countries, for instance their home nation. UK resident competitors will not benefit from the exemption. The fact that exempted individuals will not need to fill out tax returns for this income will reduce the administrative burden on them.				
Equalities impacts	The measure benefits non-residents, who are likely to belong to non-UK ethnic or national groups. The measure will benefit non-resident disabled competitors through the para-athletic element of Glasgow 2014.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. It only affects a small number of non-resident sportspeople and may have a very slight one-off effect in easing the burden on a very small number of associated accountants or management companies in one year.				
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any additional costs nor reap any savings for HM Revenue & Customs (HMRC).				
Other impacts	Small firms impact test: a negligible and non-differential impact is expected on small firms. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact HMRC's Foreign Entertainers Unit on 03000 547395.

Exemption threshold for employment-related loans

Who is likely to be affected?

Employers who provide their employees with ‘taxable cheap loans’: low cost, or interest free loans, or ‘notional loans’ arising from the provision of employment-related securities, where the total outstanding balance during a tax year is between £5,001 and £10,000 inclusive.

Employees who receive taxable cheap loans.

General description of the measure

The measure will increase the current statutory threshold for the cash equivalent of taxable cheap loans to be treated as earnings of the employment from £5,000 to £10,000. As long as the total outstanding balances on all such loans do not exceed the threshold at any time in a tax year, there is no tax charge.

Policy objective

Employers will no longer be required to report details of small loans where the outstanding balance is £10,000 or less throughout a tax year.

Background to the measure

The measure was announced at Budget 2013.

Detailed proposal

Operative date

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

Current law

Section 180(1)(a)(b) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provide that the cash equivalent of the benefit of an employment-related loan is not to be treated as earnings of the employment for the year where the amount of the loan does not exceed £5,000.

Section 180(2) and section 180 (3) of ITEPA relate to the application of the £5,000 threshold to aggregation of multiple loans.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend all references to £5,000 in the above legislation to £10,000.

Summary of impacts

<table>
<tr><td>Exchequer impact (£m)</td><td><table><tr><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr><tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr></table>This measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td>The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td>An increase in the beneficial loans threshold from £5,000 to £10,000 will benefit individuals with beneficial loans balances between these values. It is expected that around 25,000 individuals will benefit.</td></tr>
<tr><td>Equalities impacts</td><td>Government data suggests that the recipients of beneficial loans are more likely to be male than female. HM Revenue & Customs (HMRC) does not hold information about other protected equality groups but does not expect there to be any impact.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td>Government expect that around 7,000 businesses will benefit from this measure. There will be on-going savings for companies from reduced administrative costs, either through no longer having to complete the P11D form or through no longer having to fill in the beneficial loans boxes on the form. Overall, it is expected that the resulting reduction in administrative burden placed on businesses from the policy will be around £0.6 million per year.
<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>negligible</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£0</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>negligible</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>£0</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>£0.6m</td><td>5</td></tr>
<tr><td>Total Benefit (PV)</td><td>£3m</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£3m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0</td><td>£0.6m</td><td>-£0.6m</td></tr>
</table></td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td>It is not anticipated that implementing this change will incur any significant additional costs for HMRC.</td></tr>
<tr><td>Other impacts</td><td><u>Small firms impact test</u>: the impact on small businesses will be a positive one as the legislation applies to all sizes of businesses.

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

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact John Harnedy on 0203 300 9387 (email: john.harnedy@hmrc.gsi.gov.uk).

Reducing the pensions tax annual and lifetime allowances

Who is likely to be affected?

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

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

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

General description of the measure

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

Policy objective

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

Background to the measure

At the Autumn Statement 2012, the Government announced that it will reduce the lifetime allowance from £1.5 million to £1.25 million and the annual allowance from £50,000 to £40,000 for the 2014-15 tax year.

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

At Budget 2013, the Government announced that an individual protection regime will be offered in addition to fixed protection and a consultation on the detail of this regime will be undertaken in Spring 2013.

A TIIN on the individual protection regime will be published alongside that draft legislation.

Detailed proposal

Operative date

The reduction in the standard lifetime allowance and the annual allowance will have effect for tax year 2014-15 onwards.

Current law

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

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

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

Tax relief on any pension benefits taken over the lifetime allowance is recovered by the application of the lifetime allowance tax charge to the excess. The rate of the lifetime allowance charge is 25 per cent if the excess is taken as a pension or 55 per cent if it is taken as a lump sum (sections 214 to 226 of FA 2004).

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

The maximum tax free lump sum that an individual can normally have is 25 per cent of their pension rights subject to an overall maximum of 25 per cent of the standard lifetime allowance (paragraphs 1 to 3A of Schedule 29 to FA 2004).

Proposed revisions

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

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

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

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

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

Amendments will also be made to ensure that:

- individuals with existing A-day primary or enhanced protection but who do not have lump sum protection will retain a right to a lump sum of up to 25 per cent of £1.5 million; and,
- individuals with primary protection will not have an increased lifetime allowance available when the lifetime allowance is reduced. Where they have taken benefits before 6 April 2014 these will be revalued when further benefits are taken on or after 6 April 2014 as if references to the standard lifetime allowance were to £1.5 million.

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

In addition to fixed protection 2014, an individual protection regime will be introduced. Legislation for individual protection will be included in Finance Bill 2014 and a TIIN will be published alongside draft legislation.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	+200	+400	+675	+1050	+1125
	These figures are set out in Table 2.1 and Table 2.2 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	The changes in pensions tax relief could lead to an increase in the tax paid by those affected. Some reduction of pension contributions is expected in response to the measure. It may affect individuals' disposable income and their decision to supply labour. Macroeconomic impacts are expected to be small.				
Impact on individuals and households	Up to 140,000 individuals are expected to be affected by the reduction in the annual allowance. The reduction in the lifetime allowance could potentially affect around 360,000 individuals who could have pension wealth between the new and the old lifetime allowances in future years when they retire. Around 30,000 of these individuals are expected to have pension assets that are worth between £1.25 million and £1.5 million in 2014-15.				
Equalities impacts	HM Revenue & Customs' (HMRC) data does not allow identification of groups sharing protected characteristics within the affected population. However the nature of the change means that those affected will be in higher income groups so they are less likely to be from ethnic minority groups, women or the disabled. The change will have a greater effect on those later in life and closer to retirement than those in other age groups. No other impacts are anticipated in respect of groups sharing other protected characteristics.				
Impact on business including civil society organisations	There will be some additional burdens for pension schemes and employers to provide information and guidance to individuals, and to update their systems to reflect the reduced lifetime allowance and reduced annual allowance. Anticipated one-off burdens include: salary and pension adjustments, legal and consultation advice, providing valuations of pension pots, and training and familiarisation.				

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

In total, HMRC anticipates one-off costs across employers and pension schemes of £85 million, and additional annual burden of £10 million/year:

<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>£85m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£10m</td><td>5</td></tr>
<tr><td>Total Costs (PV)</td><td>£125m</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Benefit (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>-£125m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£10m</td><td>£0</td><td>£10m</td></tr>
</table></td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td>There will be additional costs for HMRC to administer and monitor the new protection regimes and deal with enquiries from customers. These are estimated to be £2 million for IT changes and £6.7 million for staff resources over a five year period.</td></tr>
<tr><td>Other impacts</td><td><u>Small firms impact test</u>: the impact on small firms has been considered. The measure restricts the amount of UK tax relief available to individuals on their pension savings. The original policy was subject to a formal consultation in 2010 and was widely discussed with business, individuals and experts throughout the development process. The implementation of this further change, particularly around any tools, guidance or help that can be offered, will also be discussed over the next twelve months with interested parties. It would not be appropriate for the policy to apply differently according to the size of the firm within which the affected workers operate.

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

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups. HMRC will also monitor behavioural responses to the restriction of pensions tax relief.

Further advice

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

Amendments to the transfer of assets abroad legislation

Who is likely to be affected?

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

General description of the measure

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

Policy objective

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

Background to the measure

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

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

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

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

Current law

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

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

Proposed revisions

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

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

There will be a further element to this test to enable HM Revenue & Customs to examine each transaction and make an apportionment where appropriate between the part of a transaction which is genuine and the part which is not. Only income attributable to the non-genuine (artificial) part of the transaction would be liable to tax.

The measure will also make other changes to the transfer of assets provisions aimed at clarifying the way certain aspects of the charging provisions operate. There will be an amendment to provide greater clarity around the prevention of double charging, in circumstances where the same income could be the subject of both a transfer of assets charge and also a charge under another part of the Taxes Acts.

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

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	-10	-10	-10
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	The measure is not expected to have any significant economic impacts.				

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

Impact on individuals and households	This measure amends existing anti-avoidance legislation and will only impact on a small number of individuals engaging in certain cross-border tax avoidance activity.
Equalities impacts	No equalities impact is expected.
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations.
Operational impact (£m) (HMRC or other)	This measure is not expected to have any significant operational impacts.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about these changes please send an email to PTIConsultation.Specialistpersonaltax@hmrc.gsi.gov.uk

Life insurance: qualifying policies

Who is likely to be affected?

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

General description of the measure

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

Policy objective

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

Background to the measure

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

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

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

Current law

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

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

Proposed revisions

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

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

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

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

The regulations were published for consultation on 31 January 2013.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will impact a relatively small number of individuals and households who would have used such arrangements for higher value investment. It is expected that there will be no impact on individuals making regular moderate value investments for which premiums payable will not exceed the limit.				
Equalities impacts	There is no evidence that this measure impacts on any group sharing a protected characteristic set out in the Equality Act.				
Impact on business including civil society organisations	A consultation exercise was carried out to determine the impact on affected businesses. There was a limited response which has made evaluation of the impacts difficult to quantify. Some businesses will experience an increase in annual administrative burdens due to the requirements to obtain a declaration from policyholders on issue and to provide annual returns to HM Revenue & Customs (HMRC). The impact will vary from company to company but taking into account this measure only affects 30 life insurers and 12 friendly societies (both of ranging size) the overall impact is expected to be negligible. Responses did indicate that smaller friendly societies are likely to be more heavily impacted, but as a result of the consultation changes made to the reporting requirements have helped reduce the impact of this measure. There is also likely to be a one off cost to businesses to familiarise themselves with this policy change; put systems and training in place to capture and report this information to HMRC; and to amend marketing materials.				

Operational impact (£m) (HMRC or other)	There will be some additional costs incurred by HMRC in implementing the new reporting requirements. The amount will depend on the final design but is not expected to be significant.
Other impacts	Small firms impact test: the new rules will impact on several providers, who may be classified as small firms but as average premiums paid under policies issued by these firms are expected to be much lower than the proposed limit, the impacts are likely to be negligible. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through regular communication with the industry, which will capture issues around implementation and ongoing compliance and administrative costs. In addition, individuals are required to prepare tax returns which will provide data to inform any such evaluation.

Further advice

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

Inheritance tax: nil-rate band

Who is likely to be affected?

Individuals, trustees and the personal representatives of deceased persons.

General description of the measure

This measure extends the freeze on the inheritance tax (IHT) nil-rate band at £325,000 until 2017-18.

Policy objective

This measure forms part of the package to fund a cap on reasonable care costs of £72,000 for older people from April 2016.

Background to the measure

The Government announced in Budget 2010 that the threshold below which estates are not liable for IHT, the nil-rate band, would be frozen at £325,000 until April 2015.

The Government announced on 11 of February 2013 that the IHT nil-rate band would remain frozen until April 2018. This supersedes previous announcements on the level of the threshold.

Detailed proposal

Operative date

The measure will have effect from the tax year 2015-16.

Current law

Section 7 of the Inheritance Act 1984 provides for rates of IHT to be that as set out in the Table in Schedule 1 to the Act. The current table provides that the nil-rate band is £325,000.

Section 8(3) of Finance Act 2010 provides for the nil-rate band to be frozen at £325,000 up to and including 2014-15; and section 208 of Finance Act 2012 specifies that the indexation measure to be used is the Consumer Prices Index for the purposes of chargeable transfers made on or after 6 April 2015.

Proposed revisions

Legislation will be introduced in a future Finance Bill to provide for the nil-rate band, for 2015-16 to be set at £325,000 up to and including 2017-18.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	+ 20	+ 80	+ 170
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. These figures do not include the measure announced at Autumn Statement 2012. Those figures are set out in Table 2.2 of Budget 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will affect only a small number of individuals and households as the base of estates that fall within the charge to IHT is small. It is estimated for 2010-11 that there will have been approximately 17,000 estates left on death paying IHT. In addition to those estates already liable to IHT having to pay marginally more tax, we expect approximately 5,000 additional estates per year to become taxpaying estates by 2017-18 due to this freeze. There will also be an increase in the administrative burden for those estates which will now be required to complete the full IHT400 return, rather than the shorter IHT205 return. It is estimated that the difference in costs for individuals in completing the IHT400 and IHT205 returns is approximately £160 per return. The approximately 5,000 additional estates expected to become taxpaying through this freeze will now need to complete the IHT400 rather than the IHT205. There will be no increase in administrative burden for those estates which were already tax paying.				
Equalities impacts	The Government has no evidence to suggest that the freeze will have equality impacts. HM Revenue & Customs (HMRC) does not hold data on the protected characteristics of all those potentially affected.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. There will be an increase in the administrative burden for personal representatives or advisors providing support to estates as a result of having to complete the longer IHT400 return. There will be a negligible one off cost to businesses as they familiarise themselves with the measure.				
Operational impact (£m) (HMRC or other)	The additional processing costs for HMRC from this measure are estimated to be less than £1 million per year.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about these changes, please contact Usman Nizami on 020 7147 0046 (email: usman.nizami@hmrc.gsi.gov.uk).

HM Revenue & Customs

Inheritance tax: spouses and civil partners domiciled overseas

Who is likely to be affected?

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

General description of the measure

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

Policy objective

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

Background to the measure

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

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

Current law

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

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

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

Proposed revisions

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

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

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

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

The election will only affect an individual's treatment for IHT purposes. The election will need to be made in writing to HM Revenue & Customs (HMRC) and may be made at any time after marriage or registration of the civil partnership. Elections that follow a death will only be valid if they are made within two years of the death or such longer period as an officer of Revenue and Customs may in the particular case allow; and only where death occurs on or after 6 April 2013. The personal representatives of non domiciled individuals will be able to make a death election on their behalf.

Electing spouses making either a lifetime or death election will be able to choose a date the election applies from going back up to a maximum of seven years so that any lifetime gifts during that period are covered by the election. The earliest date that can be specified is 6 April 2013. Where no date is specified, a lifetime election has effect on the date it is made and a death election will be treated as taking effect immediately before any transfer as a result of a disposition on the death of a UK domiciled individual.

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

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>negligible</td><td>-5</td><td>-5</td><td>-5</td><td>-5</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.2 of Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will affect only a small number of individuals and households as the base of estates that fall within the charge to IHT is fairly small (in 2011-12 it is forecast that there would be approximately 19,000 estates left on death paying IHT, representing less than 4 per cent of the total). The number of individuals affected will be reduced considerably further as the policy affects only those whose spouse is non-UK domiciled. There will be a slight increase in administrative burdens for affected individuals as they will be required to inform HMRC if they wish to elect to be treated as UK-domiciled for IHT purposes only.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">HMRC does not have any evidence of impacts on different equality groups as a result of this measure.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is expected to have a negligible impact on businesses and civil society organisations. There will be a negligible increase in administrative burdens and a one off cost for personal representatives as they familiarise themselves with the new guidance. As very few individuals will be affected by this measure, those businesses advising them or acting as their representatives will also be few in number.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The operational impact on HMRC will be minimal.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: there will be a negligible impact on small businesses (firms with fewer than 20 employees) involved in the administration of lifetime and death estates due to the need to familiarise themselves with the change of rules. Although there has been no consultation with small firms or any other groups, the measure will benefit individuals whose spouse or civil partner is domiciled abroad and non-UK domiciled individuals whose spouse or civil partner is domiciled in the UK.

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

Monitoring and evaluation

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

Further advice

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

Company car tax rates

Who is likely to be affected?

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

General description of the measure

For 2015-16, this measure introduces two new appropriate percentage bands for company cars emitting 0-50g of carbon dioxide (CO_2) per kilometre (5 per cent) and 51-75g CO_2 per km (9 per cent). In addition, as announced at Budget 2012, the remaining appropriate percentages are increased by two percentage points for cars emitting more than 75g CO_2 per km, to a new maximum of 37 per cent.

Budget 2013 also sets out rates for company cars emitting 75g CO_2 per km or less for 2016-17. In addition the Budget provides a commitment that in 2017-18 there will be a 3 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands. In 2018-19 and 2019-20 there will be a 2 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands.

Policy objective

This measure is part of a £100 million package to incentivise the purchase and manufacture of ultra low emission vehicles in the UK. In addition, it ensures that company car tax (CCT) continues to support the sustainability of the public finances.

Background to the measure

The 2015-16 and 2016-17 CCT rates for cars emitting more than 75g CO_2 per km were announced at Budget 2012.

Detailed proposal

Operative date

This measure will take effect from 6 April 2015.

Current law

Sections 121 to 148 of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) provide for calculating the cash equivalent of the benefit of a company car which is made available for private use. In broad terms, this depends on the list price of the car plus taxable accessories, multiplied by a figure set according to the level of CO_2 emissions the car produces, which is expressed as the appropriate percentage.

Proposed revisions

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

- Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO_2 emissions. From 6 April 2015, the graduated table of company car tax bands will provide for a 5 per cent band for cars with emissions of 0-50g CO_2 per km, a 9 per cent band for cars with emissions of 51-75g CO_2 per km, a 13 per cent band for other low emissions cars (76g-94g CO_2 per km) with a 2 per cent increase for each rise in emissions of 5g CO_2 per km from 95g CO_2 to a new maximum of 37 per cent.
- Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without CO_2 emissions. From 6 April 2015, the appropriate percentage for cars which are incapable of producing CO_2 emissions under any circumstances when being driven will be set at 5 per cent, and 37 per cent for other cars.

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

In 2016-17, the appropriate percentages of the list price subject to tax for the 0-50g CO_2 per km band will be 7 per cent; and 11 per cent for the 51-75g CO_2 per km band. All other appropriate percentages will be increased by two percentage points to a maximum of 37 per cent. The 3 percentage point diesel supplement will be removed.

A full table of rates can be found in the *Overview of Tax Legislation and Rates* document that is published alongside the Budget.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	-10	-15	-15
	These figures are set out in Table 2.1 of the Budget and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	CCT incentives for ultra low emission vehicles (ULEVs) will improve the price competitiveness of ULEVs company cars compared to non-ULEVs and could therefore support the demand for ULEVs company cars in the UK.				
Impact on individuals and households	Over 90 per cent of individuals receiving company cars have incomes above the UK median income for taxpayers, and around 60 per cent are higher or additional rate taxpayers. The measure results in a basic rate taxpayer driving a zero emission car with a list price of approximately £28,500 paying £450 less CCT in 2015-16 compared to previously announced policy. A higher rate taxpayer would pay £900 less in 2015-16. In 2015-16, such a basic rate taxpayer would pay £470 less than a basic rate taxpayer with a conventionally fuelled car that emits between 115-119 CO_2g/km with a list price of approximately £18,000. A higher rate taxpayer would pay £940 less in 2015-16.				
Equalities impacts	The changes apply equally to all company car drivers. There are no particular impacts on people with protected characteristics.				

Impact on business including civil society organisations	The measure is expected to have no impact on the reporting and administration requirements of businesses (of all sizes including small firms) or civil society organisations. Businesses that offer company cars will benefit from lower NIC liabilities on ULEVs compared to conventionally fuelled cars.
Operational impact (£m) (HMRC)	Routine IT and guidance changes required for HM Revenue & Customs.
Other impacts	<u>Carbon emissions and wider environment impact</u>: this measure, together with the wider support the Government provides to ULEVs, will encourage the purchase of ULEVs and hence contribute to Government objectives to reduce greenhouse gas emissions from road transport. However, given that the market is at an early stage of development it is not possible to precisely estimate the impact on ULEV sales. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

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

HM Revenue & Customs

Simpler income tax for the simplest small businesses

Who is likely to be affected?

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

General description of the measure

Eligible small businesses (generally those with receipts not exceeding the VAT registration threshold) will be able to use a simple method to work out their taxable profits. The simple method is based on money-in money-out recording (the ‘cash basis’), rather than accounts prepared on an accruals basis. Businesses using the simple method will not have to make year end accounting adjustments and other calculations primarily designed for larger or more complex businesses. They will not have to compute figures of debtors, creditors and stock, or generally distinguish between 'capital' and ‘revenue’ expenditure.

Unincorporated businesses will also be able to use simplified flat rates to calculate certain business expenses

Policy objective

The measure will clarify and simplify self assessment of business income, to make it easier for small businesses to meet their tax obligations and give them greater certainty that their tax affairs are correct.

Many businesses will benefit from adopting these measures, although they will not be suitable for all small businesses. HM Revenue & Customs (HMRC) will ensure the measures are clearly aimed at those who will most benefit from the schemes, and will provide support to help customers identify which method of computing taxable income best suits their business.

Background to the measure

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

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

HMRC issued a consultation document in March 2012 and workshops were undertaken with interested parties. HMRC considered all the responses to the consultation as detailed in the summary of responses published on 11 December 2012.

HMRC published draft legislation for consultation in December 2012 and, in response to feedback on the draft legislation and after undertaking user testing, has made some design changes to the simpler income tax legislation.

These design changes include:

- businesses using the cash basis will continue to do so until their circumstances change so that the cash basis is no longer suitable for them;
- businesses using the cash basis will not have to use the simplified flat rate expenses for their cars; and,
- simplifying the legislation.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

The measures will apply for the tax year 2013-14 and onwards.

Current law

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

Capital expenditure is not an allowable deduction for tax purposes as laid out in section 33 ITTOIA, although a business can claim capital allowances in respect of certain capital expenditure, for example plant and machinery under the Capital Allowances Act 2001.

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

Barristers can, under section 160 ITTOIA, use a cash basis in the early years of trading, and on moving to profit figures prepared under GAAP can have any adjustment to profits arising on the move spread over a number of years as provided in section 238 ITTOIA.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow eligible small businesses to calculate their taxable income by taking business income received in a year and deducting business expenses paid in a year. This will mean they will not need to adjust for debtors, creditors and stock, and they will generally not have to distinguish between revenue and capital expenditure. Capital allowances will remain available for expenditure on cars only.

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

For simplified expenses, legislation will be introduced in Finance Bill 2013, with effect for the tax year 2013-14, to allow all unincorporated businesses to choose, on a simplified flat rate basis, to deduct:

- motoring expenses for cars, motorcycles and goods vehicles;
- business use of home; and,
- private use of business premises.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	-165	+25	-5	negligible
	These figures are set out in Table 2.2 of Budget 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The impact of the proposals will depend on the degree of alignment that is feasible with other income calculations individuals and households may need to make for other purposes, such as, in the future, Universal Credit or for other benefits. HMRC have worked closely with the Department for Work and Pensions to align the respective requirements of simpler income tax and Universal Credit as far as possible.				
Equalities impacts	The proposals relate to a voluntary simplified scheme to compute business income for tax purposes. No adverse impact on equality of protected groups has been identified.				
Impact on business including civil society organisations	These measures could impact: • all unincorporated businesses as they can choose to use simplified flat rate expenses; and, • eligible small unincorporated businesses that can choose to use the cash basis to simplify how they work out their profits for tax purposes. There are approximately 3 million eligible businesses. Research shows that a cash basis is the way many unincorporated business customers currently calculate their tax. These new schemes therefore potentially benefit the majority of existing small businesses by providing them with the certainty and confidence that they are now meeting their self assessment (SA) obligations in full and reducing their own costs by enabling them to get their tax right first time. This should reduce the contact HMRC receives from customers who contact us for reassurance. HMRC will extend the support it provides businesses by providing guidance and tools to encourage new businesses in particular to use the simpler schemes from day one where they fit the needs of the business. It will also work closely with commercial software providers and other intermediaries interested in providing recording keeping and related tools for small businesses. It is hoped that, in adopting cash basis from day one, many new SA business registrations (which total in the hundreds of thousands p.a.) will avoid the need to carry out time-consuming end-of-year accruals based adjustments. HMRC will continue to communicate the existence and benefits of the scheme(s) after April 2013 and, over time, it is expected that the number of businesses which use these schemes will grow: for example self-employed customers who transfer from tax credits to Universal Credit (which requires monthly cash basis reporting) will be encouraged to realise the business benefits of using the cash basis for tax.				

<table>
<tr><td rowspan="14"></td><td colspan="3">These simplifications are intended to enable businesses to do their tax themselves and are therefore very much aimed at the approximately 30 per cent of customers who do not have an agent. In addition, it is likely that a proportion of new businesses will find they can do their tax themselves - estimates suggest around 2 per cent of customers may in future not need to use an agent due to the simplifications introduced in April 2013. Any growth in self-serve will mean further customer savings.

Once established as routine, cash basis and/or simplified expenses will make it easier for very large numbers of small business customers to get their tax right, creating greater levels of confidence amongst an often, unsupported, population.</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>£3.0m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>£540k</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£5.7m</td><td>5</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>£0</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>£6.3m</td><td>N/A</td></tr>
<tr><td>Total Benefit (PV)</td><td>£31.3m</td><td>5</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£17.2m - £34.4m</td><td>5</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£480k - £590k</td><td>£5.2m - £7.7m</td><td>-£4.8m - -£7.1m</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="3">Potential options for changes to paper and online tax returns are being considered. Initial estimates of the external IT costs of these options are £432,000.</td></tr>
<tr><td>Other impacts</td><td colspan="3"><u>Small firms impact test:</u> the measure is targeted at small firms and steps have been taken to consult with them directly and through their representative bodies. As a result of all consultation responses the legislation has been simplified, the requirement to use fixed rate mileage expenses if using the cash basis has been removed and a business in the cash basis will stay in the cash basis unless circumstances change. The schemes and supporting guidance are also being customer user-tested to ensure the process is easy for small businesses to calculate their own tax.

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

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Robert Nott (email: robert.nott@hmrc.gsi.gov.uk) or contact Tony Linehan on 020 7147 0527 (email: tony.linehan@hmrc.gsi.gov.uk).

HM Revenue & Customs

Corporation tax: main rate and small profits rate

Who is likely to be affected?

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

General description of the measure

At Autumn Statement 2012, the Government announced that the CT main rate will be reduced to 21 per cent for the Financial Year beginning 1 April 2014.

This measure announces that from 1 April 2015, the CT main rate for non-ring fenced profits will be further reduced and unified with the small profits rate (SPR). The new unified CT main rate will be set at 20 per cent.

Policy objective

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

Background to the measure

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

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

The SPR is generally set at the start of each tax year and was set at 20 per cent for the year beginning 1 April 2012 and remains at 20 per cent for the year beginning 1 April 2013.

The measure announces an additional one per cent cut to the CT main rate for the year beginning 1 April 2015 and the unification of the CT main rate with the SPR.

This Tax Information and Impact Note in part supersedes the note published at Autumn Statement 2012 to reflect the changes announced then to the CT main rate.

Detailed proposal

Operative date

The reduction in the CT main rate announced at Autumn Statement 2012 for Financial Year 2014 will have effect on and after 1 April 2014.

The unified CT main rate announced at Budget 2013 for Financial Year 2015 will have effect on and after 1 April 2015.

Current law

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

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to reduce the main rate of CT for all non-ring fence profits to 21 per cent from April 2014, and to 20 per cent for Financial Year 2015.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>nil</td><td>-5</td><td>-400</td><td>-785</td><td>-865</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">A lower CT rate makes the UK more attractive as a destination to locate business activity. A reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure concerns incorporated businesses and has no direct impact on individuals or households.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure concerns the taxation of the body corporate which is a non-gender/race specific entity in law. As such it is very unlikely that there will be any impact on equality.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure will lower the tax bills of 40,000 businesses which have profits over £1.5 million and pay at the main rate of CT; and a further 41,000 which have profits between £300,000 and £1.5 million and pay at the main rate of CT but receive marginal relief.

The introduction of a unified rate will remove the requirement to determine which rate of CT a company should be paying, which represents a reduction in annual administrative costs for companies previously paying at the small profits rate. There will also be an ongoing administrative burden saving for those companies which previously made a claim to marginal relief.

There will be a one off cost as businesses familiarise themselves with the rate change and update administrative systems. This will affect around 900,000 businesses paying CT at the main or small profits rate.

This measure will have no impact on civil society organisations.

<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£6m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£6m</td><td>N/A</td></tr>
</table>
</td></tr>
</table>

	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£5.5m	5
	Total Benefit (PV)	£24.5m	N/A
	Net Benefit (NPV)	£18.5m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	**Decrease**	**Net Impact**
	0	£5.5m	-£5.5m
Operational impact (£m) (HMRC or other)	Costs of system changes are still being investigated.		
Other impacts	Competition assessment: a lower CT main rate makes the UK more attractive as a destination to locate. Small firms impact test: for those affected, the impact is positive - a reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment. Other impacts have been considered and none have been identified.		

Monitoring and evaluation

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

Further advice

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

HM Revenue & Customs

Bank Levy 2014 rate change

Who is likely to be affected?

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

General description of the measure

The Government has consistently set out its intention that the Bank Levy should raise at least £2½ billion each year. To ensure this and to take account of the benefit to the banking sector from the additional reductions in corporation tax announced at Budget 2011, Budget 2012, Autumn Statement 2012, and Budget 2013, the rate of the Bank Levy will increase to 0.142 per cent from 1 January 2014. A proportionate increase to 0.071 per cent will be made to the half rate, also with effect from 1 January 2014.

Policy objective

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

Background to the measure

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

At Budget 2013, the Government announced the main rate of corporation tax will be reduced to 20 per cent from April 2015.

At Autumn Statement 2012, the Government announced an increase in the rate of the Bank Levy to 0.130 per cent from 1 January 2013.

Detailed proposal

Operative date

The measure increases the rates of the Bank Levy from 1 January 2014 to 0.142 per cent for the full rate and 0.071 per cent for the half rate.

Current law

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

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the rates of Bank Levy. For periods falling wholly or partly after 1 January 2014 the rate applying to chargeable equity and long term chargeable liabilities will be increased from 0.0625 per cent to 0.071 per cent and the rate for short term chargeable liabilities will be increased from 0.130 per cent to 0.142 per cent.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+195	+250	+245	+250
	These figures are set out in Table 2.1 of the Budget and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	The Bank Levy complements wider regulatory reforms aimed at improving financial stability, including higher capital and liquidity standards. The measure will encourage banks to adjust their activities in favour of less risky funding models.				
Impact on individuals and households	There is no direct impact on individuals and households. The Bank Levy is a tax on the balance sheets of banks, banking groups, and building societies.				
Equalities impacts	The measure is not expected to have a direct or disproportionate impact on any of the protected equality groups.				
Impact on business including civil society organisations	The Bank Levy currently affects in the region of 30 banking groups and building societies. The impact on these businesses as a result of this change is expected to be negligible in terms of additional administrative and compliance costs. The Bank Levy has no direct impact on businesses and organisations beyond those taxpayers.				
Operational impact (£m) (HMRC or other)	The changes proposed here add no additional costs.				
Other impacts	Competition assessment: the scope of the Bank Levy has been specifically designed to ensure a level playing field for all those affected by it in the UK. Small firms impact test: the banks, building societies and banking groups affected by the Bank Levy are not considered to be small firms. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The Bank Levy will be reviewed during 2013 to make sure it is operating efficiently. Receipts from the Bank Levy are being monitored on an ongoing basis.

Further advice

If you have any questions about this change, please contact Anthony Fawcett on 020 7147 0654 (email: anthony.c.fawcett@hmrc.gsi.gov.uk).

Research and development tax credits reform: Above the Line

Who is likely to be affected?

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

General description of the measure

The introduction of a 10 per cent 'Above the Line' (ATL) credit for large company R&D activity.

Policy objective

The ATL credit is designed to increase the visibility of large company R&D relief and provide greater cash-flow support to companies with no corporation tax liability.

Introducing the credit at a rate of 10 per cent will increase the financial value of relief and improve the competitiveness of the UK as a location for large company R&D investment.

Background to the measure

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

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

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

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

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

The Government set out the detailed design of the ATL credit in draft Finance Bill 2013 legislation, which was open for consultation.

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

Detailed proposal

Operative date

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

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

Current law

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

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to allow large companies to claim R&D relief as a taxable ATL credit to the value of 10 per cent of their qualifying R&D expenditure. The credit will be fully payable, net of tax, to companies with no corporation tax liability.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-10	-240	-165	-165	-170
	This element covers announcements at Budget 2012. These figures are set out in Table 2.2 of Budget 2013.				
	-20	-80	-85	-90	-95
	This element covers measures announced at Budget 2013. These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	This is designed to increase the aggregate level of R&D in the UK economy by reducing the cost of R&D investment for large companies and making R&D relief more visible to those making investment decisions. This will benefit the economy more widely through the positive spillover of new processes, technologies, skills and innovations.				
Impact on individuals and households	There is no impact on individuals, partnerships or households. This change only affects enterprises within the charge to corporation tax.				
Equalities impacts	This change only affects enterprises within the charge to corporation tax and is considered to have no differential impact on any protected equality group.				
Impact on business including civil society organisations	Around 2,500 companies currently claim under the large company R&D tax credit scheme each year. These companies will benefit from a lower cost of R&D investment, and a more visible form of R&D relief that is payable in the absence of corporation tax liability. This measure is expected to have a negligible burden on businesses. Businesses will incur a negligible one off cost as they familiarise themselves with the measure but there will be no change to their on-going administrative burden because the policy only affects how the relief is delivered and there are no reporting differences between the old and new schemes. This measure will have no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	There will be some additional costs in terms of revised guidance and business support.				

Other impacts	Small firms impact test: the impact should be minimal. Small firms will be able to claim the credit in specific circumstances and will be supported in doing so by the specialist R&D units. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Carol Johnson on 020 7147 3252 (email: carol.johnson4@hmrc.gsi.gov.uk) or contact Neil Smillie on 020 7147 0864 (email: neil.smillie@hmrc.gsi.gov.uk).

Foreign currency assets and chargeable gains

Who is likely to be affected?

Companies making chargeable disposals of ships, aircraft, shares or interests in shares which have, or have had, a functional currency other than sterling at some time during the period of ownership of the assets, or which have made a designated currency election.

General description of the measure

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

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

Policy objective

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

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

Background to the measure

This measure was announced by the Government at Budget 2012. Consultation took place from 20 July 2012 to 15 October 2012 and draft legislation was published for consultation on 11 December 2012. In response to consultation the Government has extended the measure to include disposals of ships and aircraft; this change was announced at Budget 2013.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

To operate effectively, the provisions require amendments to the Exchange Gains and Losses (Bringing into Account Gains and Losses) Regulations (EGLBAGLs) (SI 2002/1970) which apply when the assets being disposed of are matched to a hedge.

Therefore, this measure and the amendment to the EGLBAGL Regulations will come into force on the same day, shortly after Royal Assent to Finance Bill 2013.

Current law

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

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

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to change the chargeable gains computation for disposals of ships, aircraft, shares and interests in shares by companies which:

- have a functional currency other than sterling;
- at some time during the period of ownership of the ships, aircraft, shares and interests in shares had a functional currency other than sterling; or,
- have made a designated currency election (under section 9A CTA 2010).

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

There is an exception for investment companies which have made a designated currency election. These companies will be required to use their designated currency.

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

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will have no impact on individuals or households.				
Equalities impact	This measure is not expected to have an equality impact on people with any protected characteristic.				

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses or civil society organisations. It applies to multinational companies which have a functional currency other than sterling, of which, fewer than 500 are affected. Each company will only be affected in years they dispose of ships, aircraft or non-exempt shares or interests in shares. The one-off costs will be negligible and limited to reading/understanding the new legislation. Ongoing savings are negligible with some savings due a simpler chargeable gains computation.
Operational impact (£m) (HMRC or other)	This measure is will have a negligible operational impact.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

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

Decommissioning: increasing tax certainty for oil and gas investment in the UKCS

Who is likely to be affected?

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

General description of the measures

The Government intends to enter into contracts with oil and gas companies to guarantee the basis on which tax relief for decommissioning will be available.

These contracts will take the form of Decommissioning Relief Deeds (Deeds) which will be signed between the Government and eligible companies. Any company that has carried on a ring fence trade, and the associates of those companies, will be eligible to be party to a Deed.

The package of measures described in this note will both enable the Government to meet its liabilities under the contracts and also make the necessary changes to the tax regime to support the introduction of the contracts. This will provide companies with greater certainty in respect of decommissioning tax relief and allow them to adopt post-tax securitisation arrangements for the future costs of decommissioning assets on the UKCS.

For the sake of clarity, the measures do not provide vires to enter in to the Decommissioning Relief Deeds. The vires to enter into the Decommissioning Relief Deeds is found in common law.

Policy objective

This package supports the Government's objective of maximising economic production of oil and gas reserves in the UKCS.

The package aims to achieve this by providing greater certainty over the availability of decommissioning tax relief. This should enable companies to provide for decommissioning costs on a post-tax rather than pre-tax basis and so removes barriers to the transfer of licence interests and increases capacity for additional investment in the UKCS.

Background to the measures

At Budget 2012 the Government announced its intention to introduce a package of measures to secure billions of pounds of additional investment in the UKCS.

Following a period of consultation the Government announced 5 December 2012 the measures outlined in this note to support the delivery of its policy objectives.

Detailed proposal

Operative date, current law and proposed revisions

The operative date, current law and proposed revisions for each of the measures are set out in the Appendix to this note.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>+140</td><td>+425</td><td>+365</td><td>+330</td><td>+480</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.2 of Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">By reducing uncertainty this measure should encourage significantly higher capital investment in the UKCS and thereby boost UK oil and gas production. The Office for Budget Responsibility has adjusted its forecast upwards to account for the increase in oil and gas production.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measures will not impact individuals and households as it only applies to companies involved in the UKCS oil and gas industry. As oil and gas are internationally traded commodities changes to the taxation of upstream production are unlikely to feed through to the pump and domestic gas prices. However, any significant increase in production could contribute to the UK's security of energy supply.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This package of measures only applies to companies involved in the oil and gas industry on the UKCS and is considered to have no differential impact on any equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There are around 350 companies involved in the oil and gas industry on the UKCS. In conjunction with the Government's wider objective of providing companies with greater certainty in respect of decommissioning tax relief these measures will enable companies to provide for decommissioning security costs on a ‘post-tax’ basis. In consequence this will increase capacity for additional investment in the UKCS. Companies’ one-off compliance costs of signing up to contracts and ongoing administration burdens involved in checking half yearly updates of tax history are expected to be negligible.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The operational impact for HMRC will be in providing companies with statements of petroleum revenue tax history but the cost of this will be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Carbon assessment</u>: oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU Emissions Trading System. Overall UK energy use is determined by a wide range of factors, which are not expect to be significantly affected by the projected increase in production from the UK Continental Shelf.

<u>Sustainable development, wider environment and health</u>: the oil and gas industry is heavily regulated to minimise pollution or disturbance to habitat or wildlife, and to protect the health and wellbeing of its workers.

<u>Small firms impact test:</u> these changes apply to all oil and gas production companies operating on the UKCS including any small businesses. However, any impact on small firms is considered negligible and is offset by the benefits that this measure introduces.

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

Monitoring and evaluation

The measures covered by this note will be kept under review by monitoring the operation of decommissioning relief deeds, company accounts and returns, and examining claims. In addition, HM Treasury will be required to lay before Parliament an annual report on the Government's liabilities under decommissioning relief agreements.

Further advice

If you have any questions about these changes, please contact Paul Philip on 020 7438 6993 (email: paul.philip@hmrc.gsi.gov.uk).

Appendix: Decommissioning: increasing tax certainty for oil and gas investment in the UKCS

Detailed proposals

1. Decommissioning Relief Agreements

Operative date

This measure has effect in relation to financial years ending on or after 31 March 2014.

Current law

Sections 163 to 165 and section 416 Capital Allowances Act 2001 and sections 3(1)(i) and 3(1)(j) of OTA 1975 provide tax relief for the costs of decommissioning. However, no current law guarantees the relief will be available in the future.

Proposed revisions

Companies will be able to enter into decommissioning relief agreements. Companies will then be able to obtain payment under the agreements if the tax code changes to reduce the amount of relief available in respect of decommissioning expenditure. Companies may, under certain circumstances, also claim under the agreements if they are required to incur expenditure as a result of another company defaulting in respect of its decommissioning liability. Legislation will be introduced in Finance Bill 2013 which will provide that payments by HM Treasury under decommissioning relief agreements made as a result of claims shall be made out of money provided by Parliament.

2. Decommissioning Relief Agreements: Effect of claims on petroleum revenue tax (PRT)

Operative date

This measure will have effect in relation to any sum payable to a company under a decommissioning relief agreement on or after the date of Royal Assent to Finance Bill 2013.

Current law

Current PRT legislation allows for the costs of decommissioning and, as for any other cost, a company's history of taxable profits will reflect such expenditure that is incurred. This is either directly (through the reduction of current year profits) or indirectly (through loss relief arising from such expenditure).

Proposed revisions

This measure treats, for the purposes of PRT, decommissioning expenditure taken into account in calculating a payment under a decommissioning relief agreement as having reduced the assessable profits of a company notwithstanding the fact that such expenditure, in the absence of this provision, would not necessarily have been allowed for PRT purposes. In addition the company is treated as if it had received the tax relief it would have received (and which is now being paid out under the Deed).

3. Claims under agreement not to affect oil allowance

Operative date

This measure will have effect in relation to any sum payable to a company under a decommissioning relief agreement on or after the date of Royal Assent to Finance Bill 2013.

Current law

Current PRT legislation allows relief for losses in priority to oil allowance and thus the carry back of losses can release "surplus" oil allowance to be set against the profits of other companies. In the context of claims under a decommissioning relief agreement this release of oil allowance can create uncertainty about, and reduce the amount, that other companies may claim.

Proposed revisions

Where there is a default and a company makes a claim under a decommissioning relief agreement this measure prevents the release of oil allowance as described above.

4. Decommissioning Relief Agreements: Terminal losses accrued by virtue of another's default

Operative date

This measure will have effect in relation to decommissioning expenditure incurred (in consequence of a default) on or after the date of Royal Assent to Finance Bill 2013.

Current law

For the purposes of petroleum revenue tax (PRT) paragraph 15 of Schedule 17 to Finance Act 1980 (FA 1980) provides for terminal losses in respect of a current participator in an oil field to be carried back and relieved against profits of a former participator in that oil field. This results in a former participator obtaining tax relief in respect of expenditure incurred by the current participator.

Proposed revisions

This measure provides that, where a company that is a party to a decommissioning relief agreement has incurred decommissioning expenditure in respect of an oil field as a consequence of another company defaulting on its decommissioning liability, the terminal loss provisions of paragraph 15 of Schedule 17 to FA 1980 will not apply in relation to allowable losses of the company incurring the expenditure in respect of that field.

5. Restriction on allowances for certain decommissioning expenditure

Operative date

This measure will have effect in relation to expenditure incurred on decommissioning carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Sections 163 to 165 Capital Allowances Act 2001 provide relief for the decommissioning of offshore installations.

Proposed revisions

This measure introduces new sections which apply where a person provides a decommissioning service to a ring fence company with which the person is connected. The plant and machinery allowances available to the ring fence company in respect of decommissioning expenditure are restricted to the cost to the connected party, but with a less restrictive regime in two circumstances. A cost plus method can be applied to some routine services, while no restriction is applied in some circumstances where the ring fence company has co-venturers. The sections also restrict allowances where a transaction, scheme or arrangement has an avoidance purpose.

6. Expenditure on decommissioning onshore installations

Operative date

This measure will have effect in relation to expenditure incurred on decommissioning carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 163 Capital Allowances Act 2001 defines general ‘decommissioning expenditure’ for plant and machinery allowances for the decommissioning of offshore assets used in oil and gas production.

Proposed revisions

This measure extends the meaning of general ‘decommissioning expenditure’ to also include some onshore assets used for offshore oil and gas production.

7. Capital Allowances: Expenditure on site restoration

Operative date

This measure will have effect in relation to expenditure incurred on site restoration carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 416 Capital Allowances Act 2001 provides relief for expenditure on site restoration within 3 years of ceasing to trade.

Proposed revisions

This measure introduces new sections into Capital Allowances Act 2001 which provide relief under the Mineral Extraction Allowances code for expenditure on site restoration incurred by a person who is or has been carrying on a ring fence trade. The measure also provides that any resulting loss can access the extended period for which loss relief may be given for ring fence trades, and extends the period within which a loss claim can be made.

8. Restriction on allowances for qualifying expenditure on site restoration

Operative date

This measure will have effect in relation to expenditure incurred on site restoration carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 416 Capital Allowances Act 2001 provides relief for expenditure on site restoration within 3 years of ceasing to trade.

Proposed revisions

This measure introduces new sections into Capital Allowances Act 2001 which apply where a person provides a site restoration service to a ring fence company with which the person is connected. The relief in respect of site restoration available to the ring fence company is restricted to the cost to the connected party, but with a less restrictive regime in two circumstances. A cost plus method can be applied to some routine services, while no restriction is applied in some circumstances where the ring fence company has co-venturers. The sections also restrict relief where a transaction, scheme or arrangement has an avoidance purpose.

9. Decommissioning expenditure taken into account for PRT purposes

Operative date

This measure will have effect in relation to expenditure incurred in connection with decommissioning carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Section 330B Corporation Tax Act 2010 applies where decommissioning expenditure reduces the amount of PRT chargeable. It provides a reduction from profits liable to the supplementary charge (SC) for the "relevant accounting period".

Proposed revisions

This measure amends section 330B to change the accounting period for which a deduction is given. The measure provides that the deduction from profits provided by section 330B is given for the accounting period for which an addition to profits is provided by section 330A in respect of decommissioning expenditure.

10. Oil Taxation: Abandonment guarantees and abandonment expenditure

Operative date

This measure will have effect in relation to expenditure incurred on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Ring Fence Corporation Tax (RFCT)

Section 292(1) and (2) Corporation Tax Act 2010 (CTA) provides that if expenditure on obtaining an abandonment guarantee is allowed for Petroleum Revenue Tax (PRT) under section 3(1)(hh) Oil Taxation Act 1975 (OTA) it is to be allowed for RFCT.

Section 292(3) and (4) CTA denies relief for RFCT to the participator on any expenditure which is met directly or indirectly by a payment under an abandonment guarantee.

Section 293 CTA provides relief where a payment is made by the guarantor under an abandonment guarantee, and under the terms of the guarantee the participator is liable to pay a sum to the guarantor. Essentially, section 293 aims to restore the tax position of the defaulting participator to what it would be if it had incurred the reimbursement expenditure directly on decommissioning.

Section 297 CTA provides relief by way of capital allowances for expenditure incurred by a participator in meeting a defaulter's abandonment expenditure. This section grants access to capital allowances to a participator who incurs decommissioning costs in respect of an interest which it does not own.

Section 298 CTA provides that where a defaulter wholly or partly reimburses a contributing participator for payments met by that participator because of the defaulter's previous default, then the reimbursement expenditure is allowed as a deduction in computing the defaulter's ring fence profits.

In relation to the recipient section 298(4) CTA provides that the reimbursement expenditure received is treated as income of the recipient's ring fence trade for the relevant accounting period.

<u>Petroleum Revenue Tax (PRT)</u>

There are similar rules in place for PRT as those described for RFCT.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove the application of the contribution and reimbursement rules as they apply to RFCT and PRT. This will be achieved by:

- Ensuring that the scope of relief provided by sections 292(1) and (2) and 297 CTA extends to non-taxable fields;
- Amending and repealing the RFCT and PRT contribution and subsidy rules in sections 292(3) and (4) CTA, paragraph 8, Schedule 3, OTA, paragraph 2C, Schedule 5, OTA and section 105 FA; and,
- Repealing the RFCT and PRT relief for reimbursement rules in sections 293 and 298 CTA, and sections 106 and 108 FA.

11. Oil Taxation: Receipts arising from decommissioning

Operative date

This measure will have effect in relation to expenditure incurred on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

None.

Proposed revisions

This measure introduces new section 298A into Corporation Tax Act 2010 and new section 225V into Income Tax (Trading and other Income) Act 2005. This measure provides for the taxation of any profit which arises to a person from the incurring of decommissioning expenditure as a consequence of the default of another person.

12. Removal of Inheritance Tax charges in respect of decommissioning security settlements

Operative date

This measure will be treated as having come into force on 20 March 1993.

Current law

The property held in decommissioning security settlements, whether money or alternative provision, is settled property for Inheritance Tax (IHT) purposes and as such is ‘relevant property’ (section 58 Inheritance Tax Act 1984 (IHTA)). Relevant property held in settlements is within the charge to IHT in accordance with the provisions contained in Part 3 of IHTA.

IHT charges arise as follows:

- A ten-year anniversary charge of up to 6 per cent (section 64 IHTA).
- An exit charge whenever assets cease to be relevant property. This usually occurs when assets are taken out of the trust (section 65 IHTA).

Proposed revisions

The measure amends the definition of relevant property at section 58(1) IHTA to exclude from the charge to IHT property held in decommissioning security settlements.

13. Loan relationships

Operative date

This measure will have effect in relation to accounting periods beginning on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

The loan relationships legislation is contained in Parts 5 and 6 of Corporation Tax Act 2009 (CTA 2009), and applies to the taxation of debt and interest.

The legislation provides a special tax regime for companies in respect of ‘loan relationships’, which are defined as ‘money debts’ arising from ‘the lending of money’. Gains and losses relating to loan relationships are taxed according to how they are reflected in accounts.

Amounts arising on loan relationships are taxed under Part 5, Chapter 3, CTA 2009 and it is possible that taxable loan relationship credits might arise where a company makes a payment into a Decommissioning Security Agreement (DSA) trust fund to meet future decommissioning costs. Where these funds are invested by the DSA trust and earn interest the income may be taxed twice, once in the hands of the DSA trustee and also as a loan relationship credit of the company.

Proposed revisions

The measure removes the possibility of income arising in the DSA trust being taxed twice. This is achieved by ensuring that no loan relationship credits or debits are brought into account in relation to relevant DSA trusts.

A relevant DSA trust is one where the sole or main purpose of the DSA is to provide security for the purpose of obligations under an approved decommissioning programme.

14. Redundant assets

Operative date

This measure will have effect in relation to expenditure incurred on decommissioning carried out on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

Sections 163 to 165 Capital Allowances Act 2001 provide relief for the decommissioning of offshore installations. Section 164(1B) requires that the plant or machinery concerned has been brought into use for the purposes of the ring fence trade of the person incurring the expenditure. Where a buyer acquires disused plant or machinery as part of a field acquisition, and later decommissions it without having used it, relief is unavailable.

Proposed revisions

The measure provides that if the plant or machinery was incidentally acquired as part of a relevant installation which was acquired and has been brought into use for the purposes of the ring fence trade, it is to be regarded as having been brought into use for the purposes of that trade.

Corporation tax: deferral of payment of exit charges

Who is likely to be affected?

Companies that intend to move their operations to another EU or European Economic Area (EEA) member state.

General description of the measure

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

Policy objective

This measure will minimise the relative cash flow disadvantage associated with the transfer of a company's place of management to another EU or EEA member state, when compared to an equivalent intra-UK transfer. This will ensure that UK rules are compatible with the Treaty on the Functioning of the European Union.

Under this measure, the ability of a company to elect to defer the payment of certain corporation tax charges will be subject to such conditions as are required to ensure that HM Revenue & Customs (HMRC) receive full payment of the deferred amount over time.

Background to the measure

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

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

This measure will apply retrospectively to allow companies to opt for deferred payment arrangements in respect of exit charges arising on or after 11 March 2012.

Current law

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

There are various classes of assets that give rise to such a charge, and which are affected by this measure. Sections 185 and 187 of the Taxation of Chargeable Gains Act 1992 (TCGA) provide for general rules on taxation of unrealised capital gains levied on migrating companies, and section 25 TCGA provides for similar treatment where a non-resident company ceases to use or hold assets for the purposes of a trade carried on in the UK through a permanent establishment.

Sections 859 and 860 of the Corporation Tax Act 2009 (CTA 2009) provide corresponding rules for the taxation of intangible fixed assets. Sections 609 and 610 CTA 2009 provide for the taxation of the value of rights and liabilities arising from derivative contracts on the occasion of a company migrating. Sections 333 and 334 CTA 2009 provide corresponding rules for the treatment of loan relationships and Chapter II, Part 3 CTA 2009 provides for the revaluation of trading stock when a company ceases trading in the UK.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 which retains the existing rules that charge companies corporation tax on all the profits and gains arising in the period up to the date they cease to be resident in the UK within nine months and a day of the end of that period. However, where a company that is incorporated in the UK or another EEA territory ceases to be UK resident and becomes a resident of, and established in, another Member State of the EEA, it will have two further payment options to manage corporation tax charges that arise under the exit charge provisions. These payment options will likewise be available to non-resident companies that carry out a trade through a UK permanent establishment, where the transfer of a whole or part of that UK business to another Member State of the EEA creates an exit charges liability.

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

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

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

The amounts deferred under either of the above options will be subject to interest. Companies will be able to defer tax using either or both methods, so long as they clearly state which method is to be adopted for which assets when applying for deferral.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will have no impact on individuals or households.				
Equalities impacts	This measure is not expected to have an equality impact on people with any protected characteristics.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses or civil society organisations. It will provide companies with an option to elect to defer the payment of exit charges, without prejudice to any of their existing rights. The number of companies affected by this measure is expected to be very small; this may be revised after consultation. The impacts on businesses' one-off compliance costs are expected to be negligible as a very small number of businesses will need to familiarise themselves with the change. The impacts on businesses' on-going administrative burdens are also expected to be negligible as a very small number of businesses will be affected. If affected they will either have to make an annual report to HMRC or take advantage of an option to use a simplified method that would greatly reduce these burdens. There will be no impact on companies that do not opt to defer payment.				
Operational impact (£m) (HMRC or other)	The operational impact of this measure is expected to be negligible.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

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

Controlled foreign companies regime

Who is likely to be affected?

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

General description of the measure

A package of measures that will:

- extend the scope of the new CFC rules so they apply to profits from all assets leased under finance leases, including hire purchase and similar types of contract;
- limit the amount of double taxation relief (DTR) for UK companies that form part of certain arrangements involving the routeing of a loan from one CFC to another CFC through a UK company;
- ensure that references to the interpretation of certain accounting practices are consistent throughout the new CFC rules;
- introduce a minor consequential amendment to the arbitrage anti-avoidance rules;
- align the definition of a group treasury company in the Worldwide Debt Cap rules and the CFC rules;
- relax the limitation for qualifying resources funded from UK debt in specified circumstances; and,
- ensure the matched interest rule can apply to all leftover profits.

Policy objective

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

Background to the measure

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

Draft legislation on a number of these elements was published in December 2012. This Tax Information and Impact Note extends and replaces the note published in December 2012.

Detailed proposal

Operative date

The changes to the CFC rules will have effect, with exceptions, for CFCs with accounting periods beginning on or after 1 January 2013, which is the commencement date of the new CFC rules as a whole. The exceptions are:

- the new limitation to DTR will apply to UK companies that derive profits from a conduit financing arrangement involving CFCs with accounting periods beginning on or after 1 January 2013.

- the changes to ensure consistent interpretation of generally accepted accounting practice and the consequential change to the arbitrage rules have effect from 1 January 2013.
- the change to the CFC definition of group treasury companies will include a transitional rule to enable the FA 2012 definition to be used for accounting periods actually ending, or by notice to be treated as deemed to end, before 20 March 2013.

Current law

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

Proposed revisions

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

- the current definition of 'relevant finance lease' (section 371VA TIOPA) will be amended to widen its scope by including making assets available by way of a hire purchase or similar contract. The scope of the new CFC rules will be extended to include profits derived from relevant finance leases of any assets apart from those that are loan relationships.
- those parts of the new CFC rules that require consideration of accounting treatment where accounts have not been prepared under either UK generally accepted accounting practice or international accounting standards will be made by reference to international accounting standards.
- Part 2 of TIOPA will be amended to limit the amount of DTR that can be claimed as a credit by a UK company (or given as a deduction if no claim for credit is made) when one or more UK companies form part of an arrangement whereby a loan is made from one CFC to another CFC that is the ultimate debtor in relation to that loan. Where one or more UK companies form part of a conduit in such an arrangement the DTR by credit or deduction will be limited to the amount of corporation tax that would be due in respect of the UK corporation tax profits that arise from that arrangement.
- a minor consequential change will be made to section 236(4) TIOPA to ensure the arbitrage rules continue to work as intended. The change ensures that the arbitrage rules do not apply merely as a result of the application of another territory's CFC rules that are similar to those within Part 9A TIOPA.
- makes an amendment to the matched interest rule at section 371IE TIOPA to ensure that the leftover profits that can be exempted under that rule are not restricted to only those profits that would otherwise be subject to section s314A TIOPA. This will ensure for example that where the leftover profits include a FOREX gain, that gain can be included in the profits exempted.
- makes a minor consequential amendment to the CFC regime’s definition of group treasury companies. This brings the CFC definition in line with the wider changes to the Worldwide Debt Cap’s definition of group treasury companies at section 316 TIOPA.

- to relax the qualifying resources UK debt restriction rule within section 371IB(9) TIOPA for:
    - o UK debt incurred and repaid as part of arrangements which are, or are similar to, ‘daylight facilities’ i.e. within 48 hours, and,
    - o UK third party debt incurred as part of an arrangement, such as an acquisition of a third party company, which requires short term (up to six months) bridging finance, and that same finance is repaid from a subsequent rights issue.

Summary of impacts

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

Monitoring and evaluation

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

Further advice

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

Investment trust amendments

Who is likely to be affected?

Investment trust companies (ITCs) and their investors.

General description of the measure

This measure removes two unintended consequences of changes to the tax rules for ITCs which were made for accounting periods commencing on or after 1 January 2012.

Policy objective

This measure supports the Government's objective of improving the UK tax system and making the UK a more competitive domicile for ITCs.

Background to the measure

Changes to the tax rules for ITCs were introduced by section 49 Finance Act 2011 (FA 2011) and the Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999) (the Regulations) for accounting periods commencing on or after 1 January 2012.

The amendments made by this measure have not been subject to formal consultation as they are wholly relieving. HM Revenue & Customs (HMRC) has informally discussed the proposed changes with stakeholders.

Detailed proposal

Operative date

The amendment made by this measure to section 1158 of the Corporation Tax Act 2010 (CTA 2010) (condition A for a company to be an investment trust) has effect in relation to accounting periods commencing on or after 1 January 2012.

The amendment made by this measure to the Regulations (the income distribution requirement: exceptions) will have effect from the coming into force date of the statutory instrument making that amendment, expected to be by 30 June 2013.

Current law

A company that is approved as an ITC benefits from an exemption from corporation tax on its chargeable gains (section 100(1) of the Taxation of Chargeable Gains Act 1992). This is to reflect the fact that investors in ITCs will be chargeable to capital gains tax or corporation tax on disposal of their holdings and the rules therefore prevent a double layer of taxation.

In order to be treated as an ITC for an accounting period, a company must be approved by HMRC and meet Conditions A to C in section 1158(2) of CTA 2010 throughout that period. Condition A, as currently drafted, is that 'the business of the company consists of investing its funds in shares, land or other assets with the aim of spreading investment risk and giving members of the company the benefit of the results of the management of its funds'.

Regulation 22 provides exceptions to the 'income distribution requirement' in Regulations 19 and 21. The exceptions apply where making a distribution would be contrary to a restriction imposed by law or would be within a de minimis amount.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Condition A in section 1158 CTA 2010 to remove an unintended consequence of changes made by FA 2011. The amendment will have retrospective effect, effective for accounting periods commencing on or after 1 January 2012. It will make it clear that provided all, or substantially all, of the business of a company is investing its funds in shares, land or other assets with the aim of spreading investment risk then other ancillary activities will not prevent Condition A from being satisfied.

Secondary legislation will be introduced to amend the Regulations to provide a further exception to the income distribution requirement in Regulations 19 and 21 where an ITC has accumulated realised revenue losses in excess of its income for an accounting period.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The Government does not expect there to be any significant impact on individuals and households.				
Equalities impacts	The Government does not expect there to be any significant equalities impact.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Any impact will affect ITCs and their advisers in a positive way by reducing compliance burdens.				
Operational impact (£m) (HMRC or other)	The measure is not expected to have any significant impact.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

HMRC will continue to monitor the impact of the wider reforms to the rules for ITCs through the monitoring of applications for approval and self assessment returns, and through engagement with industry and other stakeholders.

Further advice

If you have any questions about this change, please contact Wayne Strangwood on 020 7147 2545 (email: wayne.a.strangwood@hmrc.gsi.gov.uk).

Amendments to the Offshore Funds (Tax) Regulations 2009

Who is likely to be affected?

Investors in offshore funds and managers of offshore reporting funds.

General description of the measure

The measure will address certain technical issues in the operation of the Offshore Funds (Tax) Regulations 2009 (SI 2009 No. 3001) (the Regulations).

Policy objective

The measure will make aspects of the Regulations fairer for UK investors in offshore funds, and ensure that they are taxed in a similar way to investors in equivalent UK funds.

Background to the measure

The rules for taxation of the returns to UK resident investors holding interests in offshore funds were substantially revised following the introduction of the Regulations. The changes to the Regulations made by this measure address particular issues with the operation of those rules that have been identified from engagement with stakeholders.

Detailed proposal

Operative date

A statutory instrument to address the first proposed revision described below comes into force on and after 3 p.m. on 20 March 2013.

A further Statutory Instrument will be published shortly after 20 March 2013, to address the remaining proposed revisions described below, following which there will be a six week period for consultation.

Current law

An offshore fund is defined in Section 355 of the Taxation (International and Other Provisions) Act 2010 (TIOPA).

The rules for taxation of the returns to UK resident investors holding interests in offshore funds are set out in the Regulations. Under the Regulations an offshore fund may apply to be a 'reporting fund' that makes regular reports of its income to its UK investors who are taxable on their share of that income (reported income). The Regulations provide rules for computing the amount of the income to be reported to a UK investor.

Alternatively, if an offshore fund is a non-reporting fund, gains on disposals made by UK investors are taxable as income in addition to any distributions made. This rule is subject to some exceptions.

Proposed revisions

The Regulations will be amended by statutory instrument to achieve the following revisions to the law.

The Regulations will be clarified to put beyond doubt that, in a case where a disposal of an interest in a fund would incur a charge to tax on an offshore income gain then the potential charge will not be avoided by any merger or reorganisation of the fund in which the interest is held. This clarification will be effective on and after 3 p.m. on 20 March 2013.

The remaining changes, described below, will be subject to consultation in draft before the amending regulations are made.

In some cases there can be a technical mismatch between the rules for calculating total reported income and the amount reported to individual investors. This will be corrected.

Where a fund operates 'full equalisation' (as defined in the Regulations) and returns part of the capital cost of a new subscription to the investor in the first reporting period then the Regulations will be amended so that the capital returned can be set off against the first distribution made.

In a case where a fund calculates its reportable income for a reporting period over several 'computation periods' making up the reporting period a change will allow excess expenses of one computation period to be set against income of another within the same reporting period. This will remove a potential distortion to the calculation of reportable income where computation periods are used.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	It is not expected that there will be any significant impact on individuals and households generally, as relatively few individuals invest in offshore funds. However, the proposed amendments would have a positive impact as they would help affected individuals to get their tax affairs right first time.				
Equalities impacts	The measure is not expected to have any significant impact.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. It will affect fund managers and their advisers with responsibility for preparing reports for offshore funds. It is not expected to lead to any increase or decrease in their costs.				
Operational impact (£m) (HMRC or other)	The measure is not expected to have any significant impact.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact John Buckeridge on 020 7147 2560 (email: john.buckeridge@hmrc.gsi.gov.uk) or Wayne Strangwood on 020 7147 2545 (email: wayne.a.strangwood@hmrc.gsi.gov.uk).

HM Revenue & Customs

First-year allowances for energy-saving technologies and the renewable heat incentive for Northern Ireland

Who is likely to be affected?

Businesses in Northern Ireland purchasing plant and machinery that qualifies both for first-year allowances for energy-saving technologies (enhanced capital allowances (ECAs)) and the renewable heat incentive (RHI).

General description of the measure

The measure will ensure that plant and machinery in Northern Ireland that qualifies for both RHI and the ECA for energy-saving technologies is treated in the same way as similar plant and machinery located in the rest of the UK. It also ensures that should a feed-in tariff scheme be introduced into Northern Ireland at a later date, expenditure on plant and machinery that qualifies for such tariffs will be treated in the same way as the rest of the UK.

Policy objective

ECAs 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. This measure ensures that plant and machinery located in Northern Ireland is treated in the same way as similar plant and machinery located in Great Britain ensuring consistency of treatment throughout the UK.

Background to the measure

Following an announcement at Budget 2011, legislation was introduced in Great Britain in Finance Act 2012 precluding expenditure on plant and machinery that receives feed in tariffs or RHI payments from also qualifying for ECAs. This took effect from April 2012.

In November 2012 the RHI scheme for Northern Ireland was introduced. As the Finance Act 2012 legislation only applies to Great Britain, ECAs and RHI are both still available for plant and machinery that qualify for both types of incentive in Northern Ireland, but not in the rest of the UK.

Detailed proposal

Operative date

Generally, the measure will take effect for expenditure incurred on or after 1 April 2013 (for businesses within the charge to corporation tax) or 6 April 2013 (for businesses within the charge to income tax). For expenditure on combined heat and power equipment (CHP), the change will only 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 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 certain limit. For the two year period from 1 January 2013 to 31 December 2014, the Government will introduce legislation in Finance Bill 2013 setting this limit at £250,000 per annum. From 1 January 2015 the limit will be £25,000.

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 Department of Energy and Climate Change (section 45A CAA). ECAs provide a cash-flow advantage over writing down allowances and so act as an incentive to invest.

As many of the technologies that could qualify for tariffs under RHI could also qualify for ECAs, Finance Act 2012 (section 45AA CAA) excludes expenditure on plant and machinery that receives RHI payments from also qualifying for ECAs in Great Britain. This exclusion does not apply to Northern Ireland, because the legislation introducing RHI into Northern Ireland is different to that which applies to the rest of the United Kingdom.

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) or special rate (8 per cent per annum) depending on the technology.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to ensure that plant and machinery that qualifies for both RHI and ECAs for energy-saving technologies in Northern Ireland, is treated in the same way as the rest of the United Kingdom. Northern Ireland does not operate a feed-in tariff scheme. Should such a scheme be introduced into Northern Ireland the legislation ensures that expenditure on plant and machinery that qualifies for such tariffs will be treated in the same way as the rest of the UK.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+5	+10	+10	+10
	These figures are set out in table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costing document published alongside the Budget.				
Economic impact	The measure is not expected to have any significant economic impact.				
Impact on individuals and households	This measure has no impact on households as it would only apply to businesses claiming ECAs.				
Equalities impacts	The ECA schemes are aimed at businesses. HM Revenue & Customs (HMRC) has not identified any specific impact on any equality group.				

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses in terms of their one off compliance and on-going administrative burdens. There will be a negligible one-off cost as businesses familiarise themselves with the measure, and there may be a negligible additional annual saving for businesses who will no longer need to identify whether the equipment they have bought qualifies for ECAs. The main impact of this measure would be on a business's cash flow. This is because the cash flow advantage of ECAs will be lost for investments in RHI qualifying installations, where RHI is claimed. However, any impact would be low because the majority of expenditure for most businesses (99 per cent) on plant and machinery is eligible for full relief under AIA. Until 31 December 2014 the AIA limit is set at £250,000 which covers the majority of all businesses, and after that date when the limit falls to £25,000 the vast majority of all businesses will be covered. A negligible impact on businesses is also expected should a feed-in tariff scheme be introduced into Northern Ireland at a later date. However, it likely that the impact will be considerably less because based on the scheme for Great Britain fewer ECA qualifying technologies qualify for feed-in tariffs than for RHI.
Operational impact (£m) (HMRC or other)	This change will not increase HMRC's processing or compliance resource needs.
Other impacts	<u>Small firms impact test</u>: small firms would not be excluded from the change. However, if their annual expenditure is below the AIA threshold then the change would have no effect. (99 per cent of businesses incur expenditure below the AIA threshold annually). For those businesses who have exhausted their AIA, the cost of RHI qualifying expenditure would be written off over a longer period after the change, which reduces the post-tax rate of return offered by RHI slightly. However, the return is considered to be sufficiently generous to act as a strong incentive to purchase qualifying equipment and therefore the change should not substantially affect the scheme's take up. Similar considerations will apply to the introduction of a feed-in tariff scheme in Northern Ireland. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The take–up of the RHI scheme will be monitored by the Department of Enterprise, Trade and Investment in Northern Ireland and measured against the projected take-up for each technology. Any unexpected adverse effect on the schemes from the capital allowances changes that might contribute to a lower than anticipated take-up would be reviewed.

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 for railway assets and ships

Who is likely to be affected?

Any business purchasing railway assets or ships (as defined in Capital Allowances Act 2001 (CAA)).

General description of the measure

Expenditure on railway assets and ships as defined in legislation is currently excluded from access to 100 per cent first-year allowances (FYAs). This measure removes that exclusion.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system. Investors in railway assets or ships are denied access to FYAs available to others investing in similar assets in different industry sectors. This measure will remove that anomaly. It will also enable the FYAs available for expenditure on energy efficient and environmentally beneficial plant and machinery to function more generally as green incentive measures for the railway and shipping industries.

Background to the measure

The Government announced the measure on 20 March 2013. It has not been subject to formal consultation.

Detailed proposal

Operative date

The measure will have effect for qualifying expenditure on railway assets or ships incurred on or after 1 April 2013.

Current law

Capital expenditure on plant and machinery normally qualifies for tax relief by way of capital allowances. Once businesses have used up their annual investment allowance (AIA), which is £250,000 for the period 1 January 2013 to 31 December 2014, the main rates of plant and machinery allowances are the 18 per cent main rate and the 8 per cent special rate.

There are a number of alternative 100 per cent FYAs available for expenditure on certain classes of assets detailed at section 39 CAA. However, not all expenditure incurred by a business is eligible for FYAs. There are a number of general exclusions to FYAs detailed at section 46 (2) CAA. These general exclusions include, at general exclusion 3, expenditure on ships (as defined at section 94 CAA) and, at general exclusion 4, expenditure on railway assets (as defined at section 95 CAA).

Businesses investing in assets that fall within the CAA definitions of ships or railway assets are therefore not entitled to claim 100 per cent FYAs on that expenditure.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to remove the current general exclusions to FYAs for expenditure incurred on either ships or railway assets.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	This measure may encourage some firms to bring forward their investment in rail assets or ships, but is not expected to have any significant macroeconomic impacts.				
Impact on individuals and households	The decision to remove the exclusion from access to FYAs for expenditure on ships and railway assets will have no impact on individuals and households.				
Equalities impacts	This measure will not have any adverse impacts on the equality of groups with protected characteristics.				
Impact on business including civil society organisations	It is anticipated that the majority of the businesses who will be affected by this measure are concentrated in the shipping and transport sectors (passenger transport, freight transport or railway infrastructure). This measure is expected to have a negligible impact on businesses' on-going administrative costs, as those business affected by the change will still be making capital allowances claims for the equipment if they choose to purchase it. With the removal of the exclusion, businesses will be able to write down expenditure incurred on qualifying plant or machinery on railway assets or ships 100 per cent in year one as opposed to writing down expenditure over a longer period at the main rate of writing down allowances. The measure will therefore provide a cash flow boost for those businesses choosing to claim FYAs. It is anticipated that the impact on businesses' administrative costs will be negligible. This measure will have no impact on civil society organisations who cannot make claims for capital allowances.				
Operational impact (£m) (HMRC or other)	The removal of the exclusions will be incorporated within routine IT and guidance changes.				
Other impacts	<u>Small firms impact test:</u> this measure applies to all sizes of business, but in practice it will only apply to businesses investing in railway assets or ships, which are unlikely to be small firms, due to the costs involved. Any small firm impacted are likely to benefit from qualifying expenditure below the AIA threshold. At the 2012 Autumn Statement, the Government announced that the AIA threshold would be increased from £25,000 to £250,000 per annum for a temporary two year period commencing on 1 January 2013. <u>Wider environment impact:</u> the measure will help to reduce the consumption of energy and water by business by supporting investment in energy efficient and environmentally beneficial plant and machinery. This can help reduce carbon emissions, aiding the UK's carbon reduction commitment obligation, and encourages the sustainable use of water resources. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

There are specific boxes on the corporation tax return to enable companies to claim first-year tax credits. Take up will be monitored using tax return information.

Further advice

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

HM Revenue & Customs

Update of the enhanced capital allowances schemes for energy-saving and environmentally beneficial (water efficient) technologies

Who is likely to be affected?

Businesses purchasing designated plant and machinery which uses energy efficiently, reduces water use or improves water quality.

General description of the measure

This measure updates the lists of technologies and products covered by the energy-saving and water efficient enhanced capital allowances (ECA) schemes.

The schemes allow 100 per cent of the cost of an investment in qualifying plant and machinery to be written off against the taxable profits of the period in which the investment is made, benefiting a business's cash flow.

Policy objective

The schemes aim to reduce the consumption of energy and water by business, by providing an incentive and encouraging investment in efficient plant and machinery. This can help reduce energy costs and carbon emissions, aiding the UK's carbon reduction obligations, and encourages the sustainable use of water resources.

Background to the measure

Since their introduction, in 2001 and 2003 respectively, the schemes have been updated annually to ensure that only the most efficient products are supported.

Detailed proposal

Operative date

Subject to State aid approval, the changes to the schemes will have effect on and after a date to be appointed by Treasury Order to be made prior to the summer 2013 parliamentary recess.

Current law

Capital expenditure by business on plant and machinery normally qualifies for tax relief by way of capital allowances. Once businesses have used up their annual investment allowance (AIA), which for the period 1 January 2013 to 31 December 2014 is £250,000, the main rates of plant and machinery allowance are the 18 per cent main rate and the 8 per cent special rate.

These two ECA schemes provide an alternative 100 per cent first-year allowance for expenditure on certain energy-saving and water efficient technologies, which is particularly beneficial for those businesses that have used up their AIA.

Recommendations for updates as to which technologies and products should qualify for the schemes, and reviews of the criteria such technologies and products must meet, are made annually by the Department of Energy and Climate Change (DECC) in respect of the energy-saving scheme and the Department for Environment, Food and Rural Affairs (Defra) in respect of water. They also carry out the relevant consultation. Final decisions about the availability of the ECAs are made by HM Treasury and the qualifying technologies are published in the Energy Technology Criteria List and Water Technology Criteria List.

Proposed revisions

Secondary legislation will amend the list of technologies that qualify for the energy-saving scheme to include one new sub-technology carbon dioxide (CO_2) Heat Pumps for Water Heating. Four existing sub-technologies: Automatic Boiler Blowdown Control Equipment; Condensate Pumping Equipment; Switched Reluctance Drives and Automatic Air Purgers will be removed from the scheme and the qualifying criteria for twenty technologies will be revised.

A new grey water re-use technology will be added to the water efficient scheme. In addition two sub-technologies: Efficient Membrane Filtration Systems and Wastewater Recovery and Re-use within the water re-use systems technology will be merged, the criteria for water flow meters will be revised and the Shower Flow Regulator sub-technology of the efficient showers technology will be removed.

Information giving details as to when the new lists take effect will be given on the Energy Technology List and Water Technology List section of the gov.uk website.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	+5	+15	+25	+30	+20
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	This measure will not have a significant impact on the overall UK economy. However, it may encourage businesses to concentrate their investments on technologies which will receive ECAs.				
Impact on individuals and households	This measure will not impact on households, and although it is possible for individual employees to claim capital allowances, it is unlikely that any would claim ECAs.				
Equalities impacts	The ECA schemes are aimed at businesses. Following discussions with DECC and Defra on this year's amendments, HM Revenue & Customs (HMRC) has not identified any specific impact on any equality group.				
Impact on business including civil society organisations	These changes only apply to business expenditure that qualifies for the ECA schemes. For the majority of business the changes will have no impact because the majority of the expenditure they incur on plant and machinery will be eligible for full relief under the separate AIA which is set at £250,000 for the two years ending 31 December 2014. There will be some negligible one-off compliance costs for businesses considering buying products affected by the changes, associated with understanding what differences the changes could make to the capital allowances that they can claim. Consequently the changes will have a negligible impact on businesses and civil society organisations.				

Operational impact (£m) (HMRC or other)	This change will not increase HMRC's processing or compliance resource needs.
Other impacts	Small firms impact test: this measure applies to all sizes of business, but in practice it will only affect those with qualifying plant and machinery expenditure above the level of the AIA. As a result there is expected to very limited impact on small firms, the large majority of which incur less than £250,000 per annum on capital expenditure. However, should a small business decide to write off the cost of ECA-qualifying plant and machinery under the ECA scheme, rather than AIA, they (like any other size of business), will need to identify the products that qualify for the schemes (via etl.decc.gov.uk) and make a claim. Carbon emissions and wider environment impact: by incentivising investment in energy and water efficient technologies, this measure should reduce carbon emissions and encourage sustainable use of water resources. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

The lists of technologies and products that qualify for the schemes are also reviewed every year by DECC in respect of the energy-saving scheme and by Defra in respect of water to ensure that they are still relevant, and the wording of the qualifying criteria discussed with suppliers to ensure that they are effective.

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).

Taxation of high-value UK residential property held by certain non-natural persons

Who is likely to be affected?

Certain companies, partnerships with company members and managers of collective investment schemes (collectively referred to as non-natural persons (NNPs)) which own residential property in the UK worth over £2 million.

General description of the measure

A package of taxes that affect residential properties valued at over £2 million and held by NNPs, other than genuine commercial businesses and other limited categories.

These taxes are:

- stamp duty land tax (SDLT) at 15 per cent on acquisition of a residential property;
- an annual tax on enveloped dwellings (ATED); and,
- capital gains tax (CGT) at 28 per cent on any gain on disposal.

Policy objective

This package of measures is to ensure that NNPs holding high value residential properties pay their fair share and to tackle tax avoidance, including the wrapping of residential property in corporate and other 'envelopes'.

Background to the measure

The package of tax measures was announced at Budget 2012. The Government issued the consultation document, *'Ensuring the fair taxation of high value residential property'* on aspects of the package, on 31 May 2012, in reply to which it received more than 175 representations. The Government's response was published in December 2012. Draft legislation was published in December 2012 and January 2013.

Detailed proposal

Operative date

The 15 per cent SDLT rate came into effect on 21 March 2012. The changes made to the 15 per cent rate rules (primarily, the introduction of further reliefs) will come into effect from the day of Royal Assent to Finance Act 2013.

ATED will come into effect from 1 April 2013, although returns will not be required until 1 October 2013 with payment required by 31 October 2013.

The CGT measures will have effect from 6 April 2013.

Current law

SDLT is charged under Finance Act 2003 (FA 2003) on the acquisition of property. The rate of SDLT depends on the chargeable consideration for the property and increases above various thresholds.

SDLT is payable at 15 per cent by certain NNPs on acquisitions with consideration of more than £2 million (under section 55A and Schedule 4A of FA 2003). The only exclusion to this is residential property acquired by property development companies with a track record of more than two years of development activity.

NNPs resident outside the UK are not generally liable to tax on their capital gains (section 2 of the Taxation of Chargeable Gains Act 1992 (TCGA) and section 5 of the Corporation Tax Act 2009 (CTA)). Companies resident in the UK currently pay corporation tax on their chargeable gains, including gains from these properties (section 1 TCGA and section 2 CTA). NNPs that are resident in the UK, but that are not companies, are liable to pay capital gains tax (sections 1 and 2 TCGA).

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to enact ATED, extend CGT, and provide for reliefs from all three taxes.

All three taxes will apply to the same UK high value residential properties: those worth over £2 million and held by NNPs that are not used for specified relievable purposes, nor used by persons relieved from the charge.

The reliefs will cover:

- property development, investment rental and trading businesses;
- residential properties open to the public for at least 28 days a year on a commercial basis;
- residential properties held for employee accommodation;
- residential properties owned by a charity and held for charitable purposes;
- working farmhouses;
- diplomatic properties; and,
- some other publicly-owned residential properties.

ATED will be introduced and will be chargeable at a flat rate for each of four bands as follows.

Residential property value	Annual Charge
£2 million - £5 million	£15,000
£5 million - £10 million	£35,000
£10 million - £20 million	£70,000
£20 million +	£140,000

The annual charge will be increased by Consumer Prices Index inflation each year.

CGT will apply to disposals of high value UK residential property by NNPs from 6 April 2013. The rate of the CGT charge on these disposals will be 28 per cent. Where the residential property was purchased before 6 April 2013 but disposed of after that date, the charge will apply only to that part of the gain that is accrued on or after 6 April 2013. The balance of any gain (i.e. the gain accrued before 6 April 2013) will continue to be treated as at present. That is, on the gain accrued before 6 April 2013 generally there will be no tax payable by non-UK NNPs, and UK NNPs will be chargeable either to corporation tax or capital gains tax as is currently the case.

Excluding circumstances covered by the new reliefs described above, SDLT will continue to be chargeable at 15 per cent on acquisitions of high value UK residential property by the NNPs.

Summary of impacts

<table>
<tr><td rowspan="9">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>+75</td><td>+75</td><td>+80</td><td>+90</td><td>+100</td></tr>
<tr><td colspan="5">The row above is from Table 2.2 of the Budget 2013 document, and sets out the revised estimate of the Exchequer impact of the initial package announced and scored at Budget 2012, that is, the introduction of ATED and the 15 per cent SDLT rate.</td></tr>
<tr><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>-30</td><td>-40</td><td>-40</td><td>-40</td><td>-45</td></tr>
<tr><td colspan="5">This second row is from Table 2.1 of Budget 2013, and sets outs the Exchequer impact of the exemptions set out in December 2012.</td></tr>
<tr><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>+25</td><td>nil</td><td>nil</td><td>+5</td><td>+5</td></tr>
<tr><td colspan="5">The third row is also from Table 2.1 of Budget 2013, and sets outs the Exchequer impact of the application of CGT to NNPs.

These three rows together represent the aggregate costing for the whole package and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings documents published alongside Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Individuals are not directly affected, as the three charges apply only to NNPs. A small number of individuals will be indirectly affected through their interests in NNPs that purchase high value UK residential property, such as companies, trusts investing via companies, and collective investment schemes. Their companies may need to value their residential property every five years, complete an annual return and pay the correct amount of ATED. HMRC will on request assist with a pre-return assurance check of a property's correct valuation band, where the company believes the value is close to the £2 million threshold or to a higher band. An online form will be available to use this service.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">This measure is not anticipated to impact on groups with protected characteristics any more than on those without such characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The increased range of SDLT reliefs mean that some corporate property rental businesses and property developers will pay a lower rate of SDLT on future acquisitions of high value residential property than they have done on acquisitions in 2012-13.

Unincorporated businesses will be unaffected by this measure and will have no self assessment requirement. Most corporate businesses do not buy, hold or sell residential property worth over £2 million and will be similarly unaffected.

The small number of corporate businesses that do buy or hold residential properties worth more than £2 million will in most cases be able to claim relief against the charges in a self assessment return each year. They will not be required to accurately value residential properties eligible for relief and the administrative burden overall should be negligible.</td></tr>
</table>

	The measure should not significantly impact on charities. Any that may hold high value residential properties can claim relief from the charge, providing the property is used for charitable purposes.
Operational impact (£m) (HMRC or other)	SDLT: The impacts on cost and operational resources by the SDLT changes will be negligible. ATED: HM Revenue & Customs (HMRC) IT set up costs are estimated to be in the region of £350,000 – £400,000. HMRC will process returns, payments and repayment claims. It will also undertake compliance checks based on land records and other data to pursue cases of failure to make returns or payments; incorrect claims to relief and incorrect valuation bands. Annual HMRC staff costs for business as usual are estimated at £700,000 including enquiry work. Valuation Office Agency costs up to April 2014 are estimated at £500,000 for set-up costs and £200,000 per year thereafter for valuers to undertake requested pre-return banding assurance checks using data provided on the online form, land records and other data; and for valuation work required for compliance activity. CGT: There will be some costs to HMRC to implement the process needed for reporting and paying the CGT charge (indicative costs for one-off IT changes required are in the range of £100,000) as well as potential ongoing costs of guidance, form changes and changes to compliance measures.
Other impacts	Small firms impact test: many of the companies used to hold residential property worth more than £2 million are special purpose vehicles which own a single property, have no employees and do not undertake genuine commercial activities. The package aims to discourage individuals from setting up such companies to purchase such residential properties. The reliefs aim to exclude genuine commercial businesses from the charge, regardless of size. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The Government has introduced a package of high-value UK residential property measures. These will be monitored and assessed through information collected from tax returns.

Further advice

If you have any questions about this change, whether about SDLT, ATED or CGT, please email: ATED.Budget2013@hmrc.gsi.gov.uk.

Stamp duty land tax avoidance

Who is likely to be affected?

Users and promoters of schemes for the avoidance of stamp duty land tax (SDLT).

General description of the measure

The measure amends section 45 of the Finance Act 2003 (transfers of rights) to put beyond doubt that a certain type of SDLT avoidance scheme is ineffective. The schemes in question all involve an onward sale (a ‘subsale’ or ‘transfer or rights’) which is not to be completed for a number of years. The intended result of the arrangement is that the immediate purchaser is left in possession of the property but bears no SDLT liability, while the transfer of rights, although in principle subject to SDLT, falls below the SDLT threshold.

Policy objective

This measure supports the Government's anti-avoidance strategy and its fairness agenda by helping to ensure that everyone buying property pays their fair share of SDLT.

Background to the measure

Budget 2012 made clear that the Chancellor of the Exchequer would not hesitate to use retrospective legislation to close down future stamp duty land tax (SDLT) avoidance schemes. This measure is a response to the continued use of such schemes.

The measure has not been subject to formal consultation.

Detailed proposal

Operative date

This measure has effect where the transfer of rights takes place on or after 21 March 2012 and before Royal Assent to Finance Bill 2013.

Current law

Section 45 of the Finance Act (FA) 2003 applies where a person contracts to purchase an interest in land but, before completion, transfers their rights under the contract to a third party. Where the original contract completes or is substantially performed at the same time as the completion or substantial performance of the transfer of rights contract, the first contract is disregarded. As a result, the purchaser under the original contract pays no SDLT and does not need to notify HM Revenue & Customs (HMRC). Broadly speaking, the section is designed to provide for a single charge to SDLT where the original purchaser acts as a mere intermediary.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 45 to provide that the original contract will not be disregarded where:

- the transfer of rights contract is substantially performed but not completed at the same time as the completion or substantial performance of the original contract;
- the purchaser under the original contract is in possession of the property after the date of completion or substantial performance; and,
- the main purpose or one of the main purposes of the transfer of rights contract is the obtaining of at tax advantage by the purchaser under the original contract.

The purchaser under the original contract is required to notify HMRC of any SDLT due by 30 September 2013, by either submitting a land transaction return (where no return has previously been submitted) or making an amendment to their return. Further details on notifying HMRC can be found on the Budget 2013 page of the HMRC website.

These changes will be superseded by the revisions to the transfer of rights rules in section 45 of FA 2003, which will have effect on the date that Finance Bill 2013 receives Royal Assent. Consultation on the revision of section 45 was announced at Budget 2012 and, following consultation, draft legislation was published in December 2012.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>+45</td><td>+35</td><td>+30</td><td>+25</td><td>+25</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.

This measure supports the Exchequer in its commitment to protect revenue.

The figures include the impact of the associated changes to the transfer of rights rules.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">These changes will only affect individuals and households who enter into certain avoidance schemes. Additional compliance costs are expected to be de minimis.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">No information is held about the protected equality groups of the users of the affected schemes, although there is no reason to expect any impact.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">The measure addresses avoidance using the transfer of rights rules. These schemes constitute an unfair advantage and in removing that there will be no impact on the normal and commercial transactions of businesses and Civil Society organisations.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The additional costs for HMRC in implementing this change are anticipated to be negligible.</td></tr>
</table>

Other impacts	Small firms impact test: some of the scheme promoters and users are likely to be small firms (less than 20 employees) and they may be affected by these changes, but only if they promote or use certain avoidance schemes. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through the SDLT compliance programme and disclosures received through the DOTAS (disclosure of tax avoidance schemes) regime.

Further advice

If you have any questions about this change please send them in an email to: Budget2013.stamptaxes@hmrc.gsi.gov.uk.

Beer duty rates

Who is likely to be affected?

Manufacturers, importers, distributors, retailers and consumers of beer.

General description of the measure

This measure changes the pre-announced rises in the duty rates on beer manufactured in, or imported into, the UK.

Policy objective

Pubs play an important role in communities, contributing to the social life of their locality and offering an environment that encourages responsible alcohol consumption. The Government is committed to supporting pubs. The British Beer and Pub Association estimates 68 per cent of alcohol sold in pubs is beer.

Background to the measure

Budget 2008 announced that all alcohol duty rates would rise by 2 per cent above the Retail Prices Index (RPI) inflation each year between 2009-10 and 2012-13 inclusive. The March 2010 Budget announced these 2 per cent above RPI rises would continue for a further two years until 2014-15.

At Budget 2013 the Chancellor announced that from 25 March 2013 duty rates on:

- low strength beer (below 2.8 per cent alcohol by volume (abv)) will be reduced by 6 per cent;
- beer between 2.8 per cent and 7.5 per cent abv will be reduced by 2 per cent; and,
- high strength beer (above 7.5 per cent abv) will be reduced by 0.75 per cent in total.

Beer duties will then increase by RPI inflation following Budget 2014.

Detailed proposal

Operative date

The new alcohol duty rates will have effect from 25 March 2013.

Current law

Beer duty rates are set out in section 36(1AA) and section 37(4) of the Alcoholic Liquor Duties Act 1979.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to revise the rates of duty on beer. Section 36(1AA) and section 37(4) of the Alcoholic Liquor Duties Act 1979 will be amended to provide for the revised beer duty rates. The revised rates of duty are:

- duty on beer exceeding 1.2 per cent but not exceeding 2.8 per cent abv: £9.17 per hectolitre for each per cent of alcohol;
- general beer duty on beer exceeding 2.8 per cent abv and not produced by small breweries: £19.12 per hectolitre for each per cent of alcohol;
- duty on beer exceeding 7.5 per cent abv (and in addition to general beer duty): £5.09 per hectolitre for each per cent of alcohol.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-170	-215	-210	-205	-205
	These figures are set out in Table 2.1 of the Budget Report and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	Assuming 100 per cent pass through, the reduction in beer duties will make a small negative contribution to the Consumer Price Index (CPI).				
Impact on individuals and households	There will be a positive financial impact for individuals who consume beer. Assuming 100 per cent pass through wherever beer is purchased, tax on a pint of average strength beer from 25 March 2013 will be: • 1 penny lower in cash terms; and, • 4 pence lower compared to the previous government's plans.				
Equalities impacts	Due to differences in beer consumption, any change to beer duties will have an equalities impact. Men are more likely to drink beer than women, and younger people are more likely to drink beer than older people.				
Impact on business including civil society organisations	There will be an increase in beer consumption compared to the previous policy; beer clearances are forecast to rise by 2.2 per cent in 2013-14 and by 2.9 per cent in 2014-15. The impact on the clearances of other alcoholic products is expected to be limited. Beer manufacturers and importers will see a reduction in the rate of beer duty after 25 March 2013 and will then have a lower rise in beer duty after Budget 2014 than under the previous policy. The Government expects the reduction in beer duty to be passed onto consumers. This measure will also support pubs and other retailers of beer. The changes in beer duty rates will impose a negligible compliance cost to businesses.				
Operational impact (£m) (HMRC or other)	HM Revenue & Customs will incur negligible costs from changing beer duties.				

Other impacts	Small firms impact test: the change to duty rates will affect all sizes of business. Small brewers, those producing less than 60,000 hectolitres, pay reduced rates of general beer duty. Health impact assessment: a lower rise in beer duty is likely to lead to a minor increase in overall alcohol consumption in the UK. The duty on higher strength beer will increase in relative terms, helping to encourage the production and consumption of lower strength products. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0845 010 9000.

Fuel duty rates

Who is likely to be affected?

Businesses producing and importing, and consumers of, hydrocarbon oils and alternative fuel products.

General description of the measure

This measure announces that the 1.89 pence per litre (ppl) fuel duty increase that was due to take effect on 1 September 2013 will be cancelled.

Policy objective

This measure will support households and businesses with the high cost of fuel.

Background to the measure

The Government announced at Autumn Statement 2012 that the fuel duty increase that was due to take effect on 1 January 2013 would be cancelled; and the 2013-14 increase would be deferred from 1 April 2013 to 1 September 2013.

Secondary legislation was introduced to maintain the duty liability on all fuels at the then current levels. Legislation is being introduced in Finance Bill 2013 to amend fuel duty rates to reflect the cancelation of the fuel duty increases on 1 January 2013.

Detailed proposal

Operative date

The change will have effect on and after 1 September 2013.

Current law

Excise duty rates are contained in the Hydrocarbon Oil Duties Act 1979 (HODA): section 6 contains the rates for hydrocarbon oils; section 8 contains the rates for road fuel gases; section 11 contains rebated rates for heavy oils; section 14 contains the rebated rate for light oil used as furnace fuel; and section 14A contains the rebated rate for certain biodiesel.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the relevant sections of HODA to reflect the current effective rates of duty.

	Duty rate per litre (£)
	Current
Unleaded petrol	0.5795
Heavy Oil	0.5795
Biodiesel	0.5795
Bioethanol	0.5795
Light oil (other than unleaded petrol or aviation gasoline)	0.6767
Aviation gasoline (Avgas)	0.3770
Light oil delivered to an approved person for use as furnace fuel	0.1070
Marked gas oil	0.1114
Fuel oil	0.1070
Heavy oil other than fuel oil, gas oil or kerosene used as fuel	0.1070
Kerosene to be used as motor fuel off-road or in an excepted vehicle	0.1114
Biodiesel for non-road use	0.1114
Biodiesel blended with gas oil for non-road use	0.1114
Road fuel natural gas (NG), including biogas	0.2470 £/kg
Road fuel gas other than NG - eg. liquefied petroleum gas (LPG)	0.3161 £/kg

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>- 480</td><td>- 810</td><td>-835</td><td>-870</td><td>-900</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.</td></tr>
<tr><td>Economic impact</td><td colspan="5">Cancelling the fuel duty increase scheduled for September 2013 will support motorists, who will pay a lower price for fuel than under previously announced policy. As a result, the amount of fuel purchased and number of miles driven will be higher than if the increase had gone ahead. These effects are taken into account in calculating the Exchequer impact.

Fuel is a major business input for the UK economy. Cancelling the September increase will maintain business costs at a lower level than under current forecasts. As such, it is expected that GDP will be higher than if the fuel duty increase were to go ahead.</td></tr>
</table>

Impact on individuals and households	Cancelling the 1 September 2013 increase will benefit all motorists and help maintain lower household costs than if the increase had gone ahead. Compared to the measure announced at Autumn Statement 2012, it is estimated that a typical motorist will save £25 per year through the cancellation of the September increase.
Equalities impacts	No impacts are expected on groups sharing protected characteristics
Impact on business including civil society organisations	The impact on business is negligible in terms of administrative and compliance costs. However, this change will benefit businesses of all sizes (including small businesses) where fuel is part of ongoing running costs through lower fuel prices. It is estimated that cancelling the September increase will mean that a typical haulier will save £750 per year, and the average small business will save £50 per year, compared to the current forecast.
Operational impact (£m) (HMRC or other)	Cancelling the fuel duty rates will have no operational impacts for HM Revenue & Customs.
Other impacts	Carbon assessment: cancelling the September increase could mean that the carbon dioxide (CO_2) emissions are around 0.2Mt higher per year than was expected under the previous policy. Small firms impact test: small businesses will benefit where fuel is part of the ongoing running costs. The impact is negligible in terms of administrative and compliance costs. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Excise and Customs helpline on 0845 010 9000.

Carbon price floor: rates from 2015-16, exemption for Northern Ireland and technical changes

Who is likely to be affected?

UK generators of fossil-fuel based electricity, including combined heat and power (CHP) operators and auto-generators; those supplying such generators; and electricity utilities.

General description of the measure

The Government is announcing final details about the carbon price floor (CPF), which will come into effect on 1 April 2013.

First, this measure confirms the carbon price support (CPS) rates for 2015-16 and announced indicative rates for the following two years. The rates from 1 April 2015 will be equivalent to £18.08 per tonne of carbon dioxide (tCO_2). The indicative rates for 2016-17 and 2017-18 are equivalent to £21.20 and £24.62 per tCO_2 respectively.

Second, this measure confirms that the CPF will not apply in Northern Ireland from 1 April 2013.

Third, this measure confirms the changes announced in the draft legislation released on 11 December 2012 and announces some additional technical changes relating to:

- the taxation of solid fossil fuels;
- the previously announced reliefs for coal slurry and stand-by generators; and
- credit for fuel removed from a power station.

Policy objective

The CPF is designed to provide an incentive to invest in low-carbon power generation by providing greater support and certainty to the carbon price in the UK's electricity generation sector. This investment is needed to ensure the future energy security of the UK. The exemption for Northern Ireland recognises concerns about the impact of the CPF on energy security in Northern Ireland given the different market conditions that apply there as a result of the Single Electricity Market on the island of Ireland. It also ensures that carbon emissions in Northern Ireland and the republic of Ireland do not increase as a result of the introduction of the CPF.

Background to the measure

The Government announced at Budget 2011 that, following consultation, the Government would introduce a CPF from 1 April 2013. Supplies of solid fossil fuels, gas and liquefied petroleum gas (LPG) used in most forms of electricity generation would become liable to newly created CPS rates of climate change levy (CCL), which would be different from the main CCL rates levied on consumers' use of these commodities (and electricity). The amount of fuel duty reclaimable on oil used in electricity generation would be adjusted to establish new CPS rates of fuel duty.

Finance Act 2011 contained the initial primary legislation, including the CPS rates of CCL for 2013-14.

The Government announced at Budget 2012 that announced some changes, including that supplies of fossil fuels to CHP stations would be exempt from the CPS rates where the fuel is used to generate heat. It also announced the CPS rates for 2014-15. Legislation was included in Finance Act 2012.

The Government announced at the Autumn Statement on 5 December 2012 that, subject to discussions with the European Commission, Northern Ireland will be exempt from the CPF.

Draft primary and secondary legislation covering technical amendments to the CPF was released on 11 December 2011. These changes were summarised in a Tax Information and Impact Note (TIIN) published on that date.

Detailed proposal

Operative dates

Introduction of CPS provisions

The CPS rates of CCL, including the changes outlined above, will have effect for supplies of solid fossil fuels, gas or LPG made to generators on or after 1 April 2013. The CPS rates of fuel duty will apply in relation to any claim for relief on oil used to generate electricity on or after 1 April 2013, irrespective of when that oil was supplied to the generator.

Increases to CPS rates for 2014-15 and 2015-16

The increases to the CPS rates of CCL for 2014-15 and 2015-16 will have effect for supplies of solid fossil fuels, gas or LPG made to generators on or after 1 April 2014 and 1 April 2015 respectively. The increases to the CPS rates of fuel duty for 2014-15 and 2015-16 will apply in relation to any claim for relief on oil used to generate electricity on or after 1 April 2014 and 1 April 2015 respectively, irrespective of when that oil was supplied to the generator.

Current law

Schedule 6 to Finance Act 2000 (Schedule 6) contains CCL's primary legislation and exempts from the levy supplies of electricity, solid fossil fuels, LPG and gas used for the generation of electricity. Schedule 6 was amended by section 78 of, and Schedule 20 to, Finance Act 2011 and by section 207 of, and Schedule 32 to, Finance Act 2012 to provide for the CPF provisions in respect of fuels liable to CCL, including gas and coal.

The Climate Change Levy (General) Regulations 2001 (SI 2001/838) (the general regulations) govern the administration of CCL.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) (the 2005 regulations) enable generators who use oil to generate electricity to reclaim the fuel duty paid on the oil when it leaves the refinery. They also contain details of the relief from fuel duty for oils used in a CHP plant to generate electricity.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend the changes to Schedule 6 made by Finance Acts 2011 and 2012 and to relieve supplies of taxable commodities used to generate electricity in Northern Ireland from the CPS rates of CCL. In the interests of transparency and clarity, the legislation will be consolidated into a new schedule.

Two statutory instruments will be laid before Parliament before the end of March and come into force on 1 April 2013:

- *The Climate Change Levy (General) (Amendment) Regulations 2013* will amend the general regulations to enable HM Revenue & Customs (HMRC) to administer the CPS rates of CCL, including the reliefs.
- *The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendment) Regulations 2013* will amend the 2005 regulations to adjust the amount of fuel duty that can be reclaimed by those generating electricity using oils (in effect creating CPS rates of fuel duty). Oils used in Northern Ireland to generate electricity or in a CHP will continue to be fully reclaimable where this is allowed under the 2005 regulations.

CPS rates

The following table sets out confirmed and indicative CPS rates (including those already announced in previous Budgets):

	Confirmed rates			**Indicative rates**	
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Carbon price equivalent (£ per tCO_2)	4.94	9.55	18.08	21.20	24.62
Supplies of commodity					
Natural gas (£ per kilowatt hour)	0.00091	0.00175	0.00334	0.00392	0.00455
LPG (£ per kilogram)	0.01460	0.02822	0.05307	0.06223	0.07226
Coal and other taxable solid fossil fuels (£ per gross gigajoule - see note 1)	0.44264	0.85489	1.62534	1.90599	2.21332
Gas oil; rebated bioblend (£ per litre)	0.01365	0.02642	0.04990	0.05851	0.06795
Fuel oil; other heavy oil; rebated light oil (£ per litre)	0.01568	0.03011	0.05730	0.06719	0.07803

Note 1 - Generators whose normal business practice is to collect data on their solid fossil fuels on a net, rather than a gross, calorific value basis may use a standard conversion factor published in HMRC guidance to calculate gross from net.

Northern Ireland

Taxable commodities used in electricity generation in Northern Ireland will not be taxed under the carbon price floor.

Technical changes

- *Taxation of coal and other solid fossil fuels* - All solid fossil fuels that are taxable commodities for CCL (coal, lignite; coke and semi-coke, of coal or lignite; and petroleum coke) will be liable to CPS rates of CCL, rather than just coal. There will be one rate for all solid fossil fuels, including coal, expressed by gross calorific value and set to reflect the emissions factor for coal.
- *Coal slurry* - To support the clearing up of old coal mines and reduce the amount of slurry sent to landfill, Budget 2012 announced coal slurry would not be taxed. Finance Bill 2013 will clarify that this relief applies only to coal from the slurry pits at coal mines, including disused mines, and not to other inferior quality coal.
- *Fuel used by stand-by generators* - It was announced in December that fuel used in stand-by generators that are designed to provide emergency electricity supply in the event of a failure of a building's usual electricity would not be taxed, taking numerous small generators (including in hospitals) outside the scope of the tax. Finance Bill 2013

will clarify that the relief excludes generators that are used to supply electricity to, or reduce demand from, the grid.

- *Credit arrangements for fuel removed from one power station and sent to another* - Finance Bill 2013 will provide that, where certain conditions are met, a credit from the CPS rates of CCL will be allowed when fuel which has borne CPS tax but has not been used to generate electricity is removed from a power station. The generator will need to keep records to support all claims for refunds of tax.

Summary of impacts

This summary covers the technical changes announced today and the exemption for Northern Ireland. The wider impact of the CPF was set out in a summary of impacts in the CPF TIIN published at Budget 2011.

Exchequer impact (£m)		2013-14	2014-15	2015-16	2016-17	2017-18
	N Ireland	-20	-25	-40	-45	-45
	Technical	+5	+5	+5	+5	+5
	These figures are set out in Table 2.1 of the Budget Report and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.					
	Rates	nil	nil	nil	nil	nil
	This measure is not expected to have an exchequer impact.					
Economic impact	In Great Britain, these measures are not expected to have any significant economic impacts. The impact of the exemption for Northern Ireland is likely to be positive for the energy security in the region. The exemption will mean that generators in Northern Ireland can maintain their competitiveness with those in the Republic of Ireland.					
Impact on individuals and households	The technical changes only directly affect businesses involved in electricity generation, as domestic consumers are not subject to the CPF or CCL. Their impact on wholesale electricity prices will be negligible; therefore any impact on household electricity bills will be minimal. The exemption for Northern Ireland will be positive for individuals and households as the indirect costs of the CPF on electricity bills in Northern Ireland will be removed. There is likely to be a very small decrease in electricity prices in Great Britain.					
Equalities impacts	The technical changes are not expected to have an impact on any equalities group. The exemption for Northern Ireland will apply to all households there; therefore there will be no differential impact on different equality groups.					
Impact on business including civil society organisations	The technical changes are expected to have a negligible impact on businesses and civil society organisations. Power stations that wish to claim a credit for unused fuel removed from the station will need to keep and submit records to support their claim. Transfers of fuel out of power stations are a rare occurrence. The inclusion of solid fossil fuels other than coal in the CPF will require that generators include their use of all solid fossil fuels covered by CCL on their returns, rather than just coal. This will impact upon fewer than ten power station operators.					

	Electricity generators in Northern Ireland will benefit from a direct relief from the tax. In addition, businesses will benefit from lower electricity bills than would otherwise have been the case. The exemption for Northern Ireland will also ensure the proper functioning of the Single Electricity Market on the island of Ireland, so that all generators on the island can compete equally.
Operational impact (£m) (HMRC or other)	There are not expected to be any significant operational impacts from the technical changes or relieving Northern Ireland from the CPF. The additional costs and savings for HMRC in implementing these changes are expected to be negligible.
Other impacts	Sustainable development: the exemption for Northern Ireland will protect energy security in the region as it transitions to a low-carbon economy. Carbon assessment: the exemption for Northern Ireland will also ensure that carbon emissions in Northern Ireland and the Republic of Ireland do not increase as a result of applying the CPF to Northern Ireland. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The Government and the Northern Ireland Executive will continue to monitor the impact of the CPF on the Single Electricity Market.

The Government will consider how best and when to evaluate the overall policy against its objective to encourage investment in low-carbon power generation. The impact of the changes set out in this note will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about these changes, please contact the Excise and Customs Helpline on 0845 010 9000.

Vehicle Excise Duty for heavy goods vehicles in 2013-14

Who is likely to be affected?

Hauliers and passenger transport businesses and the owners and operators of heavy goods vehicles, buses and other selected vehicles that are in commercial use.

General description of the measure

The measure freezes Vehicle Excise Duty (VED) rates on heavy goods vehicles (HGVs), buses, and related categories of vehicle that are linked to the lower HGV rate (minor rates) for 2013-14.

Policy objective

The measure will support the haulage and passenger transport industries, so that hauliers and bus operators are protected from the operating margin pressure of a VED rise.

Background to the measure

This measure was announced in Budget 2013.

Detailed proposal

Operative date

The measure will have effect for vehicles relicensed on and after 1 April 2013.

Current law

Section 1 and Schedule 1 of the Vehicle Excise and Registration Act establishes VED in respect of mechanically propelled vehicles and sets out the rates of duty on goods vehicles and buses.

Proposed revisions

Existing legislation on heavy goods vehicle and bus rates will remain unchanged.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-10	-10	-10	-10	-10
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	The measure is not expected to have any significant economic impacts.				

Impact on individuals and households	This measure is expected to have a negligible impact on individuals and households.
Equalities impacts	No equalities impacts are anticipated.
Impact on business including civil society organisations	This measure will have a small positive impact on businesses. Operators of HGVs, buses, and other vehicles affected will save between £5 and £60 in VED per vehicle, compared to an increase in line with RPI, depending on the VED band their vehicle falls into. There is no change in administrative costs and no familiarisation costs as a result of the VED rate remaining unchanged. This measure is expected to have no impact on civil society organisations.
Operational impact (£m) (HMRC or other)	The measure is not expected to have any significant operational impact.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this measure, please contact the Driver and Vehicle Licensing Agency on 0300 790 6802 (online: https://www.gov.uk/contact-the-dvla).

General anti-abuse rule

Who is likely to be affected?

Users and promoters of abusive tax avoidance schemes.

General description of the measure

The measure will counteract tax advantages arising from abusive tax avoidance arrangements. The general anti-abuse rule (GAAR) will apply to income tax, National Insurance contributions (NICs), corporation tax (including amounts treated as corporation tax), capital gains tax, inheritance tax, petroleum revenue tax and stamp duty land tax. It will also apply to the annual tax on enveloped dwellings due to be enacted with effect from 1 April 2013.

Policy objective

The measure supports the Government's objective of promoting fairness in the tax system by deterring taxpayers from entering into abusive schemes that might succeed under current law. The GAAR will provide that tax advantages arising from such arrangements are counteracted on a just and reasonable basis.

Background to the measure

An independent study led by Graham Aaronson QC recommended the introduction of a general anti-abuse rule targeted at artificial and abusive tax avoidance schemes. The Government announced at Budget 2012 that it accepted the recommendation.

A consultation ran from 12 June 2012 to 14 September 2012. The Government's response was published on 11 December 2012.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

The measure will apply to abusive tax arrangements entered into on or after Royal Assent to Finance Bill 2013. Separate NICs legislation will be introduced after the Royal Assent to Finance Bill 2013 when parliamentary time allows.

Current law

The GAAR will provide an additional means for HM Revenue & Customs (HMRC) to tackle abusive tax avoidance schemes. No changes are proposed to current tax rules except to the extent needed to fit with the new legislation. All forms of tax avoidance (including both abusive tax avoidance to which the GAAR may apply, and tax avoidance that does not fall within the meaning of abusive tax avoidance that is the target of the GAAR) will continue to be challenged and counteracted using existing means.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 whereby the GAAR will provide for the counteraction of tax advantages arising from tax arrangements that are abusive. Counteraction by HMRC must follow certain procedural requirements: counteraction must first be notified by a designated HMRC officer and, unless having considered any representations made by the taxpayer a designated HMRC officer decides that counteraction ought not to apply, the arrangements must be referred to an Advisory Panel, to be established by the Commissioners for HMRC for the purpose, for its opinion(s).

Counteraction will be on a just and reasonable basis and may take a number of forms, appropriate to the particular tax in question. Where counteraction has taken place, it will be possible for taxpayers to claim such consequential relieving adjustments as are just and reasonable.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+60	+50	+40	+85
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	The measure is not expected to have any significant macroeconomic impacts.				
Impact on individuals and households	The impact on individuals will be on those participating in abusive avoidance schemes.				
Equalities impacts	The GAAR will have no direct equality impacts. However the GAAR's aim of promoting fairness within the tax system will indirectly affect equality between taxpayer groups (both individual and corporate) as the GAAR will mainly affect those who are more inclined to consider entering into abusive tax avoidance schemes.				
Impact on business including civil society organisations	The GAAR will only impact on businesses participating in abusive schemes. This measure will have no impact on businesses and civil society organisations who are undertaking normal commercial transactions.				
Operational impact (£m) (HMRC or other)	The impact on HMRC's costs is expected to be limited. There will be a small cost of providing administrative support to the GAAR Advisory Panel and producing guidance but, in the longer term, there is a possibility of operational cost savings when abusive avoidance is deterred or countered more effectively.				
Other impacts	<u>Small firms impact test</u>: small firms will only be affected by the GAAR to the extent that they participate in abusive tax avoidance schemes. It is expected that a negligible number of small firms will be affected. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The measure will be monitored through:

- the numbers of abusive schemes disclosed under the avoidance disclosure regulations (DOTAS);
- intelligence via disclosure/other sources of attempts to circumvent the measure;
- the number of potential GAAR cases identified, how many of those cases are authorised for counteraction under the GAAR with a separate record of cases successfully litigated or settled by agreement using a GAAR challenge; and,
- regular communication with taxpayers and practitioners affected by the measure.

Consideration will be given to evaluating how effective the GAAR has been at discouraging as well as stopping abusive avoidance schemes.

Further advice

If you have any questions about this change, please contact Carolyn Comben on 020 7147 0086 (email: carolyn.comben@hmrc.gsi.gov.uk).

Inheritance tax: limiting the deduction for liabilities

Who is likely to be affected?

Users and promoters of avoidance schemes and participators in arrangements which take advantage of the current inheritance tax (IHT) treatment of liabilities to reduce the value of an estate.

General description of the measure

The measure will amend the IHT provisions which allow a deduction for liabilities owed by the deceased on death from the value of their estate. In some circumstances, the changes will bring in new conditions for the deduction to be allowable, or will restrict the deduction, so that the tax advantage resulting from the schemes or arrangements does not arise.

For most estates, liabilities owed by the deceased in the normal course of events where the debt has been repaid after death will continue to be deducted as they are now.

Policy objective

The measure will remove the tax advantage that these schemes and arrangements seek to achieve, and ensure that the value of an estate subject to IHT reflects the normal economic consequences of incurring a liability. The measure supports the Government's anti-avoidance strategy and fairness agenda.

Background to the measure

The measure is a response to avoidance schemes and arrangements which exploit the current rules that allow a deduction for liabilities owed by the deceased against the value of an estate regardless of whether or not the debt is paid after death. Some arrangements involve contrived debts which are subsequently not repaid so there is no real reduction in the value of the estate; others involve loans used to acquire assets which are not chargeable to IHT, or which qualify for a relief, so that the value of the estate is doubly reduced.

The measure has not been previously announced. There has been no consultation on the measure.

Detailed proposal

Operative date

The measure will have effect for deaths and chargeable transfers on or after the date that Finance Bill 2013 receives Royal Assent.

Current law

IHT is normally charged on the net value of a deceased person's estate after taking into account liabilities outstanding at the date of death (section 5(3) IHTA 1984), and after deducting any reliefs, exemptions and the nil-rate band or IHT threshold. The deduction is given for the full value of the liabilities due to the creditors, and not for the amount actually paid to them.

Reliefs are available for certain assets which are not chargeable to IHT in particular circumstances. These include business property relief (BPR), agricultural property relief (APR) and woodlands relief (WR).

Property which is situated outside the UK and which belongs to, or was settled by, a non-UK domiciled individual is 'excluded property' and does not form part of the person's estate. It is not chargeable to IHT.

The current rules describe how a liability should be taken into account but only in some circumstances. For example, a liability secured on any property should first be set against that property.

There are no specific provisions for the deduction of liabilities against settled property.

Proposed revisions

Legislation will be introduced in Finance Bill 2013. The revised provisions will bring in conditions and restrictions in the way that the deduction for liabilities is allowed in the following circumstances:

- A deduction for a liability will only be allowed to the extent that it is repaid to the creditor, unless it is shown that there is a commercial reason for not repaying the liability and it is not left unpaid as part of arrangements to get a tax advantage.
- No deduction will be allowed for a liability to the extent that it has been incurred directly or indirectly to acquire property which is excluded from the charge to IHT. However, where the acquired property has been disposed of or where the liability is greater than the value of the excluded property, the deduction may be allowed providing certain conditions are met.
- Where the liability has been incurred to acquire assets on which a relief such as BPR, APR or WR is due, the liability will be taken to reduce the value of those assets that can qualify for relief. The deduction for the loan will be matched against the assets acquired and relief will be restricted to the net value of the assets. Any excess liability will be allowable as a deduction against the estate in general subject to the new rule about unpaid debts.

The new rules will also apply to settled property with the exception that the unpaid liabilities rule will not apply to the calculation of the value of the estate for the purposes of the ten year anniversary charge.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>+5</td><td>+20</td><td>+15</td><td>+15</td><td>+15</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.

This measure 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 economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">This measure will only affect individuals entering into avoidance schemes involving debts to artificially reduce the value of an estate.

The administrative impact of this measure is not on the deceased individual but rather on those acting as executors or administrators of the estate. Personal representatives will need to ensure that any outstanding loans are repaid in order to claim the deduction against the value of the estate.</td></tr>
</table>

	This measure will affect only a small number of individuals and households as the base of estates that fall within the charge to IHT is fairly small (it is estimated for 2010-11 that there will have been approximately 17,000 estates left on death paying IHT, representing less than 4 per cent of the total). Of the estates left on death a few hundred are likely to be using one of these schemes.
Equalities impacts	It is not expected that the measure would adversely or disproportionately impact on any equality groups.
Impact on business including civil society organisations	There is unlikely to be any impact on most businesses because normal commercial debts will be unaffected. The changes may affect the promoters of avoidance schemes and arrangements exploiting the current rules.
Operational impact (£m) (HMRC or other)	The operational impact on HMRC will be insignificant.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

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

Corporation tax deductions for employee share acquisitions

Who is likely to be affected?

Companies granting share options or awarding shares to their employees.

General description of the measure

This measure clarifies legislation that determines the availability of corporation tax (CT) deductions where companies grant share options or award shares to their employees.

Policy objective

The policy objective is to remove any uncertainty as to what CT deductions companies are entitled to claim when they grant share options or award shares to their employees.

Background to the measure

This measure was announced at Budget 2013. It has not been the subject of consultation.

Detailed proposal

Operative date

The measure has effect in relation to accounting periods ending on or after 20 March 2013, irrespective of when shares were awarded or an option was granted. However, the measure will not operate to deny CT deduction in an accounting period spanning 20 March 2013 where the shares are acquired prior to that date or an option to acquire shares lapsed prior to that date.

Current law

Part 12 Corporation Tax Act 2009 (CTA 2009) provides the main statutory rules governing the CT relief available when companies grant share options or award shares to their employees. The general effect of Part 12 CTA 2009 is to link the CT relief available to the amount that is chargeable to income tax when the shares are acquired by the employee; or the amount that would be chargeable to income tax if the employee was a UK resident or if any relevant tax advantages did not apply.

Section 1038 CTA 2009 provides that no other CT deduction is available for expenses directly related to the provision of shares if relief is given under Part 12 CTA 2009, subject to specified exceptions.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to clarify the rules that govern the CT deductions available where companies grant share options or award shares to their employees.

The legislation clarifies that if relief is given under Part 12 CTA 2009, companies may not claim any other CT deduction in relation to the provision of the employee shares or share options, or in relation to any connected matter, other than where specified.

It also clarifies that, other than in specified circumstances, no CT deductions are available to a company in relation to employee share options, or any matter connected with such an option, unless shares are acquired pursuant to that option.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The measure does not impact upon individuals and households, as it only applies to companies.				
Equalities impacts	It is not anticipated that the legislation would impact disproportionately on any individuals with protected characteristics.				
Impact on business including civil society organisations	The measure is designed to clarify the rules in relation to CT deductions for employee share awards and options on the same basis as these rules have been applied by HM Revenue & Customs (HMRC) since statutory CT relief for employee share acquisitions was introduced in 2003. It is therefore expected to have no impact on businesses or civil society organisations acting in accordance with HMRC guidance.				
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any additional costs for HMRC.				
Other impacts	Small firms impact test: the measure concerns general rules governing the availability of CT deductions and therefore applies to all businesses that grant options or award shares to employees. This is primarily a clarifying measure, and is expected to have no impact on small firms currently acting in accordance with HMRC guidance. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Andrew Ellis on 020 7147 2658 (email: andrew.ellis1@hmrc.gsi.gov.uk).

Loans from close companies to their participators

Who is likely to be affected?

This measure affects close companies[1] (and in some cases their participators[2]) which make loans or transfer value to their participators in certain ways, including those who have made payments via an intermediary such as a partnership or trust.

General description of the measure

To tackle avoidance of the tax charge (known as s455 tax) on loans from close companies to their participators, the Government has introduced three changes to the rules:

- to put beyond doubt that loans to various intermediaries are within the scope of the charge;
- transfers of value (other than loans) are brought within the scope of the charge when arrangements mean there is also a corresponding receipt of value by the participator; and,
- the repayment rules are reinforced so relief is only given for genuine repayments.

Policy objective

The measure will protect the Exchequer from loss of revenue through use of perceived loopholes in the existing rules to avoid the tax charge on close company loans to their participators. This supports the Government's objective of a fair tax system.

Background to the measure

The Government announced this measure on 20 March 2013.

Detailed proposal

Operative date

The measure will have effect on and after 20 March 2013.

Current law

The rules governing the charge on loans from close companies to their participators are found at Chapter 3 of Part 10 Corporation Tax Act 2010 (CTA 2010). The purpose of the s455 tax charge is to deter companies from making untaxed loans to their participators rather than paying remuneration or dividends which are chargeable as income.

The charge is on the close company at a rate of 25 per cent of any amounts outstanding nine months after the end of the accounting period. The close company must have made the loan or advance to participators who are individuals (subject to certain limited exceptions) during the accounting period.

[1] A close company is a company which is controlled by five or fewer participators or any number of directors who are participators.

[2] Broadly, a participator is a person who has a share or interest in a company.

Loans from close companies to partnerships in which all the partners are individuals and at least one of the partners is a participator in the close company are also caught by the s455 tax charge.

There are exemptions from the charge for debts incurred in the ordinary course of a money lending business; for goods or services provided on normal credit terms; and certain loans to employees and directors which do not exceed £15,000.

The close company can claim relief for any s455 tax if the loan is repaid to the company. Chapter 3 CTA 2010 also contains provisions to prevent avoidance, for example, through the use of indirect loans and insertions of a non-close company into the structure.

Avoidance arrangements

Arrangements have sought to use perceived loopholes in the legislation by making loans and other payments to participators via intermediaries such as Limited Liability Partnerships (LLPs), partnerships and trusts in which the close company and at least one participator in the close company are members, partners or trustees.

Other arrangements seek to prevent the tax charge becoming due and payable with a repayment of the loan before the end of the nine month period which is very shortly followed by a withdrawal of a 'new' loan on similar terms.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to apply the s455 tax charge to any loans from close companies to participators made via partnerships (including LLPs) in which the close company and at least one partner/member is a relevant person who is a participator (or associate of a participator). Part 10 CTA 2010 will be amended to ensure that there will be appropriate exceptions and relief from the charge. Similar provisions will apply to certain trustees.

Where there is an extraction of value from a close company and the value is transferred to a participator, there will be a 25 per cent tax charge on the close company on the amount of the payment to the participator. Part 10 CTA 2010 will be amended to ensure that there will be exceptions to the charge, and relief if the value transferred is returned to the close company.

The repayment provisions are amended to deny the relief, subject to de minimis limits, where repayments and re-drawings are made within a short period of time of each other, or there are arrangements (or there is an intention) to make further chargeable payments at the time the repayment is made (and there are subsequent re-drawings).

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	+65	+75	+70	+60
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will have an impact on some individuals as an income tax charge arises when any chargeable loan is released or written off by the close company lender.				
Equalities impacts	The Government does not collect data on characteristics of individuals who are close company participators.				
Impact on business including civil society organisations	This measure addresses avoidance of tax charge (known as s455 tax) on loans from close companies to their participators. These schemes constitute an unfair advantage and in removing that there will be no impact on the normal commercial transactions of businesses and civil society organisations.				
Operational impact (£m) (HMRC or other)	The operational impact of this measure is expected to be negligible.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

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

Corporation tax loss relief: anti-avoidance

Who is likely to be affected?

Companies who engage in arrangements which seek to exploit loopholes in corporation tax (CT) legislation to access relief for losses either more quickly or in ways contrary to the underlying principles upon which loss relief legislation is based.

General description of the measure

This measure amends two aspects of rules governing the availability of relief for losses,:those relating to the surrender of losses for group relief and the treatment of losses in the event of a business reorganisation resulting in a change of ownership.

Policy objective

This measure clarifies and reasserts the underlying principles on which UK loss relief rules are based and protects both Exchequer revenue and the fairness of the tax system.

Background to the measure

The Government announced this measure at Budget 2013.

Detailed proposal

Operative date

Group relief rules

Amendments to section 105 of the Corporation Tax Act 2010 (CTA 2010) will have effect for group relief surrender periods ending on or after 20 March 2013. The amendments will not apply to chargeable profits of a Controlled Foreign Company (CFC) for a period ending before 20 March 2013, or to any such profits apportioned as arising prior to that date from a period in which that date falls.

Change in company ownership rules

Amendments to section 676 of CTA 2010 and the new Chapter inserted into Part 14 of CTA 2010 will be effective in relation to changes of ownership that occur on or after 20 March 2013.

Current law

Group relief rules

Section 105 of CTA 2010 seeks to ensure that a loss is first relieved against other profits of the company in which it arose before it is available for surrender, by way of group relief, to other companies within a group. It therefore restricts the surrender of certain 'relevant amounts' eligible for group relief unless they exceed the ‘gross profits’ of the surrendering company i.e. the profits chargeable to corporation tax. 'Relevant amounts' include qualifying charitable donations, UK property business losses, management expenses and non-trading losses on intangible fixed assets. ‘Gross profits’ do not currently include apportioned CFC profits.

Change in company ownership rules

Where a trade is transferred between companies under common ownership, the normal rules - that company losses should belong to the company and trade that incurred them - are suspended and any losses brought forward are allowed to transfer with the trade. However, different rules apply where trade is transferred between unconnected companies. Part 14 of CTA 2010 sets out that, in such circumstances, restrictions apply if there is a major change in the nature of the trade, investment business or UK property business carried on by a company within three years of the change of ownership.

Proposed revisions

Group Relief rules

Legislation will be introduced in Finance Bill 2013 to amend section 105 of CTA 2010 to add to the threshold (currently ‘gross profits’) which the 'relevant amounts' must exceed before they can be surrendered by way of group relief. The threshold will now include any apportionments of profit under CFC rules made to the surrendering company. This ensures that where profits are apportioned under CFC rules, any management expenses, for example, would have to exceed those amounts before they could be surrendered by way of group relief.

Change of company ownership rules

Legislation will be introduced in Finance Bill 2013 amending Part 14 of CTA 2010 in two respects:

Firstly, section 676 will be amended to disallow trading losses where, in the relevant circumstances, there is a transfer of the trade within the new group, following the change in ownership of the company.

Secondly, a new Chapter will be inserted into Part 14 CTA 2010 to restrict the availability of non-trading debits, non-trading loan relationship deficits and non-trading losses on intangible fixed assets after a change of ownership of a shell or dormant company.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	+35	+40	+35	+25	+25
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	There is no impact on individuals because this measure only affects companies.				
Equalities impacts	No equalities impacts have been identified because this measure only affects companies.				

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The number of companies affected by this measure is small, and they will incur a negligible one-off cost in familiarising themselves with these changes. There will be no impact on the annual administrative burdens of businesses as there are no changes to their reporting requirements.
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue & Customs in implementing this measure are anticipated to be negligible.
Other impacts	Small firms impact test: some small businesses may be affected by this measure but only those that are, will be those engaged in arrangements which access relief for losses either quicker or in ways contrary to the underlying principles upon which loss relief rules are based. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Simon Moulden on 020 7147 2629 (email: simon.moulden@hmrc.gsi.gov.uk) or Barbara Skorupska on 020 7147 3369 (email: barbara.skorupska@hmrc.gsi.gov.uk).

Securing compliance with real time information: penalties

Who is likely to be affected?

All employers (including pension providers and secondary contributors) operating Pay As You Earn (PAYE) who are required to make returns under real time information (RTI).

General description of the measure

This measure will introduce new penalties for RTI designed to encourage compliance with the information and payment obligations, whilst ensuring those who do not comply do not gain a significant advantage. The measure includes new late filing penalties for RTI returns; changes to the current late payment penalties to ensure they can be charged in-year; and to the inaccuracy penalties so they can be charged in a way that minimises the burden on employers and HM Revenue & Customs (HMRC).

Policy objective

RTI requires employers operating PAYE to report information on employees' pay and deductions in real time. This will improve the quality of the PAYE information received by HMRC and so will, over time, bring benefits to employers, employees and HMRC. This data will be shared with the Department for Work & Pensions (DWP), allowing it to adjust Universal Credit payments in real time and contribute to the Government's objective of making work pay.

RTI is being designed to integrate with payroll processes, so making it as easy as possible for employers to meet their new obligation to tell HMRC about payments they make to their employees on or before the date the payments are made. Employers will continue to pay over to HMRC the sums deducted from their employees under the PAYE system monthly or quarterly. As with penalties across all tax regimes, these penalties are designed to encourage employers to comply with their legal obligations.

The RTI penalties build on existing models to ensure penalties are comparable across taxes and taxpayers, whilst taking account of the specific requirements of RTI. These models are designed to deliver fair, proportionate and effective penalties that deter non-compliance but do not create needless burdens for either employers or HMRC.

Background to the measure

This measure was announced at Budget 2012 and was subject to formal consultation for 12 weeks ending 6 September 2012. The draft legislation was also subject to consultation following publication of draft legislation in December 2012.

This Tax Information and Impact Note (TIIN) which updates and replaces the note published on 11 December 2012, should be read in conjunction with the RTI TIIN which was published on 15 March 2013 on the HMRC website.

Detailed proposal

Operative date

The new late filing penalties and the changes to the late payment penalties will apply on and after 6 April 2014. The changes to the inaccuracy penalties will have effect from the date that Finance Bill 2013 receives Royal Assent. The inaccuracy penalties are already in force and without this change the process for assessing and notifying these penalties to employers will be unduly complicated.

Current law

The current late filing penalties for PAYE are at section 98A Taxes Management Act 1970.

Late filing of an Employer Annual Return (P35 and P14s) attracts a penalty of £100 for each month or part month a return is late, and where the employer (PAYE scheme) has more than 50 employees the penalty rises by £100 for each batch, or part batch, of 50 employees. If the return is still outstanding at 12 months, then a further penalty not exceeding the amount due for the year but unpaid at 19 April can be applied.

The current law for PAYE late payment penalties is at section 107 and Schedule 56 to Finance Act 2009.

Under this model the employer's first failure to pay on time in a tax year does not count as a default so does not attract a penalty; one, two or three defaults during the tax year attract a penalty of 1 per cent of the amount of tax comprising those defaults; four, five or six defaults attract a penalty of 2 per cent; seven, eight or nine defaults attract a penalty of 3 per cent; and 10 or more defaults attract a penalty of 4 per cent. If any amount is unpaid at the 6 or 12 month points a further penalty of 5 per cent of the unpaid amount arises.

The law for penalties for submitting inaccurate information is at section 97 and Schedule 24 to Finance Act 2007.

This requires HMRC to charge penalties for careless or deliberate inaccuracies on returns and other documents. The size of the penalty is determined by the amount of tax understated or overclaimed, the behaviour that led to the inaccuracy, and the nature and extent of any disclosure made by the taxpayer. Penalties assessed under Schedule 24 must refer to the tax period to which they relate.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to set out a new model for late filing penalties for RTI. Penalties will apply to each PAYE scheme, with the size of the penalty based on the number of employees in the scheme, so that different-sized penalties will apply to micro, small, medium and large employers. Each scheme will be subject to only one late filing penalty each month, regardless of the number of returns due in the month. There will be one unpenalised default each year, with all subsequent defaults attracting a penalty. Penalties will be charged quarterly, and subject to the usual reasonable excuse and appeal provisions. Regulations will be used to set the penalty rates.

Legislation will make changes to the late payment penalty model to ensure it works effectively for RTI. The main changes will ensure penalties are based on the number of late payments relating to each tax year; ring-fence each penalty so that if further defaults arise earlier penalties do not have to be recalculated; and permit a penalty to be amended once it has been issued, rather than having to be withdrawn and reissued. The Government may use regulations to apply a relief from late payment penalties if the sums paid by the employer do not exactly match the figures shown as deducted on the RTI returns for the relevant period. This is designed to prevent penalties being issued where there is only a small discrepancy between the return figures and sums paid over each period.

Legislation will amend the inaccuracy penalties. The assessment provision will be amended to allow a tax year to be treated as a tax period for the purposes of Schedule 24 to Finance Act 2007. This change will reduce the number of separate penalty assessments that have to be issued where errors are found.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will not directly impact individual employees; the late filing penalties are designed to encourage employers to provide timely information to HMRC. This information will then be used by DWP to support the operation of Universal Credit.				
Equalities impacts	Penalties are only applicable where there has been a failure to comply with legal obligations. The impact of the RTI obligations along with plans to mitigate the effects on protected equality groups have been published separately in the RTI TIIN. It is possible that certain employers will find it more difficult to comply with the RTI filing obligation than others. In particular, some care and support employers (who are likely to be disabled and/or elderly) may be unable to file electronically. RTI includes the option of monthly paper filing for this group. The late filing and late payment penalty models both allow for an initial unpenalised default. The late filing penalty model includes smaller penalties for small employers, and applies only one penalty each month regardless of the number of returns due. Late payment penalties are based on the size of the late payment. These features should mitigate the impact of the penalties on smaller employers who pay their employees more frequently than monthly. In addition all employers can appeal against a penalty, and if they have a reasonable excuse for not meeting an obligation the associated penalty will be cancelled. The Government is also looking to support people online through the RTI communications programme. Many care and support employers may well be among those who opt to use the online system and therefore it will be no more burdensome for them to operate RTI than for other employers. The Government will continue to look at how best it can help the digitally excluded comply with RTI and have set up a working group with external representatives to consider these matters in more detail. There are no impacts on other protected equality groups.				
Impact on business including civil society organisations	This measure should have no impact on compliant employers or civil society organisations as penalties only affect those who fail to comply with their legal obligations.				

Operational impact (£m) (HMRC or other)	There will be implementation and IT costs for HMRC with the new late filing penalty regime and updated late payment and error penalties for RTI. In making these proposals the Government has been mindful of the impact on both external customers and HMRC resources. When the new models have been legislated further work will be done, using HMRC's analysts' predictions of workloads and volumes, to quantify the operational impact.
Other impacts	Small firms impact test: The impact on small employers has been considered as part of the policy development process. Following consultation a late filing penalty model has been designed that includes: • a lower penalty for micro employers; • an initial unpenalised default for all employers irrespective of size; and, • a system that assesses only one late filing penalty each month regardless of how many returns an employer needs to file. These features should particularly assist weekly payers and so help keep any late filing penalties proportionate for small employers. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored and assessed as part of the wider evaluation of the RTI programme.

Further advice

If you have any questions about this note please contact Stephanie Allistone on 020 7147 2394 for late filing and late payment penalties, and Pete Woodham on 020 7147 2573 for inaccuracy penalties (email : TAP@hmrc.gsi.gov.uk).

Data-gathering from card payment processors

Who is likely to be affected?

Merchant acquirers and other businesses that contract with retailers to settle credit, debit and charge card transactions.

General description of the measure

The measure will provide HM Revenue & Customs (HMRC) with a power to require card payment processors to provide bulk data about business taxpayers, in order to identify those who do not declare their full sales.

Policy objective

This measure will significantly improve HMRC's data-gathering to support a more effective risk assessment of businesses who are not declaring their full tax liability, and help create a more level playing field. Card payment processors, such as merchant acquirers and aggregators, process credit and debit card payments for merchants and retailers. The data that will be provided, covering the monthly totals paid to merchants, is expected to be of significant value in identifying businesses that do not declare their full sales, and activity in the hidden economy. It will enable compliance interventions to be better targeted on those who are underpaying tax, as part of HMRC's efforts to close the tax gap.

Background to the measure

Schedule 23 to Finance Act 2011 introduced a new framework for HMRC's data-gathering powers with effect from 1 April 2012, following two formal consultations. For this measure, the Government published draft legislation for consultation on 11 December 2012. The Government has considered the responses and has changed the drafting to ensure that the measure is comprehensive in its coverage.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after the date that Finance Bill 2013 receives Royal Assent. The Government intends to put the necessary secondary legislation in place by autumn 2013, after which HMRC will issue notices requiring data from the relevant card payment processors.

Current law

Card payment processors are not explicitly specified as data-holders in Schedule 23 to Finance Act 2011 and due to their contractual arrangements, do not fall within any other categories of data-holder specified in Schedule 23.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend Schedule 23 to Finance Act 2011 by adding a new category of data-holder. This will allow HMRC to issue a notice to card payment processors requiring them to provide data.

Secondary legislation made under paragraph 1(3) of Schedule 23 will specify the relevant data that HMRC can require the card payment processors to provide. This will be information about credit, debit, and charge card sales made by retailers, and the retailers' name, address, VAT number if available, and bank account details. It will not identify the details of the credit or debit card holder, just the total sales made by particular businesses in each month. These will be used by HMRC to cross check against VAT registrations and business income declared on tax returns.

The safeguards in Schedule 23 Finance Act 2011, including the right of appeal, will apply to notices issued to card payment processors as they do to all other types of data-holder. HMRC will discuss the timing and format of the notices with those affected.

These proposals will provide HMRC with third party information of a high quality, in a form that can be used effectively. By connecting this with data already held, HMRC expects to be able to carry out compliance checks that are more accurately targeted on the areas of highest risk, and which can be concluded more quickly. This should result in a higher yield from checks that require less time.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>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 supports the Exchequer in its commitment to protect revenue.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure is not expected to have any impact on individuals or households. HMRC will not be gathering data relating to card holders.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The measure is not expected to have an equalities impact.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is expected to have a negligible impact on businesses. Card payment processors will incur an additional administrative burden in providing HMRC with information. There will also be a negligible one-off cost to businesses as they familiarise themselves with this policy.

Businesses not declaring their full income, or trading in the hidden economy, can expect to face greater scrutiny as a result of this measure, but this will have no impact on businesses undertaking normal business transactions.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">The data will enable HMRC to improve its compliance work in identifying businesses suppressing their income or operating in the hidden economy.

The overall HMRC operational impacts are considered to be negligible and will be managed within the existing resources.</td></tr>
<tr><td>Other impacts</td><td colspan="5"><u>Small firms impact test</u>: this measure is aimed at card payment processors and due to the nature of the business it is not expected to affect small firms. However, if it does, the impact will be negligible.

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

Monitoring and evaluation

The measure will be monitored by HMRC, making use of the data obtained under the proposed legislation.

Further advice

If you have any questions about this change, please contact George Margesson on 020 7147 3069 (email: george.margesson@hmrc.gsi.gov.uk).

B Rates and Allowances

This annex includes Budget 2013 announcements of main rates and allowances. It also covers all announcements made at Budget 2012 and subsequently.

PERSONAL TAX AND BENEFITS

At Budget 2012 the Government announced:

- the main rates of income tax for 2013-14;
- a £1,100 increase to the personal allowance for people born after 5 April 1948 to £9,205; and,
- a reduction of the basic rate limit to £32,245.

At Autumn Statement 2012 the Government announced further changes for 2013-14:

- a further £235 increase to the personal allowance for people born after 5 April 1948 to £9,440; and,
- a further reduction to the basic rate limit to £32,010.

Budget 2012 also announced changes to personal allowances from 2013-14:

- people born after 5 April 1938 but before 6 April 1948 will be entitled to a personal allowance of £10,500; and
- people born before 6 April 1938 will be entitled to a personal allowance of £10,660.

At Budget 2013 the Government announced that for 2014-15, people born after 5 April 1948 will be entitled to a personal allowance of £10,000. As set out at Budget 2011, once the personal allowance has reached £10,000, it will then increase by the Consumer Prices Index (CPI) in future years, starting from 2015-16.

The Government also announced that the basic rate limit will be £31,865 in 2014-15.

Income tax bands of taxable income (£ per year)			
	Tax year 2012-13	**Tax year 2013-14**	**Tax year 2014-15**
Basic rate[1]	£0 – 34,370	£0 – 32,010	£0 – 31,865
Higher rate	£34,371 – 150,000	£32,011 – 150,000	£31,866 – 150,000
Additional rate	Over £150,000	Over £150,000	Over £150,000

[1] There is a starting rate for savings income only. The starting rate limit for savings is £2,710 for 2012-13 and will increase in line with RPI to £2,790 for 2013-14. If an individual's taxable non-savings income (i.e. after deduction of their personal allowance) exceeds the starting rate limit, then the 10 per cent starting rate for savings will not be available for savings income.

Income tax rates		
	Tax year 2012-13	**Tax year 2013-14**
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	45%
Dividend ordinary rate (for dividends otherwise taxable at the basic rate (effective rate with tax credit))	10% (0%)	10% (0%)
Dividend upper rate (for dividends otherwise taxable at the higher rate (effective rate with tax credit))	32.5% (25%)	32.5% (25%)
Dividend additional rate (for dividends otherwise taxable at the additional rate (effective rate with tax credit))	42.5% (36.1%)	37.5% (30.6%)

Special rates for trustees' income			
	Tax year 2011-12	**Tax year 2012-13**	**Tax year 2013-14**
Standard rate on first £1,000 of income which would otherwise be taxable at the special rates for trustees	Up to 20%, depends on the type of income	Up to 20%, depends on the type of income	Up to 20%, depends on the type of income
Trust rate	50%	50%	45%
Dividend trust rate	42.5%	42.5%	37.5%

Income tax allowances (£ per year)			
Personal allowance[2]	Tax year 2012-13	Tax year 2013-14	Tax year 2014-15
Age under 65[3]	£8,105	N/A	N/A
Born after 5 April 1948 [3]	N/A	£9,440	£10,000
Age-related allowance (65-74) [3, 4]	£10,500	N/A	N/A
Born after 5 April 1938 but before 6 April 1948 [3, 4]	N/A	£10,500	£10,500
Age-related allowance (75+) [3, 4]	£10,660	N/A	N/A
Born before 6 April 1938 [3, 4]	N/A	£10,660	£10,660
Income limit for personal allowance	£100,000	£100,000	£100,000
Income limit for age-related allowances	£25,400	N/A	N/A
Income limit for personal allowances (born before 6 April 1948)	N/A	£26,100	TBA[5]
Married couples allowance [6,7]			
Maximum amount of married couple's allowance [8]	£7,705	£7,915	TBA
Minimum amount of married couple's allowance	£2,960	£3,040	TBA
Blind person's allowance			
Blind person's allowance	£2,100	£2,160	TBA

[2] Up to and including 2012-13, the amount of an individual's personal allowance depends upon their age and their income in the tax year. From 2013-14, the amount of an individual's personal allowance depends on their date of birth and their income in the tax year. This change has no effect on an individual's entitlement to the married couple's allowance or the blind person's allowance.
[3] This allowance reduces where the individual's income is above £100,000 - by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age or date of birth.
[4] This allowance reduces where the individual's income is above the income limit (£25,400 for 2012-13, £26,100 for 2013-14) by £1 for every £2 of income above the limit until they reach the level of the personal allowance for those aged under 65, or from 2013-14, the level of the personal allowance for those born after 5 April 1948.
[5] Personal allowances and rate limits (except the £150,000 higher rate limit, the £100,000 personal allowance income limit and from 2013-14 the personal allowances for people born before 6 April 1948) are indexed by the annual percentage increase in the RPI for the year to September preceding the new tax year. The RPI increase that will provide the basis for indexation for 2014-15 will be published in late 2013.
[6] Available to people born before 6 April 1935.
[7] Tax relief for this allowance is given at 10 per cent.
[8] This allowance reduces where the individual's income is above the income limit (£25,400 for 2012-13, £26,100 for 2013-14), by £1 for every £2 of income above the limit until it reaches the minimum amount. Any reduction applies after any reduction to the individual's personal allowance.

Company car tax			
2015/16[9]		**2016/17**	
CO_2 emissions, g/km	***Appropriate percentage* of car list price taxed**[10]	**CO_2 emissions, g/km**	***Appropriate percentage* of car list price taxed**
0 to 50	5	0-50	7
51-75	9	51-75	11
76-94	13	76 to 94	15
95-99	14	95-99	16
100-104	15	100-104	17
105-109	16	105-109	18
110-114	17	110-114	19
115-119	18	115-119	20
120-124	19	120-124	21
125-129	20	125-129	22
130-134	21	130-134	23
135-139	22	135-139	24
140-144	23	140-144	25
145-149	24	145-149	26
150-154	25	150-154	27
155-159	26	155-159	28
160-164	27	160-164	29
165-169	28	165-169	30
170-174	29	170-174	31
175-179	30	175-179	32
180-184	31	180-184	33
185-189	32	185-189	34
190-194	33	190-194	35
195-199	34	195-199	36
200-204	35	200 and above	37
205-209	36		
210 and above	37		

In 2017-18 there will be a 3 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands. In 2018-19 and 2019-20 there will be a 2 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands.

[9] 2015-16 rates legislated in Finance Bill 2013.
[10] In 2015-16 only a three percentage point diesel supplement applies to wholly propelled diesel cars with percentages up to 34 per cent, to a maximum of 37 per cent.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

Employee and employer rates and thresholds (£ per week)		
Class 1 NICs	**Tax year 2012-13**	**Tax year 2013-14**
Lower Earnings Limit (LEL) for Class 1 NICs	£107.00	£109.00
Upper Earnings Limit (UEL) for employee's (primary) Class 1 NICs	£817.00	£797.00
Upper Accrual Point (UAP)	£770.00	£770.00
Primary Threshold	£146.00	£149.00
Secondary Threshold	£144.00	£148.00
Employee's (primary) Class 1 contribution rates		
2012-13 weekly earnings from £146.01 to £817.00	12%	N/A
2012-13 weekly earnings above £817.00	2%	N/A
2013-14 weekly earnings from £149.01 to £797.00	N/A	12%
2013-14 weekly earnings above £797.00	N/A	2%
Employee's contracted-out rebate		
Salary related schemes (COSR) between LEL & UAP	1.4%	1.4%
Married woman's reduced rate for (primary) Class 1 contribution rates[11]		
2012-13 weekly earnings from £146.01 to £817.00	5.85%	N/A
2012-13 weekly earnings above £817.00	2%	N/A
2013-14 weekly earnings from £149.01 to £797.00	N/A	5.85%
2013-14 weekly earnings above £797.00	N/A	2%
Employer's (secondary) Class 1 contribution rates		
2012-13 weekly earnings above £144.00	13.8%	N/A
2013-14 weekly earnings above £148.00	N/A	13.8%
Employer's contracted-out rebate		
COSR schemes between LEL and UAP	3.4%	3.4%

[11] The reduced rate applies to women married before 6 April 1977 who have elected to pay a reduced rate of Class 1 contributions.

Self-employed and others rates and thresholds (£ per week)		
Class 2 NICs[12]	**Tax year 2012-13**	**Tax year 2013-14**
Self-employed class 2 NICs	£2.65	£2.70
Small Earnings Exception from Class 2 NICs (annual)	£5,595	£5,725
Volunteer development workers Class 2 NICs	£5.35	£5.45
Share fishermen Class 2 NICs	£3.30	£3.35

Self-employed and others rates and thresholds (£ per week)		
Class 3 NICs	**Tax year 2012-13**	**Tax year 2013-14**
Voluntary contributions	£13.25	£13.55

Self-employed and others rates and thresholds		
Class 4 NICs	**Tax year 2012-13**	**Tax year 2013-14**
2012-13 annual profits below Lower Profits Limit (LPL) £7,605	Nil	N/A
2012-13 annual profits above LPL £7,605 but below Upper Profits Limit (UPL) £42,475	9%	N/A
2013-14 annual profits above UPL £42,475	2%	N/A
2013-14 annual profits below LPL £7,755	N/A	Nil
2013-14 annual profits above LPL £7,755 but below UPL £41,450	N/A	9%
2013-14 annual profits above UPL £41,450	N/A	2%

[12] Class 2 NICs are paid at a weekly flat rate by all self-employed persons. Those with profits less than, or expected to be less than, the level of the Small Earnings Exception may apply for exemption from paying Class 2 NICs.

WORKING AND CHILD TAX CREDITS, CHILD BENEFIT AND GUARDIANS ALLOWANCE

Working and child tax credits		
£ per year (unless stated)	**From April 2012**	**From April 2013**
Working tax credit		
Basic element	£1,920	£1,920
Couple and lone parent element	£1,950	£1,970
30 hour element	£790	£790
Disabled worker element	£2,790	£2,855
Severe disability element	£1,190	£1,220
50+ Return to work payment (16-29 hours)	Removed	Removed
50+ Return to work payment (30+ hours)	Removed	Removed
Childcare element of the working tax credit		
Maximum eligible cost for one child	£175 per week	£175 per week
Maximum eligible cost for two or more children	£300 per week	£300 per week
Percentage of eligible costs covered	70%	70%
Child tax credit		
Family element	£545	£545
Child element	£2,690	£2,720
Disabled child element	£2,950	£3,015
Severely disabled child element	£1,190	£1,220
Income thresholds and withdrawal rates		
First income threshold	£6,420	£6,420
First withdrawal rate	41%	41%
Second income threshold	Withdrawn	Withdrawn
Second withdrawal rate	41%	41%
First threshold for those entitled to child tax credit only	£15,860	£15,910
Income disregard	£10,000	£5,000
Income fall disregard	£2,500	£2,500

Child benefit (£ per week)		
	From April 2012	**From April 2013**
Eldest/only child	£20.30	£20.30
Other children	£13.40	£13.40
Guardians allowance (£ per week)		
Guardians allowance	£15.55	£15.90

CAPITAL, ASSETS AND PROPERTY

Pensions savings tax relief				
	Tax year 2011-12 allowance limit	**Tax year 2012-13 allowance limit**	**Tax year 2013-14 allowance limit**	**Tax year 2014-15 allowance limit**
Lifetime allowance	£1.8 million	£1.5 million	£1.5 million	£1.25 million
Annual allowance	£50,000	£50,000	£50,000	£40,000

Individual Savings Account (ISA)	Tax year 2012-13	Tax year 2013-14
Cash value of ISA limit	£11,280, up to £5,640 of which can be saved in cash	£11,520, up to £5,760 of which can be saved in cash.

Junior ISA	Tax year 2012-13	Tax year 2013-14
Cash value of Junior ISA limit	£3,600	£3,720

Child Trust Fund (CTF)	Tax year 2012-13	Tax year 2013-14
Cash value of CTF limit	£3,600	£3,720

Capital gains tax	Tax year 2012-13	Tax year 2013-14
Rates for individuals	18% / 28%	18% / 28%
Rates for trustees and personal representatives	28%	28%
Annual exempt amount (AEA) for individuals and personal representatives[13]	£10,600	£10,900
AEA for most trustees	£5,300	£5,450
Rate on gains subject to entrepreneurs' relief	10%	10%
Entrepreneurs' relief lifetime limit of gains	£10,000,000	£10,000,000

[13] Personal representatives are entitled to the annual exempt amount for the tax year in which the individual dies and the next two years.

Inheritance tax	Tax year 2012-13	Tax year 2013-14
Rate	40%	40%
Lower rate	36%[14]	36% [14]
Nil rate band	£325,000	£325,000

Stamp duty land tax				
Rate	Threshold for tax year 2012-13		Threshold for tax year 2013-14	
	Residential	Non-residential	Residential	Non-residential
0%	£0 – 125,000	£0 – 150,000	£0 – 125,000	£0 – 150,000
1%	£125,001 – 250,000	£150,001 – 250,000	£125,001 – 250,000	£150,001 – 250,000
3%	£250,001 – 500,000	£250,001 – 500,000	£250,001 – 500,000	£250,001 – 500,000
4%	£500,001 – £1,000,000	Over £500,000	£500,001 – £1,000,000	Over £500,000
5%	£1,000,001 – £2,000,000	N/A	£1,000,001 – £2,000,000	N/A
7%	Over £2,000,000	N/A	Over £2,000,000	N/A
15% [15]	Over £2,000,000	N/A	Over £2,000,000	N/A

Budget 2013 confirms the introduction of a series of reliefs from the 15 per cent SDLT rate for genuine commercial businesses purchasing residential property valued at over £2million. These changes will come into effect at the Royal Assent of Finance Bill 2013.

[14] Budget 2011 announced that for deaths on or after 6 April 2012, a lower rate of Inheritance tax of 36 per cent will be introduced where 10 per cent or more of the deceased person's net estate is left to charity.

[15] The 15 per cent rate applies if the property is acquired by certain non-natural persons (e.g. companies).

Budget 2013 introduces an Annual Tax on Enveloped Dwellings (ATED) levied on certain non-natural persons holding a residential property valued at over £2million. The tax will come into effect from 1 April 2013 with payment of the tax required by 31 October 2013.

Annual Tax on Enveloped Dwellings		
Property value	**Charge for tax year 2012-13**	**Charge for tax year 2013-14**
Less than £2m	N/A	0
£2m - £5m	N/A	£15,000
£5m - £10m	N/A	£35,000
£10m - £20m	N/A	£70,000
£20m +	N/A	£140,000

Stamp Duty and stamp duty reserve tax		
Band	**Tax year 2012-13**	**Tax year 2013-14**
Standard rate	0.5%	0.5%
Higher rate	1.5%	1.5%

BUSINESS AND FINANCIAL SERVICES

Budget 2012 announced changes to corporation tax from April 2012 and Autumn Statement 2012 announced further changes to corporation tax from April 2014.

The main rate of corporation tax will be reduced by one percentage point for the financial year beginning 1 April 2013, as set out at Budget 2012, taking the rate from 24 per cent to 23 per cent. There will be a further one percentage point reduction for the financial year beginning 1 April 2014, in addition to the reductions announced in the June Budget 2010, Budget 2011 and Budget 2012. This will take the rate to 21 per cent in April 2014. There will be a further 1 per cent reduction from April 2015 and the small profits rate and main rate will be unified at 20 per cent.

Corporation tax rates			
Level of profits	**Financial year 2012-13**	**Financial year 2013-14**	**Financial year 2014-15**
£0 - £300,000: small profits rate	20%	20%	TBA
£300,001 - £1,500,000	Marginal rate	Marginal rate	Marginal rate
Marginal rate fraction	$1/100^{th}$	$3/400^{th}$	TBA
£1,500,001 or more: main rate	24%	23%	21%
North sea oil and gas ring fenced profits[16]	See footnote	See footnote	See footnote

[16] For North Sea Oil and gas ring fenced profits the main rate is 30 per cent and the small profits rate is 19 per cent. The marginal relief ring fenced fraction is 11/400ths.

Corporation tax allowances and reliefs			
	Financial year 2011-12	**Financial year 2012-13**	**Financial year 2013-14**
Plant and machinery: main rate expenditure	20%	18%	18%
Plant and machinery: special rate expenditure	10%	8%	8%
Annual investment allowance (AIA)	£100,000	£25,000[17]	£250,000
First year allowances (e.g. for certain energy-saving/ water efficient products)	100%	100%	100%
R&D tax credits SME scheme	200%	225%	225%
R&D tax credits Large companies scheme	130%	130%	130%, or 10% Above the line tax credit
Patent Box[18]	-	-	10% CT rate
Film tax relief	100% limited budget, 80% large budget	100% limited budget, 80% large budget	100% limited budget, 80% large budget
Open ended investment companies and authorised unit trusts[19]	See footnote	See footnote	See footnote

Bank levy		
	Chargeable equity and long-term chargeable liabilities	Short-term chargeable liabilities
1 January – 28 February 2011	0.025%	0.05%
1 March – 30 April 2011	0.05%	0.1%
1 May – 31 December 2011	0.0375%	0.075%
1 January – 31 December 2012	0.044%	0.088%
1 January – 31 December 2013	0.065%	0.130%
1 January 2014 onward	0.071%	0.142%

[17] It was announced at the Autumn Statement 2012, that legislation would be included in Finance Bill 2013 to increase the AIA from £25,000 to £250,000 for a temporary period of two years for qualifying expenditure incurred between 1 January 2013 and 31 December 2014.

[18] The Patent Box will be phased in from April 2013, with companies able to claim 60% of the benefit in 2013-14, 70% in 14-15, 80% in 15-16, 90% in 16-17 and 100% in 17-18

[19] For open ended investment companies and authorised unit trusts the applicable corporation tax rate is 20 per cent.

UK oil and gas taxes		
	Tax year 2012-13	**Tax year 2013-14**
Petroleum revenue tax	50%	50%
Ring fence corporation tax[20]	See footnote	See footnote
Supplementary charge	32%	32%

Business rates		
	Tax year 2012-13	**Tax year 2013-14**
England standard multiplier	45.8p	47.1p
England small business multiplier	45.0p	46.2p

[20] For North Sea oil and gas ring fence profits the main rate is 30 per cent and the small profits rate is 19 per cent. The marginal relief ring fence fraction is 11/400ths.

INDIRECT TAX

Budget 2013 confirmed that alcohol duty rates will change as shown in the table below.

Alcohol duty		
	Duty rate from 26 March 2012	**Duty rate from 25 March 2013**
	Rate per litre of pure alcohol	
Spirits	£26.81	£28.22
Spirits-based RTDs	£26.81	£28.22
Wine and made-wine: exceeding 22% alcohol by volume (abv)	£26.81	£28.22
	Rate per hectolitre per cent of alcohol in the beer	
Beer - lower strength: exceeding 1.2% - not exceeding 2.8% abv.	£9.76	£9.17
Beer – General Beer Duty: exceeding 2.8% - not exceeding 7.5% abv.	£19.51	£19.12
Beer - High strength: exceeding 7.5% - in addition to the General Beer Duty	£19.51 + £4.88	£19.12 + £5.09
	Rate per hectolitre of product	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv .	£37.68	£39.66
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£56.55	£59.52
Sparkling cider and perry: exceeding 1.2% - less than 5.5%abv.	£37.68	£39.66
Sparkling cider and perry: exceeding 5.5%abv- less than 8.5%abv.	£245.32	£258.23
Wine and made-wine: exceeding 1.2% - not exceeding 4%abv.	£78.07	£82.18
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£107.36	£113.01
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£253.39	£266.72
Wine and made-wine: exceeding 15% - not exceeding 22% abv.	£337.82	£355.59
Sparkling wine and made-wine: Exceeding 5.5% - less than 8.5% abv.	£245.32	£258.23
Sparkling wine and made-wine: exceeding 8.5% - not exceeding 15% abv.	£324.56	£341.63

Budget 2013 confirmed that tobacco duty rates will increase by 2 per cent above inflation.

Tobacco product	**From 6pm 21 March 2012**	**Ad valorem element**	**From 6pm 20 March 2013**	**Ad valorem element**
Cigarettes	£167.41 per 1000 cigarettes	16.5% of retail price	£176.22 per 1000 cigarettes	16.5% of retail price
Cigars	£208.83/kg	N/A	£219.82/kg	N/A
Hand rolling tobacco	£164.11/kg	N/A	£172.74/kg	N/A
Other smoking tobacco and chewing tobacco	£91.81/kg	N/A	£96.64/kg	N/A

Gambling duties		
	Tax year 2012-13	Tax year 2012-13
Bingo duty		
Percentage of bingo promotion profits	20%	20%
General betting duty		
Percentage of ‘net stake receipts’ for fixed odds bets and totalisator bets on horse or dog races	15%	15%
Percentage of ‘net stake receipts’ for financial spread bets	3%	3%
Percentage of ‘net stake receipts’ for all other spread bets	10%	10%
Pool betting duty		
Percentage of net pool betting receipts	15%	15%
Lottery duty		
Percentage of the price paid or payable on taking a ticket or chance in a lottery	12%	12%
Remote gaming duty		
Percentage of remote gaming profits	15%	15%
Machine games duty		
Percentage of the net takings from dutiable machine games with a maximum cost to play not more than 10p and a maximum cash prize not more than £8	5%	5%
Percentage of net takings from all other dutiable machine games	20%	20%

Budget 2013 confirmed that gaming duty bands will increase in line with inflation for accounting periods starting on or after 1 April 2013.

Gaming duty					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	£2,175,000	£1,499,500	£2,626,000	£5,542,500	Remainder
New figures for accounting periods beginning on or after 1 April 2013					
Tax rate	15%	20%	30%	40%	50%
Gross gaming yield	2,242,500	1,546,000	2,707,500	5,714,500	Remainder

Insurance Premium Tax		
	Tax year 2012-13	**Tax year 2013-14**
Standard rate	6%	6%
Higher rate	20%	20%

Budgets 2012 and 2013 announced that climate change levy rates will increase in line with inflation in 2013-14 and 2014-15 respectively.

Climate change levy		
Commodity	**Rates from 1 April 2013**	**Rates from 1 April 2014**
Electricity	£0.00524 per kilowatt hour	£0.00541 per kilowatt hour
Natural gas (a different rate applies in Northern Ireland until 31 October 2013)	£0.00182 per kilowatt hour	£0.00188 per kilowatt hour
Natural gas (Northern Ireland)	£0.00064 per kilowatt hour until 31 October 2013 then main natural gas rate applies	£0.00188 per kilowatt hour
Liquefied petroleum gas	£0.01172 per kilogram	£0.01210 per kilogram
Any other taxable commodity	£0.01429 per kilogram	£0.01476 per kilogram

Budget 2011 announced the introduction of the carbon price floor (CPF) from 1 April 2013. Budgets 2011, 2012 and 2013 set the carbon price support (CPS) rates for 2013-14, 2014-15 and 2015-16 respectively.

CPS rates of CCL and fuel duty			
	Tax year 2013-14	**Tax year 2014-15**	**Tax year 2015-16**
Carbon price equivalent (£ per tCO_2)	4.94	9.55	18.08
Supplies of commodity			
Natural gas (£ per kilowatt hour)	0.00091	0.00175	0.00334
LPG (£ per kilogram)	0.01460	0.02822	0.05307
Coal and other taxable solid fossil fuels (£ per gross gigajoule)	0.44264	0.85489	1.62534
Gas oil; rebated bioblend (£ per litre)	0.01365	0.02642	0.04990
Fuel oil; other heavy oil; rebated light oil (£ per litre)	0.01568	0.03011	0.05730

Budget 2013 announced that the aggregates levy rate will remain at £2.00 per tonne in 2013-2014.

Aggregates levy	
	Rate from 1 April 2013
Taxable aggregate	£2.00/tonne

Budgets 2012 and 2013 confirmed previously announced £8 per tonne increases to the standard rate of landfill tax for 2013-14 and 2014-15; and froze the lower rate in both years.

Landfill tax		
	Rate from 1 April 2013	**Rate from 1 April 2014**
Standard rate	£72/tonne	£80/tonne
Lower rate	£2.50/tonne	£2.50/tonne

Air Passenger Duty (APD) rates for 2013-14 were set out at the 2012 Budget. The APD rates for 2014-15 are set out below.

Air Passenger Duty Rates [21] [22]								
Bands (approximate distance in miles from the UK)	**Reduced rate (lowest class of travel)**			**Standard rate** [23] **(other than the lowest class of travel)**			**Higher rate** [24]	
	From 1 April 2012	From 1 April 2013	From 1 April 2014	From 1 April 2012	From 1 April 2013	From 1 April 2014	From 1 April 2013	From 1 April 2014
Band A (0 – 2000 miles)	£13	£13	£13	£26	£26	£26	£52	£52
Band B (2001 – 4000 miles)	£65	£67	£69	£130	£134	£138	£268	£276
Band C (4001 – 6000 miles)	£81	£83	£85	£162	£166	£170	£332	£340
Band D (over 6000 miles)	£92	£94	£97	£184	£188	£194	£376	£388

[21] From 1 April 2013, APD will apply to all flights aboard aircraft 5.7 tonnes and above.
[22] From 1 November 2011, direct long-haul rates for departures from Northern Ireland (NI) (bands B, C and D) were reduced to the short-haul rate (band A), irrespective of the destination. From 1 January 2013 the rates for direct long-haul flights from NI were devolved to the Northern Ireland Executive, and set at £0. Direct long haul journeys from NI are those where the first part of the journey is to a destination outside Band A.
[23] If any class of travel provides a seat pitch in excess of 1.016 metres (40 inches) the standard rate is the minimum rate that applies.
[24] The higher rate applies to flights aboard aircraft of 20 tonnes and above with fewer than 19 seats.

Fuel duty – pound per litre (unless stated)	
	Rates until 1 September 2014
Light oils	
Unleaded petrol	0.5795
Light oil (other than unleaded petrol or aviation gasoline)	0.6767
Aviation gasoline (Avgas)	0.3770
Light oil delivered to an approved person for use as furnace fuel	0.1070
Heavy oils	
Heavy oil (Diesel)	0.5795
Marked gas oil	0.1114
Fuel oil	0.1070
Heavy oil other than fuel oil, gas oil or kerosene used as fuel.	0.1070
Kerosene to be used as motor fuel off road or in an excepted vehicle	0.1114
Biofuels	
Bio-ethanol	0.5795
Biodiesel	0.5795
Biodiesel for non road use	0.1114
Biodiesel blended with gas oil not for road fuel use	0.1114
Road fuel gases	
Liquefied petroleum gas (LPG)	0.3161 £/kg
Road fuel Natural gas including biogas	0.2470 £/kg

Budget 2013 announced that from 1 April 2013, vehicle excise duty (VED) rates will increase in line with RPI, apart from VED rates for Heavy Goods Vehicles (HGV), buses and other selected vehicles which will be frozen in 2013-14[25].

VED bands and rates for cars registered on or after 1 March 2001 (graduated VED)					
VED band	**CO_2 emissions (g/km)**	**Tax year 2012-13**		**Tax year 2013-14**	
		Standard rate*	**First year rate***	**Standard rate***	**First year rate***
A	Up to 100	£0	£0	£0	£0
B	101-110	£20	£0	£20	£0
C	111-120	£30	£0	£30	£0
D	121-130	£100	£0	£105	£0
E	131-140	£120	£120	£125	£125
F	141-150	£135	£135	£140	£140
G	151-165	£170	£170	£175	£175
H	166-175	£195	£275	£200	£285
I	176-185	£215	£325	£220	£335
J	186-200	£250	£460	£260	£475
K[26]	201-225	£270	£600	£280	£620
L	226-255	£460	£815	£475	£840
M	Over 255	£475	£1,030	£490	£1,065

* Alternative fuel discount 2010-11 onwards: £10 for all cars

[25] A full list of HGV rates is available on the HMRC website : http://carfueldata.direct.gov.uk/new-vehicle-tax.aspx

[26] Includes cars emitting over 225g/km registered before 23 March 2006

VED bands and rates for cars and vans registered before 1 March 2001 (pre-graduated VED)		
Engine size	**Tax year 2012-13**	**Tax year 2013-14**
1549cc and below	£135	£140
Above 1549cc	£220	£225

VED bands and rates for vans registered on or after 1 March 2001		
Vehicle registration date	**Tax year 2012-13**	**Tax year 2013-14**
Early Euro 4 and Euro 5 compliant vans	£135	£140
All other vans	£215	£220

VED bands and rates for motorcycles		
Engine size	**Tax year 2012-13**	**Tax year 2013-14**
Not over 150cc	£16	£17
151cc and 400cc	£36	£37
401cc to 600c	£55	£57
Over 600cc	£76	£78

VED bands and rates for motor tricycles		
Engine size	**Tax year 2012-13**	**Tax year 2013-14**
Not over 150cc	£16	£17
All other tricycles	£76	£78

VED bands and rates for trade licences		
Vehicle type	**Tax year 2012-13**	**Tax year 2013-14**
Available for all vehicles	£165	£165
Available only for bicycles and tricycles (weighing no more than 450kg without a sidecar)	£76	£78

The following VED and HGV Road User Levy rates will apply to HGVs over 12 tonnes, from April 2014. The band and rate payable can be calculated by using the look up tables that follow the rates tables.

VED and levy bands and rates for articulated vehicles and rigid vehicles without trailers								
VED band (letter) and rate (number)	**Total VED and levy**		**VED rates**			**Levy bands**	**Levy rates**	
	12 months	**6 months**	**12 months**	**6 months**			**12 months**	**6 months**
A1	£165.00	£91.00	£80.00	£40.00		**A**	£85	£51
A2	£169.00	£93.00	£84.00	£42.00				
A3	£185.00	£101.00	£100.00	£50.00				
A4	£231.00	£124.00	£146.00	£73.00				
A5	£236.00	£126.50	£151.00	£75.50				
B1	£200.00	£110.50	£95.00	£47.50		**B**	£105	£63
B2	£210.00	£115.50	£105.00	£52.50				
B3	£230.00	£125.50	£125.00	£62.50				
C1	£450.00	£249.00	£210.00	£105.00		**C**	£240	£144
C2	£505.00	£276.50	£265.00	£132.50				
C3	£529.00	£288.50	£289.00	£144.50				
D1	£650.00	£360.00	£300.00	£150.00		**D**	£350	£210
E1	£1,200.00	£664.00	£560.00	£280.00		**E**	£640	£384
E2	£1,249.00	£688.50	£609.00	£304.50				
F	£1,500.00	£831.00	£690.00	£345.00		**F**	£810	£486
G	£1,850.00	£1,025.00	£850.00	£425.00		**G**	£1,000	£600

VED and Levy amounts payable for rigid vehicles with trailers (vehicles WITH Road Friendly Suspension)								
HGV axles	Levy band	Trailer weight category	Total weight of HGV and trailer, not over	VED band (letter) and rate (number)	VED rates		Levy rates	
					12 months	6 months	12 months	6 months
Two	B(T)	4,001-12,000kg	27,000kg	B(T)1	£230	£115	£135	£81
		Over 12,000kg	33,000kg	B(T)3	£295	£147.50	£135	£81
			36,000kg	B(T)6	£401	£200.50	£135	£81
			38,000kg	B(T)4	£319	£159.50	£135	£81
			40,000kg	B(T)7	£444	£222	£135	£81
	D(T)	4,001-12,000kg	30,000kg	D(T)1	£365	£182.50	£450	£270
		Over 12,000kg	38,000kg	D(T)4	£430	£215	£450	£270
			40,000kg	D(T)5	£444	£222	£450	£270
Three	B(T)	4,001-12,000kg	31,000kg	B(T)1	£230	£115	£135	£81
			33,000kg	B(T)2	£289	£144.50	£135	£81
		Over 12,000kg	33,000kg	B(T)3	£295	£147.50	£135	£81
			36,000kg	B(T)6	£401	£200.50	£135	£81
			38,000kg	B(T)3	£295	£147.50	£135	£81
			40,000kg	B(T)5	£392	£196	£135	£81
			44,000kg	B(T)3	£295	£147.50	£135	£81
	C(T)	4,001-12,000kg	33,000kg	C(T)1	£305	£152.50	£310	£186
			35,000kg	C(T)5	£401	£200.50	£310	£186
		Over 12,000kg	36,000kg	C(T)5	£401	£200.50	£310	£186
			38,000kg	C(T)3	£370	£185	£310	£186
			40,000kg	C(T)4	£392	£196	£310	£186
			44,000kg	C(T)3	£370	£185	£310	£186
	D(T)	4,001-12,000kg	33,000kg	D(T)1	£365	£182.50	£450	£270
			36,000kg	D(T)3	£401	£200.50	£450	£270
			38,000kg	D(T)1	£365	£182.50	£450	£270
		Over 12,000kg	44,000kg	D(T)4	£430	£215	£450	£270
Four	B(T)	4,001-12,000kg	35,000kg	B(T)1	£230	£115	£135	£81
		Over 12,000kg	36,000kg	B(T)3	£295	£147.50	£135	£81
			38,000kg	B(T)4	£319	£159.50	£135	£81
			40,000kg	B(T)7	£444	£222	£135	£81
			44,000kg	B(T)3	£295	£147.50	£135	£81
	C(T)	4,001-12,000kg	36,000kg	C(T)1	£305	£152.50	£310	£186
			37,000kg	C(T)2	£319	£159.50	£310	£186
		Over 12,000kg	38,000kg	C(T)3	£370	£185	£310	£186
			40,000kg	C(T)6	£444	£222	£310	£186
			44,000kg	C(T)3	£370	£185	£310	£186
	D(T)	4,001-12,000kg	38,000kg	D(T)1	£365	£182.50	£450	£270
			39,000kg	D(T)5	£444	£222	£450	£270
		Over 12,000kg	38,000kg	D(T)4	£430	£215	£450	£270
			40,000kg	D(T)5	£444	£222	£450	£270
			44,000kg	D(T)4	£430	£215	£450	£270
	E(T)	4,001-12,000kg	44,000kg	E(T)1	£535	£267.50	£830	£498
		Over 12,000kg	44,000kg	E(T)2	£600	£300	£830	£498

VED and Levy amounts payable for rigid vehicles with trailers (vehicles WITHOUT Road Friendly Suspension)								
HGV axles	Levy band	Trailer weight category	Total weight of HGV and trailer, not over	VED band (letter) and rate (number)	VED rates		Levy rates	
					12 months	6 months	12 months	6 months
Two	B(T)	4,001-12,000kg	27,000kg	B(T)1	£230	£115	£135	£81
		Over 12,000kg	31,000kg	B(T)3	£295	£147.50	£135	£81
			33,000kg	B(T)6	£401	£200.50	£135	£81
			36,000kg	B(T)10	£609	£304.50	£135	£81
			38,000kg	B(T)7	£444	£222	£135	£81
			40,000kg	B(T)9	£604	£302	£135	£81
	D(T)	4,001-12,000kg	30,000kg	D(T)1	£365	£182.50	£450	£270
		Over 12,000kg	33,000kg	D(T)4	£430	£215	£450	£270
			36,000kg	D(T)8	£609	£304.50	£450	£270
			38,000kg	D(T)5	£444	£222	£450	£270
			40,000kg	D(T)7	£604	£302	£450	£270
Three	B(T)	4,001-12,000kg	29,000kg	B(T)1	£230	£115	£135	£81
			31,000kg	B(T)2	£289	£144.50	£135	£81
			33,000kg	B(T)6	£401	£200.50	£135	£81
		Over 12,000kg	31,000kg	B(T)3	£295	£147.50	£135	£81
			33,000kg	B(T)6	£401	£200.50	£135	£81
			36,000kg	B(T)10	£609	£304.50	£135	£81
			38,000kg	B(T)5	£392	£196	£135	£81
			40,000kg	B(T)8	£542	£271	£135	£81
	C(T)	4,001-12,000kg	31,000kg	C(T)1	£305	£152.50	£310	£186
			33,000kg	C(T)5	£401	£200.50	£310	£186
			35,000kg	C(T)9	£609	£304.50	£310	£186
		Over 12,000kg	36,000kg	C(T)9	£609	£304.50	£310	£186
			38,000kg	C(T)4	£392	£196	£310	£186
			40,000kg	C(T)7	£542	£271	£310	£186
	D(T)	4,001-12,000kg	31,000kg	D(T)1	£365	£182.50	£450	£270
			33,000kg	D(T)3	£401	£200.50	£450	£270
			36,000kg	D(T)8	£609	£304.50	£450	£270
			38,000kg	D(T)2	£392	£196	£450	£270
		Over 12,000kg	36,000kg	D(T)8	£609	£304.50	£450	£270
			38,000kg	D(T)4	£430	£215	£450	£270
			40,000kg	D(T)6	£542	£271	£450	£270
Four	B(T)	4,001-12,000kg	35,000kg	B(T)1	£230	£115	£135	£81
		Over 12,000kg	36,000kg	B(T)3	£295	£147.50	£135	£81
			38,000kg	B(T)7	£444	£222	£135	£81
			40,000kg	B(T)9	£604	£302	£135	£81
	C(T)	4,001-12,000kg	36,000kg	C(T)1	£305	£152.50	£310	£186
			37,000kg	C(T)6	£444	£222	£310	£186
		Over 12,000kg	36,000kg	C(T)3	£370	£185	£310	£186
			38,000kg	C(T)6	£444	£222	£310	£186
			40,000kg	C(T)8	£604	£302	£310	£186

VED and Levy amounts payable for rigid vehicles with trailers (vehicles WITHOUT Road Friendly Suspension)								
D(T)	4,001-12,000kg	36,000kg	D(T)1	£365	£182.50	£450	£270
		38,000kg	D(T)5	£444	£222	£450	£270
		39,000kg	D(T)7	£604	£302	£450	£270
	Over 12,000kg	38,000kg	D(T)5	£444	£222	£450	£270
		40,000kg	D(T)7	£604	£302	£450	£270
E(T)	4,001-12,000kg	38,000kg	E(T)1	£535	£267.50	£830	£498
		40,000kg	E(T)3	£604	£302	£830	£498
	Over 12,000kg	40,000kg	E(T)3	£604	£302	£830	£498

HGV VED Look-up tables

The band and rate payable can be calculated by using the following look-up tables. Please note that in all the below tables the letter indicates the tax and levy band the vehicle is in, and the number indicates the rate that is payable as part of that band - for example B2 would refer to tax and levy band B, and rate 2 as determined by the weight and axle configuration of the vehicle. For vehicles with trailers, the rate paid depends on whether the vehicle has Road Friendly Suspension. There are separate tables for with and without RFS.

Rigid goods vehicle - WITHOUT trailer				
Revenue Weight of Vehicle, kg				
More than	Not more than	2 axles	3 axles	4 or more axles
12,000	14,000	B1	B1	B1
14,000	15,000	B2	B1	B1
15,000	17,000	D1	B1	B1
17,000	19,000	D1	B1	B1
19,000	21,000	D1	B3	B1
21,000	23,000	-	C1	B1
23,000	25,000	-	D1	C1
25,000	27,000	-	D1	D1
27,000	28,000	-	-	E1

Rigid vehicles - WITH trailer				
Weight of rigid (not trailer), kg				
More than	Not more than	Two-axled rigid	Three-axled rigid	Four-axled rigid
12,000	15,000	B(T)	B(T)	B(T)
15,000	21,000	D(T)	B(T)	B(T)
21,000	23,000	D(T)	C(T)	B(T)
23,000	25,000	D(T)	D(T)	C(T)
25,000	27,000	D(T)	D(T)	D(T)
27,000	44,000	D(T)	D(T)	E(T)

Articulated Vehicles - Tractive unit with 3 or more axles				
Revenue Weight of Vehicle, kg				
More than	Not more than	1 or more semi-trailer axles	2 or more semi trailer axles	3 or more semi-trailer axles
12,000	25,000	A1	A1	A1
25,000	26,000	A3	A1	A1
26,000	28,000	A4	A1	A1
28,000	29,000	C1	A1	A1
29,000	31,000	C3	A1	A1
31,000	33,000	E1	C1	A1
33,000	34,000	E2	D1	A1
34,000	36,000	E2	D1	C1
36,000	38,000	F	E1	D1
38,000	44,000	G	G	E1

Articulated Vehicles - Tractive unit with 2 Axles				
Revenue Weight of Vehicle, kg				
More than	Not more than	1 or more semi-trailer axles	2 or more semi trailer axles	3 or more semi-trailer axles
12,000	22,000	A1	A1	A1
22,000	23,000	A2	A1	A1
23,000	25,000	A5	A1	A1
25,000	26,000	C2	A3	A1
26,000	28,000	C2	A4	A1
28,000	31,000	D1	D1	A1
31,000	33,000	E1	E1	C1
33,000	34,000	E1	E2	C1
34,000	38,000	-	F	E1
38,000	44,000	-	G	G

VAT		
	April 2012-13	**April 2013-14**
Standard rate	20%	20%
Reduced rate	5%	5%
Zero rate	0%	0%
Exempt	n/a	n/a

VAT registration and deregistration thresholds		
	From April 2012	**From April 2013**
VAT registration thresholds	£77,000	£79,000
VAT deregistration threshold	£75,000	£77,000

VAT fuel scale charges[27]			
Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2013.			
CO_2 band	VAT fuel scale charge, 12 month period, £	VAT on 12 month charge, £	VAT exclusive 12 month charge, £
120 or less	675.00	112.50	562.50
125	1,010.00	168.33	841.67
130	1,080.00	180.00	900.00
135	1,145.00	190.83	954.17
140	1,215.00	202.50	1,012.50
145	1,280.00	213.33	1,066.67
150	1,350.00	225.00	1,125.00
155	1,415.00	235.83	1,179.17
160	1,485.00	247.50	1,237.50
165	1,550.00	258.33	1,291.67
170	1,620.00	270.00	1,350.00
175	1,685.00	280.83	1,404.17
180	1,755.00	292.50	1,462.50
185	1,820.00	303.33	1,516.67
190	1,890.00	315.00	1,575.00
195	1,955.00	325.83	1,629.17
200	2,025.00	337.50	1,687.50
205	2,090.00	348.33	1,741.67
210	2,160.00	360.00	1,800.00
215	2,225.00	370.83	1,854.17
220	2,295.00	382.50	1,912.50
225 or more	2,360.00	393.33	1,966.67

[27] Where the CO_2 emission figure is not a multiple of five, the figure is rounded down to the next multiple of five to determine the level of the charge. For a bi-fuel vehicle which has two CO_2 emissions figures, the lower of the two figures should be used. For cars which are too old to have a CO_2 emissions figure, you should identify the CO_2 band based on engine size, as follows:
- If its cylinder capacity is 1,400cc or less, use CO_2 band 140;
- If its cylinder capacity exceeds 1,400cc but does not exceed 2,000cc, use CO_2 band 175;
- If its cylinder capacity exceeds 2,000cc, use CO_2 band 225 or above.

Value Added Tax (VAT) – Fuel scale charges			
Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2013			
CO_2 band	VAT fuel scale charge, 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
120 or less	168.00	28.00	140.00
125	253.00	42.17	210.83
130	269.00	44.83	224.17
135	286.00	47.67	238.33
140	303.00	50.50	252.50
145	320.00	53.33	266.67
150	337.00	56.17	280.83
155	354.00	59.00	295.00
160	371.00	61.83	309.17
165	388.00	64.67	323.33
170	404.00	67.33	336.67
175	421.00	70.17	350.83
180	438.00	73.00	365.00
185	455.00	75.83	379.17
190	472.00	78.67	393.33
195	489.00	81.50	407.50
200	506.00	84.33	421.67
205	523.00	87.17	435.83
210	539.00	89.83	449.17
215	556.00	92.67	463.33
220	573.00	95.50	477.50
225 or more	590.00	98.33	491.67

Value Added Tax (VAT) – Fuel scale charges			
Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2013			
CO_2 band	VAT fuel scale charge, 1 month period, £	VAT on 1 month charge, £	VAT exclusive 1 month charge, £
120 or less	56.00	9.33	46.67
125	84.00	14.00	70.00
130	89.00	14.83	74.17
135	95.00	15.83	79.17
140	101.00	16.83	84.17
145	106.00	17.67	88.33
150	112.00	18.67	93.33
155	118.00	19.67	98.33
160	123.00	20.50	102.50
165	129.00	21.50	107.50
170	134.00	22.33	111.67
175	140.00	23.33	116.67
180	146.00	24.33	121.67
185	151.00	25.17	125.83
190	157.00	26.17	130.83
195	163.00	27.17	135.83
200	168.00	28.00	140.00
205	174.00	29.00	145.00
210	179.00	29.83	149.17
215	185.00	30.83	154.17
220	191.00	31.83	159.17
225 or more	196.00	32.67	163.33

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