TAX FACULTY

BUDGET 2015

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BUDGET REPORT 2015

The Chancellor of the Exchequer delivered his 2015 Budget on 18 March 2015.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

The Budget announcements and publications can be found on GOV.UK on the main Budget 2015 webpage. There is also a page with links to all the HMRC tax-related documents and announcements.

The main Budget documents are the Red Book, which summarises the Budget announcements and policy decisions, and the Overview of Tax Legislation and Rates, which contains detailed tax information including Tax Information and Impact Notes (TIINs) on all the Budget and Finance Bill measures.

The Finance Bill (FB) will be published on 24 March 2015 and is expected to clear all its parliamentary stages on 25 March. This will be enacted as the last Finance Act of the current parliament. A new FB is expected in the next parliament.

The Budget documents include details of changes which have previously been announced. This summary focuses on new announcements.

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Budget overview

The 2015 election starts here!

This was the Chancellor's last Budget Statement before parliament is dissolved in advance of the general election on 7 May 2015. The last Budget before an election is always likely to be the apogee of political theatre, and this one was no exception. It is possible that in less than two months' time Mr Osborne will be the political equivalent of burnt toast, but if so he is determined to go down still burning.

Having cannily lowered expectations beforehand about what to expect and that this would not be a giveaway Budget, the Chancellor then raised expectations in the few days beforehand. So we were all ears for what he had to say – and having ensured he had our full attention, he went for broke. It was a barnstorming performance and great theatre but, if you dug into the detail, very few major changes were proposed and the overall message was 'steady as she goes'. Will it be enough to win the hearts and minds of the UK's citizens?

So, did the Chancellor offer us any carrots for the future, given that this government has reached the end of the road and by this time next week we will have the first Finance Act of 2015? In spite of the hype beforehand, the Chancellor largely resisted any temptation to make any pre-election giveaways and there was no mention of the widely trailed proposals for reductions in the burden of inheritance tax. Indeed, this was largely a fiscally neutral Budget.

The two key tests: growth and fixing the deficit
As we said last year about the 2014 Budget, there have always been two key tests for the Chancellor – the need to deliver growth and the need to get the UK's finances back into balance.

How has he done on growth? In spite of the travails facing many other countries, the Office for Budget Responsibility's forecast for expected growth for 2014/15 has been revised upwards from 2.4% to 2.5%. There also appears to be some evidence that the structural balance within the UK's economy has improved slightly, with growth now less dependent on rising house prices and consumer spending and more on manufacturing and exporting. So on growth he had a pretty good story to tell.

And how is the nation's bank account faring, after plunging into the red in the late noughties? As noted above this was largely a fiscally neutral budget. According to the Red Book forecasts, there will be an increase in spending in the first year of £745m but this will be balanced by reductions in years 2018/19 and 2019/20 of over £1bn. The UK's finances remain on track to head back slowly towards a balanced budget over the next parliament. However, the fact remains that on current forecasts the UK will be running a reducing budget deficit for each of the next five years and all the time the actual amount of the debt will continue to increase. The fiscal landscape will remain a huge challenge for the incoming government after the election.

Business taxes
Once again the Chancellor stressed his backing for British businesses, although the measures he announced did not amount to a great deal in financial terms. The major announcement was the proposed review of business rates, although in an attempt to manage expectations about its outcome the government has said that any review should be fiscally neutral.

In a surprise move the ability of farmers to average their tax over two years, which looked like an anachronism ripe for the chop, has been given a new lease of life and extended: farmers will now be able to average their income over a five-year period.

Post the financial crisis, banks are seen as fair game for tax rises and once again the Chancellor had banks in his sights following the restriction on bank losses announced in the 2014 Autumn Statement which should yield nearly £4bn over five years. The bank levy will be increased by over a third from its current rate of 0.156% to 0.21%, yielding nearly £1bn a year over the five-year review period. In addition, banks will not be able to offset payments of compensation (for mis-selling of PPI and the like) against corporation tax, netting a further £1bn over the five-year period.

Tax avoidance

As usual the government is proposing further measures to tackle tax evasion and avoidance, including more powers to counter specific contrived tax avoidance schemes and also a further clampdown on travel and subsistence arrangements for intermediaries. According to the numbers in the Red Book, the total revenue from these sources is estimated to be about £3bn, a not insignificant sum but not exactly a pot of gold at the end of the rainbow. Past experience of estimates of receipts from tax avoidance measures suggests that they have often been too optimistic, so perhaps these numbers include rather more realism than in the past?

The government confirmed that its new diverted profits tax, announced in the 2014 Autumn Statement, will become law in the Finance Act that will be passed on 25 March 2015. It will come into force on 1 April 2015 as originally proposed.

Individuals

For individuals, the government announced proposed further increases in the personal allowance, with the aim to increase it to £11,000 by 2017/18.

Further changes have been announced to the ISA rules to make them more attractive, including a Help to Buy ISA.

There will also be a new exemption for the first £1,000 of savings income that should mean that more than 95% of the population will no longer pay any income tax on their savings income. However, the lifetime allowance for pensions will be reduced from £1.25m to £1m from 2016/17.

The death of tax returns?

The Chancellor announced a further move towards a digital tax system: the creation of individual online HMRC accounts with details of how much tax has been paid and how much is owed, as well as the pre-population of the account with information such as employment and pension income.

This could be a welcome step forward for individual taxpayers with straightforward affairs, but the announcement of the death of the annual tax return may be somewhat exaggerated. Taxpayers will still need to check the information and provide any details HMRC does not have.

The pre-population of any account with information HMRC already holds sounds a good idea in principle, but much will depend on the detail and the accuracy of the information provided. If past performance is a guide to the future, HMRC will need to be absolutely sure that it has provided the correct figures, given that taxpayers will still be responsible for checking the information is correct.

In conclusion

The final Budgets before general elections are always more about political theatre than an objective analysis of the facts. This one proved no exception. The Chancellor was on feisty form and made some interesting announcements, but the underlying message was that you can trust the government to steadily fix the finances. Whether that will be enough to sway the floating voters on the jury panel is less clear.

With the Budget now out of the way and the Finance Act all but in the bag, this parliament is effectively over. The jury will shortly be retiring to consider its verdict on who it wants to run the country for the next five years and a decision is expected shortly after 7 May 2015.

Rates and allowances

There are comprehensive tables of rates, allowances and thresholds in Annex B of the Overview of Tax Legislation and Rates. These give details for 2014/15 and 2015/16, and further ahead in some cases. They cover all the main taxes and duties, NICs and tax credits.

Personal tax rates and allowances
There have been no changes to the personal allowances previously announced for 2015/16.

The standard income tax personal allowance will increase to £10,600. Age allowance for those born before 6 April 1938 will be £10,660. Married couple's allowance for those couples with at least one partner born before 6 April 1938 will be £8,355. Blind person's allowance will be £2,290.

The income tax basic rate band for 2015/16 will be £31,785. A 0% starting rate is being introduced from 6 April 2015 for savings income within a starting rate band of £5,000. There are no changes to the other rates and bands.

For future years:

- The government's intention is to increase the personal allowance to £10,800 for 2016/17 and to £11,000 for 2017/18.
- The basic rate limit will be increased to £31,900 for 2016/17 and £32,300 for 2017/18. As a result, the higher rate threshold will be £42,700 in 2016/17 and £43,300 in 2017/18.

Marriage allowance
From April 2015, a spouse or civil partner will be entitled to transfer £1,060 of their personal allowance to their spouse or civil partner. This was announced last year and described as the transferable personal allowance; it has been re-named the marriage allowance but is not an extra allowance and not to be confused with the married couple's allowance.

The allowance can only be transferred where neither the transferor nor transferee is liable to income tax above the basic rate for a tax year.

Capital gains tax
The annual capital gains tax (CGT) exempt amount in 2015/16 will be £11,100. The exemption for most trustees will be £5,550.

There are no changes to CGT rates.

Inheritance tax
The nil rate band remains at £325,000 for 2015/16. There are no changes to the inheritance tax (IHT) rates.

Corporation tax
The rate of corporation tax will be 20% from 1 April 2015. This applies to all profits except North Sea oil and gas ring-fenced profits, for which the main rate is 30%. The small profits rate no longer exists except for North Sea profits, for which it is 19%.

VAT
The annual turnover threshold for VAT registration will go up to £82,000 from April 2015. The deregistration turnover limit will go up to £80,000.

Personal and employment taxes

Employee benefits and expenses: simplification
The following changes will take place as previously announced.

From 6 April 2015:

- A statutory exemption from tax for qualifying trivial benefits-in-kind costing £50 or less.
- An annual cap of £300-worth of trivial benefits which can be received free of tax and NIC for office-holders of close companies and employees who are family members of those office-holders.

From 6 April 2016:

- A statutory framework for real time collection of tax on employee benefits-in-kind through the payroll. The use of this approach will be voluntary.
- Removal of the £8,500 threshold below which employees do not pay income tax on certain benefits-in-kind, replacing it with new exemptions for carers and for ministers of religion.

Qualifying expenses payments
As announced at Autumn Statement 2014, certain expenses payments and benefits-in-kind provided to employees will be made exempt from tax from 6 April 2016.

The legislation will apply where employees would have been eligible for tax relief if they had incurred and met the cost of the expenses or benefits themselves. This exemption will replace the rules that require employers to either apply to HMRC for a dispensation or report such expenses and benefits on form P11D.

The exemption will not apply where expenses are paid as part of a salary sacrifice arrangement, nor, following consultation on draft legislation, in conjunction with other arrangements that seek to replace salary with expenses.

Van benefit charge
The van benefit charge will be increased in line with inflation with effect from 6 April 2016. The increase will be based on the September 2015 RPI figure. The change will be introduced by secondary legislation later in 2015, in time for the usual tax code exercise in January 2016.

Zero emission van benefit
The benefit charge for zero-emission vans (ie vans which do not emit CO_2 is currently nil. From 2015/16 there will be a benefit-in-kind charge. This will be:

- in 2015/16, 20% of the value of the van benefit charge for vans which emit CO_2
- in 2016/17, 40%
- in 2017/18, 60%
- in 2018/19, 80%
- in 2019/20, 90%.

The standard benefit for vans in 2015/16 is £3,150, so the benefit for zero-emission vans will be £630.

From 2020/21, there will be a single van benefit charge applying to all vans.

Company car taxation
Legislation in a future Finance Bill will increase the appropriate percentage of the list price of company cars subject to tax by 3% for cars emitting more than 75 grams of carbon dioxide per kilometre (gCO_2/km), to a maximum of 37%. The 3% differential between the 0-50 and 51-75 gCO_2/km bands and between the 51-75 and 76-94 gCO_2/km bands will remain. The appropriate percentage for the 0-50 and 51-75 gCO_2/km bands will, therefore, also increase by 3%. These changes will have effect from 2019/20.

The maximum percentage for a diesel company car will be increased to 37% from 6 April 2015. Low emission cars, ie those emitting 0–50g/km, will be taxed from 6 April 2016.

Ultra low emission vehicles
The government intends to review incentives for ultra-low emission vehicles in the light of market developments at Budget 2016, to inform decisions on company car taxation from 2020/21 onwards.

Fuel benefit charge
The fuel benefit charge multipliers for both company cars and vans will be increased in line with RPI with effect from 6 April 2016. The changes will be introduced by secondary legislation later in 2015, in time for the usual tax code exercise in January 2016.

Remittance basis
Confirmation was given that FB 2015 will enact an increase in the remittance basis charge (RBC) with effect from 6 April 2015.

There is still no charge for those non-domiciliaries claiming the remittance basis when they have been in the UK for less than seven years and it remains at £30,000 for those who have been here for less than seven out of the previous nine years.

The increase is for those who have been here for 12 out of the last 14 years, who will now have to pay a RBC of £60,000, up from £50,000. In addition there is a new category for those who have been here for 17 out of the last 20 years where the RBC will be £90,000.

Just over 5,000 individuals pay the RBC at present and about 120,000 claim the remittance basis.

There is an ongoing consultation looking at whether the option for the remittance basis should have to endure for a minimum of three years rather than the current system which allows taxpayers to opt in and out annually.

Sporting testimonials
The government intends to preserve the current treatment of payments made from sporting testimonials while it considers representations made in response to the call for evidence last year on extra-statutory concessions. No changes will be made before April 2016.

Councillors' travel expenses
As announced at Autumn Statement 2014, legislation will be introduced to exempt from income tax and Class 1 NIC travel expenses paid to councillors by their local authority. The exemption will be limited to the approved mileage allowance payment rates, where it applies to mileage payments. These changes will have effect from 6 April 2015.

OTS review of employment status
The Office of Tax Simplification (OTS) published the report of its review of employment status on 3 March 2015. The government has welcomed the review but not responded as yet to the recommendations – this will be for the next parliament.

National minimum wage
The government has accepted the recommendations of the Low Pay Commission for a significant rise in National Minimum Wage (NMW) rates, and has in fact increased the apprentice rate by more than the recommendation.

Rates will increase from 1 October 2015:

- The adult hourly rate will increase from £6.50 to £6.70.
- The development rate for workers aged 18 to 20 will increase from £5.13 to £5.30
- The rate for 16 to 17 year-olds will increase from £3.79 to £3.87
- The apprentice rate will increase from £2.73 to £3.30.

The government has undertaken to raise NMW to over £8 per hour by the end of the decade.

National insurance for the self employed
The government proposes to abolish Class 2 NIC in the next parliament. As Class 2 contributions count towards the individual's state benefit entitlement (including pension), Class 4 NIC, which presently entitles contributors to no contributory state benefits, will be reformed to introduce a new contributory benefit test.

There will be consultation on the detail and timing of these reforms later in 2015.

Employment intermediaries: relief for workers' travel and subsistence
Autumn Statement 2014 announced a review into the growing use of overarching contracts of employment that allow some temporary workers and their employers to benefit from tax relief for home-to-work travel expenses. As such relief is not available to workers generally, and creates an uneven playing field between employment businesses that seek to lower their costs by using these arrangements and which do not, the government wants to address this unfairness.

As a result of the review, the government will change the rules to restrict travel and subsistence relief for workers engaged through an employment intermediary such as an umbrella company or a personal service company, and under the supervision, direction and control of the end-user of the services of the worker.

The changes will take effect from 6 April 2016 following a consultation on the detail of the changes, and will be legislated for in a future Finance Bill.

The government also wants employment intermediaries to provide workers with greater transparency on how they are employed and what they are being paid, to help workers understand how their take-home pay is affected by these travel and subsistence arrangements. The Department of Business, Innovation and Skills will consult on these proposals on transparency later this year.

Employment intermediaries quarterly reporting: penalties
As announced at Autumn Statement 2014, the government will make a minor amendment in Finance Bill 2015 to correct legislation underpinning the penalty regime for the late filing or non-submission of quarterly returns from employment intermediaries.

This will take effect from 6 April 2015.

Pensions

Annuities already in payment
As announced ahead of the budget and reported by us, annuitants will be able to sell the right to their future income for a lump sum. The call for evidence on Creating a secondary annuity market has now been published. The proposal is for annuitants to be able to sell their right to income for a lump sum which they will then be able to access under the new freedom for pension rules.

Additionally, where an annuitant dies under age 75 and it is a guaranteed term annuity or joint life annuity, the beneficiaries will be able to receive payments from the annuity free of tax provided no payments have been made to the beneficiary prior to 6 April 2015. The rules will also be changed such that a joint life annuity can be paid to any beneficiary.

Where the annuitant dies over age 75 the beneficiaries will pay their marginal rate of income tax on the payments.

Lifetime allowance
As predicted the intention is to reduce the lifetime allowance for pension savings to £1m. This will be introduced in the new parliament with effect from April 2016. Fixed and individual protection regimes will be introduced for those affected by the new lower cap.

The current intention is to increase the cap in line with the consumer prices index from 2018.

Annual allowance
The pensions annual allowance limit of £40,000 and the tax relief allowed remain unchanged. The Chancellor cited police officers, teachers and nurses as being affected if the annual allowance was restricted.

Savings and investment

Help to Buy ISA
The white rabbit out of the hat moment was reserved for ISAs this time around, with the introduction of a Help to Buy ISA. Under this new scheme first time buyers will be able to save up to £200 per month towards a deposit on their first home and for every £200 saved the government will contribute £50. The account can be opened with an initial investment of up to £1,000. The maximum bonus is £3,000 and the minimum bonus is £400. The limits are per person so a couple saving together can double up.

The accounts will be available for four years but once opened there is no time limit on how long an account can be used for saving.

The bonus will be available on home purchases of up to £450,000 in London and up to £250,000 outside London; it will be paid at the time the home is purchased.

Flexible ISA
Another new product is the flexible ISA which will be available from autumn 2015 allowing savers to withdraw from an ISA and then replace the amount withdrawn in the same tax year without it affecting the annual allowance. This may enable savers to move an ISA to a better account that may not be available for ISA transfers but we will need to wait for the detail to see how it works. There will be a consultation on the technical detail.

Personal savings allowance
A new personal savings allowance will be introduced from April 2016 allowing basic rate taxpayers to receive up to £1,000 of savings income tax-free. Higher rate taxpayers can receive up to £500 tax-free but additional rate taxpayers will have no tax-free savings allowance.

From the same date banks and building societies will pay interest gross and HMRC will include any taxable savings income in the PAYE code and collect the tax via the PAYE system.

This allowance is in addition to the £5,000 0% savings tax rate band that starts from 6 April 2015 for lower-income individuals.

Film tax relief
With effect from 1 April 2015, the rate of film tax relief (FTR) will increase to 25% for all qualifying core expenditure, for all eligible film productions. In addition, the distinction between limited budget films and all others will be removed.

FTR currently applies at a rate of 25% for the first £20m of qualifying core expenditure and 20% to amounts thereafter, for all eligible film productions. It can be claimed on eligible UK production expenditure, up to a maximum of 80% of the total film budget. The additional deduction is intended to create a loss which can be surrendered in exchange for a tax credit.

Subject to state aid approval by the European Commission, the changes will have effect from 1 April 2015 or the date of state aid approval, whichever is the later date.

High-end television tax relief
For qualifying expenditure incurred on or after 1 April 2015, the television tax relief (TTR) rules will be changed so that the minimum UK expenditure requirement is reduced from 25% to 10%and the cultural test will be modernised.

This is subject to state aid clearance.

Children's television tax relief
From 1 April 2015 there will be a new tax relief for the production of children's television programmes. This will include programmes which are game shows or competitions.

Orchestra tax relief
As announced at Autumn Statement 2014, legislation will be introduced in a future Finance Bill for a new relief for orchestras to have effect from 1 April 2016.

We were disappointed that the relief proposed in the recent consultation wasn't available more widely, but nevertheless support additional finance for orchestras as they seek to compete in an international arena. We will welcome the opportunity for further discussion on the implementation of this relief.

Venture capital relief: renewable energy
The list of excluded activities prohibited for companies using tax advantaged venture capital schemes or community organisations benefitting from energy subsidies is being extended in FB 2015.

Investments in companies that benefit substantially from subsidies for the generation of renewable energy are to be excluded from the enterprise investment scheme (EIS), seed enterprise investment scheme (SEIS) and venture capital trust (VCT) regime, unless the company is a qualifying community energy organisation.

Following consultation, the legislation is being revised to ensure that investments in companies receiving foreign subsidies similar to contracts for difference will be excluded from the schemes from 6 April 2015.

The Finance Bill 2015 will extend eligibility for social investment tax relief (SITR) to qualifying community energy organisations. The annual investment limit of £5m will apply to money raised under EIS, SEIS, VCTs and social investment tax relief (SITR).

Social venture capital trusts
The rate of income tax relief for investment in social venture capital trusts (social VCT) will be 30%, subject to state aid clearance. Investors will pay no tax on dividends received from a social VCT or CGT on disposals of shares in social VCTs. Social VCTs will have the same excluded activities as the SITR.

Legislation will be included in a future Finance Bill.

Further changes affecting SEIS, EIS and VCT schemes
New qualifying criteria will be introduced to limit relief to companies where the first commercial sale took place within the previous 12 years. This rule will apply except where the total investment represents more than 50% of turnover averaged over the preceding five years.

In addition, there will be a new cap on total investment received under the tax-advantaged venture capital schemes of £15m, increasing to £20m for knowledge-intensive companies.

The employee limit for knowledge-intensive companies will be increased to 499 employees, from the current limit of 249 employees.

Under current rules, at least 70% of any funds raised under SEIS must have been spent before EIS or VCT funding can be raised. This rule is to be removed from 6 April 2015.

Further changes will:

- require that all investments are made with the intention to grow and develop a business;
- require that all investors are 'independent' from the company at the time of the first share issue

This will be introduced in FB 2015, subject to state aid approval.

Business tax

Annual investment allowance
The Budget speech referred to future help for business through the annual investment allowance. At 31 December 2015, the temporary increase to £500,000 comes to an end and the annual limit for relief falls back to just £25,000. The Chancellor said in his speech:

> "A better time to address this is in the Autumn Statement. However, I am clear from my conversations with business groups that a reduction to £25,000 would not be remotely acceptable – and so it will be set at a much more generous rate."

So we don't know exactly how much it will be, nor when it would apply from, but this does seem to be an election promise.

Enhanced capital allowances: energy saving and water efficient technologies
The criteria for tax relief under these schemes will be updated:

- to adopt the waste heat to electricity sub-technology, and
- to remove the packaged chillers sub-technology.

In addition, the qualifying criteria for some sub-technologies in both schemes will be amended. The government intends to make these changes by Treasury Order in summer 2015, subject to state aid approval.

Capital allowances: anti-avoidance
Anti-avoidance legislation will be introduced to restrict plant and machinery allowances to nil following connected party transactions and sale and leaseback transactions where assets have previously been acquired without incurring capital expenditure.

This new provision was announced on 26 February 2015 and will be effective from that date and will be included in FB 2015.

Entrepreneurs' relief (ER)
For details, see under Capital and property taxes

Farmers' averaging
Responding to a request from the National Farmers Union for greater averaging for farmers' trading profits, farmers are to be allowed to average their incomes for tax purposes over five years rather than two as currently.

The government will hold a consultation later in 2015 on the detailed design and implementation of the extension, which will come into effect from 6 April 2016 and be legislated for in a future Finance Bill. It will be interesting to see how the partial averaging formula would work.

Business rates
A comprehensive review of Business Rates was launched earlier in March 2015, see Business rates review.

However, an additional announcement is that the government is to consult on whether to introduce a business rates relief for local newspapers in England to support them as they adapt to new technology and changing circumstances.

OTS review of partnerships
In January 2015, the Office of Tax Simplification (OTS) published its final report on partnership tax, see our news item Partnership Tax. The government will consider or take forward over 70% of the report's recommendations and has already completed work on many of these.

Appendix D of the OTS report contains HMRC's comments on the recommendations made, so although it isn't obvious what the 70% being taken forward actually comprises, it is possible to see in overview what to expect.

Company tax

Corporation tax rate
The final corporation tax rate reduction of the current parliament comes in from April 2015 with the rate reduced to 20%. This compares with 28% when the Coalition Government came to power in May 2010.

The cost of this reduction, as per Table 2.2 in the Red Book, is just over £1bn per year over the five year period to 2019/20 although the cost is only £550m in 2015/16. A total cost of £4.98bn over the five year period shows the importance of this reduction for business and the substantial cost to the public finances.

Diverted profits tax
The government has wanted to demonstrate that it is being tough on big business that seeks to get round the tax rules. The main headline measure is the introduction of the diverted profits tax announced at the time of the Autumn Statement.

There was a considerable amount of consultation following the publication of the draft clauses in December, to which Tax Faculty expressed its views in [TAXREP 12/15 Diverted Profits Tax](). We expressed a number of concerns in our response not least related to the observation that this new tax was pre-empting the work that is underway at OECD as part of its BEPS (Base Erosion and Profit Shifting) work which is to be completed by the end of December.

There is to be a narrower notification requirement, changes to clarify the rules for giving credit for tax paid and to the operation of the conditions under which a charge can arise.

The relevant legislation which is published in [Overview of Tax Legislation and Rates]() will appear in the Finance Bill to be published on Tuesday 24 March.

Banks
The Chancellor announced a very considerable increase in the bank levy plus the elimination of the ability of banks to deduct compensation payments from their taxable profits. The first measure will cost £4.4bn over the next five years with the latter costing just under £1bn.

These changes are in addition to the announcement in Autumn Statement 2014 that banks will, from this April, only be allowed to eliminate half their taxable profits by using losses accrued in the periods before April 2015. That restriction in the use of bank losses brought forward is estimated in the current Budget Red Book to cost £3.9bn over the next five years.

Taken together these changes will cost the banking sector over £8bn during the next five years.

In relation to the bank levy increase the government states:

> "The government has always been clear that the banking sector should make a contribution which reflects the risks they pose to the financial system and the wider economy. This contribution must be balanced against financial stability and banks' ability to lend to the real economy. As banks are now strengthening their balance sheets, improving their capital ratios and returning to profitability, these changes will help to ensure that the banking sector continues to make a fair contribution through the bank levy."

The government has also published a document [Banking for the 21st Century: driving competition and choice]() which sets out what it has done so far to increase competition in the banking sector and, more specifically, encourage the entry of new banks into the sector.

The conclusion to the document summarises the experience since the 1960s as being:

> "…. one of extremely significant consolidation, punctuated by innovations and actions that increased competitive intensity. The Financial Crisis, however, accelerated this consolidation and laid bare the extent to which the too-big-to-fail banks had gained an unfair competitive advantage through the implicit government guarantee."

The clear aim of the current government is to increase competition in this market place.

Oil and gas industry
It was announced at the time of the Autumn Statement that the supplementary charge would come down from 32% to 30% with effect from 1 January 2015 and it is now to come down by a further 10% to 20%. There is also going to be a new allowance for investment in the UK

continental shelf to consolidate existing regimes. These two reliefs will cost the government just under £1bn over the next five years.

There is also to be a reduction in petroleum revenue tax from 50% to 35% for chargeable periods ending after 31 December 2015 which will cost a further £335m over the next five years.

Research and development tax relief

It was announced in the Autumn Statement that there would be an increase in the rate of the above the line R&D tax credit from 10% to 11% and the rate of the small and medium enterprise (SME) scheme from 225% to 230% from 1 April 2015. It was also announced that there will be a restriction in qualifying expenditure for R&D tax credits so that the costs of material incorporated in products that are sold will not be eligible for relief with effect from 1 April 2015.

There is also to be a voluntary advanced assurance scheme lasting for three years for smaller businesses making a first claim which will begin in autumn 2015 and from 2016 the time taken to process claims is to be reduced.

There is also to be new standalone guidance aimed specifically at smaller companies which will be backed by a two-year publicity strategy to raise awareness of R&D tax credits.

HMRC will publish a roadmap in summer 2015 setting out further improvements to the scheme over the following two years.

Loan relationships and derivative contracts

Following a consultation in 2013 the government is to align the tax treatment of financial instruments more closely to the amounts going through companies' profit and loss accounts.

It will also include new 'principles-based' targeted anti-avoidance rules that were expected to come into force from 1 April 2015 but it is unclear whether this will now be deferred given the legislation is not scheduled for the pre-election Finance Bill.

This enables the repeal of some of the existing detailed anti-avoidance in the loan relationships and derivative contracts rules. However, the current rules disallowing deductions in relation to an 'unallowable purpose' will remain.

New rules will also enhance the tax reliefs available on a corporate restructuring when companies are in financial distress.

Most of the rules are expected to come into force for accounting periods that begin on or after 1 January 2016.

Consortium relief

As announced at the time of the Autumn Statement, and with effect from 10 December 2014, there will no longer be a requirement relating to the location of the 'link company' for consortium clams to group relief at s133, Corporation Tax Act 2010 (CTA 2010).

The European Court of Justice determined on 1 April 2014 in the Felixstowe case (*Felixstowe Dock and Railway Company Ltd and Others v HMRC* (C–80/12)) that the pre-2010 UK consortium relief rule, under which a link company must be either UK-resident or carry on a trade in the UK through a permanent establishment, was an unlawful restriction on the link company's freedom of establishment.

Replacement legislation had already been introduced in F(No 3)A 2010, amending the CTA 2010 provisions, but the Tax Faculty was concerned that the 'new' legislation still did not go far enough to overcome the freedom of establishment issue. We raised the issue and HMRC listened to our concerns and legislation, compliant with the EU Treaty, will now appear in Finance Bill 2015.

Corporate tax loss refresh prevention
New anti-avoidance measures are to be introduced to counteract artificial or contrived arrangements entered into on or after 18 March 2015 which create profits of a sort which can absorb the loss or deficit brought forward while creating a deductible amount in a connected company that is available for immediate relief. It is estimated that this measure will block £715m of tax avoidance activity over the next five years.

Charities

Gift Aid Small Donation Scheme
The existing limit of donations which can be claimed through the Gift Aid Small Donation Scheme (GASDS) will be increased from the existing limit of £5,000 to £8,000. This will mean the maximum amount of gift aid which can be claimed through GASDS will be £2,000. The scheme is open to registered charities and Community and Amateur Sports Clubs.

The change will be effective from April 2016.

Gift Aid Digital
The government reiterated plans, introduced in the 2014 Autumn Statement, to support the role of intermediaries in the administration of digital gift aid.

Charitable status of war graves organisations
To continue support of military charities, legislation will be introduced in Finance Bill 2015 so that the Commonwealth War Graves Commission and the Imperial War Graves Endowment Fund continue to be recognised as charities for tax purposes.

VAT reliefs for charities
See under the VAT section

Capital and property taxes

CGT: entrepreneurs' relief
From 18 March 2015, entrepreneurs' relief (ER) will be denied in the following circumstances:

- A disposal of shares in a company which is not a trading company in its own right

  This targets structures using the joint venture company rules to obtain ER. The rules will be changed so that the definitions of a 'trading company' and 'the holding company of a trading group' no longer take into account the activities carried on by joint venture companies which a company is invested in, nor of partnerships of which a company is a member.

  In future, a company will need to have a significant trade of its own in order to be considered as a trading company

- A disposal of personal assets used in a business carried on by a company or a partnership where the withdrawal from the business is less than 5% of the shareholding in the company, or a 5% share in the partnership assets.

  Until this change, the associated disposals rules have allowed ER when personal assets used by the company are disposed of as long as the disposal is associated with a partial or full withdrawal from the business or company. However, there has been no minimum requirement on the size of the stake being sold.

In addition, the ER treatment of academics who dispose of shares in spin-out companies using intellectual property to which they have contributed is to be reviewed. Any change will be made in a future Finance Bill.

Finally, there was a reminder of the changes announced in the Autumn Statement which took effect from 3 December 2014:

- ER no longer applies on the disposal of goodwill on a transfer of business to a related close company.
- Gains eligible for ER which are deferred into investments qualifying for Enterprise Investment Relief or social investment tax relief will remain eligible for ER when the gain is realised.

CGT: non-residents and UK residential property
The legislation to charge non-residents CGT on the disposal of UK residential property will be included in the FB 2015 to be enacted in March 2015. We commented on the draft legislation in TAXREP 13/15 and on the original proposal in TAXREP 35/14. Some frequently asked questions have been published in advance of the legislation. This measure brings the UK into line with many other countries.

The private residence relief will only be available to a non-UK resident if they meet a 90-day test for time spent in the property over the year. A similar restriction is applied to a UK resident wishing to claim private residence relief on a non-UK residential property.

Annual tax on enveloped dwellings
As previously announced, the annual tax on enveloped dwellings (ATED) related CGT is extended to properties liable to ATED and worth more than £1m from 6 April 2015 and properties worth more than £500,000 from 6 April 2016.

Gains on wasting assets
From 1 April 2015 for corporation tax on chargeable gains and 6 April 2015 for CGT, the exemption for wasting assets will only apply if the person selling the asset has used it in its own business.

This seems to be in direct response to the Lord Howard case (*CRC v Executors of Lord Howard of Henderskelfe (deceased)* [2014] EWCA Civ 278). During his life Lord Howard loaned some of his paintings to an associated trading company with the business of inviting the public to view Castle Howard where the paining was hanging. Following Lord Howard's death the trustees of his estate continued the same arrangement. The executors than sold a painting by Sir Joshua Reynolds, claimed it was plant and a wasting asset so no CGT was due. The Court of Appeal decided in favour of the executors. The central argument by HMRC was that the painting was not plant in the hands of the owners, the executors, because the executors were not trading. This proposed change in the legislation will prevent similar claims in the future.

Stamp duty land tax
The Budget confirmed three changes to stamp duty land tax (SDLT) which were announced in the Autumn Statement.

- SDLT multiple-dwellings relief is to be extended to superior interests in residential property such as shared ownership. This will apply where the transaction is part of a lease and leaseback arrangement, if acquired from a qualifying body such as a housing association.
- Changes to the definition of a financial institution for SDLT alternative finance reliefs will mean that persons authorised to provide home purchase plans will come within that definition. This is to ensure that buyers who use a home purchase plan to finance their

home purchase will pay the same level of SDLT as buyers who use a conventional mortgage.

The above two changes will apply from when Finance Bill 2015 receives Royal Assent.

Thirdly, the government intends to introduce an SDLT seeding relief for property authorised investment funds (PAIFs) and co-ownership authorised contractual schemes (CoACS). It will also make changes to the SDLT treatment of CoACS investing in property so that SDLT does not arise on transactions in units. This will be a matter for a future Finance Bill

IHT and trusts

Deeds of variation
The government will review the use of deeds of variation for tax purposes. This is the statement in the budget Red Book, there is no further information so at present we are not sure what abuse the government is aiming to tackle.

Blue light exemption
There is confirmation that the IHT exemption given to members of the armed forces killed in the line of duty or whose death is hastened by injury on active service is extended to members of the emergency service. This exemption is included in FB 2015 which it is intended will become law in March 2015. TAXREP 54/14 commented on the original proposal.

Multiple trusts
There was also confirmation that the draft legislation published on multiple trusts and simplifying trust charges will be included in FB 2015. Our comments on the draft legislation can be read in TAXREP 08/15. Same day additions to a number of trusts, for example to pay professional fees will not be treated as a same day addition if the addition is £5,000 or less.

Digitisation
IHT is to be digitised and draft regulations will be published shortly to enable electronic communications to be used.

VAT

Thresholds for registration and deregistration
With effect from 1 April 2015:

The annual taxable turnover threshold, which determines whether a person must be registered for VAT, will be raised from £81,000 to £82,000.

The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £79,000 to £80,000.

The registration and deregistration limits for relevant acquisitions from other European Union member states will also be increased from £81,000 to £82,000.

The increase in the annual taxable turnover threshold means that a person will have to apply for registration if:

- at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £82,000; or

- at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £82,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £82,000 but HMRC are satisfied that it will not exceed £80,000 in the next 12 months, that person will not have to be registered.

Deductions relating to foreign branches
Changes announced in the Budget will mean that supplies made by foreign branches can no longer be taken into account when calculating how much VAT incurred on overhead costs can be deducted by partly exempt businesses in the UK. Consequently, deduction of input tax on overheads used to support activities of the foreign establishments of a business will only be calculated by reference to supplies made by that business's UK establishments.

Partly exempt businesses with establishments both within and outside the UK, such as banks and insurers, are likely to be affected by these changes.

It is intended that the new rules will have effect on and after 1 August 2015 but, where 31 July 2015 falls within the VAT longer period of accounting for a business, it will not have effect until the first day of the next longer period that applies to that business. UK businesses will not be able to take into account supplies made by foreign branches when carrying out their partial exemption calculations, irrespective of any special method agreed with HMRC.

Power to provide for refunds to certain persons
This measure will create a new s33E of the Value Added Tax Act 1994 and will take effect from the date of Royal Assent to Finance Bill 2015. It will refund to named non-departmental public bodies, and similar public bodies, the VAT incurred as a part of shared services arrangements used to support their non-business activities. Ordinarily VAT can only be recovered on purchases made to support a person's taxable business activities.

This change will affect named public bodies which enter into shared service arrangements, where a funding agreement exists with HM Treasury. It will ensure that what would otherwise be irrecoverable VAT does not deter public bodies from sharing back-office services, where this would otherwise result in greater efficiencies of scale.

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

This change will apply to search and rescue charities, including air ambulance charities, from 1 April 2015. The main purpose of these charities should be to search for and rescue people at risk of death or serious injury, or to support, develop and promote the activities of charities established for such purposes. It will give these charities broadly the same level of VAT recovery as is presently afforded to the established emergency services, such as police forces, fire and rescue authorities, NHS ambulance trusts and the Maritime and Coastguard Agency.

Legislation will be introduced in Finance Bill 2015 to add two new ss33C and 33D to the Value Added Tax Act 1994 refunding VAT to search and rescue charities. These will be defined as charities whose main purpose is carrying out co-ordinated search and rescue, whose main purpose is to support, develop and promote the activities of charities established to search for and rescue people; or whose main purpose is to provide an air ambulance service.

Refunds for palliative care charities
A new VAT refund scheme is to be introduced for palliative care charities. It will enable these charities to reclaim the VAT they incur on purchases made to support their non-business

activities. It will have effect in relation to supplies made, and acquisitions and importations taking place, on or after 1 April 2015.

Refunds to medical courier charities
A new VAT refund scheme is to be introduced for medical courier charities. It will apply to medical courier charities (for example blood bikes) whose main purpose is to provide a free, out of hours service to the NHS, transporting urgently needed items, such as blood, platelets, samples for analysis, drugs, patient notes, small medical instruments and donor breast milk.

These charities will be able to reclaim the VAT incurred on the purchase of goods and services, and the acquisition and importation of goods from outside the UK, used for their non-business activities. It will have effect in relation to supplies made, and acquisitions and importations taking place, on or after the 1 April 2015.

Duties

Tobacco duty: the illicit trade
On 24 March, HMRC and the UK Border Force will be publishing a refreshed strategy to address the illicit trade in tobacco and the criminality behind it. This will focus on four themes:

- Creating a hostile environment for illicit global trade.
- Undermining the profitability at all points in the supply chain.
- Getting tougher on those involved through sanctions.
- Changing the public perception that this is a crime that has little impact beyond those directly involved.

The package of measures to tackle illicit tobacco includes:

- Establishment of a cross-government ministerial group to oversee future evolution of the strategy.
- Plans to introduce a registration scheme for users and dealers in raw tobacco with appropriate enforcement sanctions.
- An informal targeted consultation on sanctions.
- Commissioning of academic research to provide evidence to galvanise action on the international stage.

Tobacco levy
The recent consultation on whether to introduce a tobacco levy through further informal discussion with stakeholders is to be continued.

Alcohol duty rates
From 23 March 2015 the duty rates on general beer, sprits and lower strength cider will be reduced by 2%. The duty rate on low strength beer will be reduced by 6% and the total duty rate on high strength beer will be reduced by 0.75%. The duty rate on high strength still cider will be reduced by 1.3% and the duty rates on wine below 22% abv and high strength sparkling cider will be frozen.

Tobacco duty rates
Duty rates on tobacco products will increase by 2% above RPI with effect from 6pm on 18 March 2015.

Gaming duty bands
Gaming duty bands will increase in line with RPI for accounting periods starting on or after 1 April 2015.

Fuel duty
The RPI inflation fuel duty increase of 0.54p per litre scheduled for 1 September 2015 will be cancelled.

Rural fuel rebate scheme extension
The Council of the European Union has fully approved the government`s application to extend the rural fuel duty rebate scheme to seventeen areas of the UK mainland. The scheme will be implemented on 1 April 2015 and will enable retailers in eligible areas to register for a 5p per litre fuel duty discount.

Environmental taxes

Air passenger duty rates for 2016/17
Air passenger duty rates are to be increased in line with RPI from 1 April 2016.

Carbon price support rates
Budget 2014 announced carbon price support (CPS) rate per tonne of carbon dioxide (tCO2) will be capped at a maximum of £18 from 2016/17 until 2019/20. This effectively freezes the CPS rates for each of the individual taxable commodities across this period at around 2015/16 levels. Budget 2015 confirmed that these CPS commodity rates for 2017/18 will be the same as in 2016/17. It also announced the indicative CPS rates for 2018-19 and 2019-20, at the same levels as 2016/17.

Landfill Communities Fund: proposals for reform
A consultation will be made regarding proposals aimed at ensuring the Landfill Communities Fund is spent on community projects as quickly and efficiently as possible.

Landfill tax rates
The standard and lower rates of landfill tax will increase in line with RPI rounded to the nearest 5p from April 2016.

Aggregates levy rate
The levy will remain at £2 per tonne in 2015 to 2016.

Climate change levy main rates
The climate change levy main rates will increase in line with RPI from 1 April 2016.

Avoidance and evasion

In this section we set out the various measures that the government is considering to counter both unacceptable avoidance and illegal evasion. The day after the Budget the government published a paper entitled Tackling tax evasion and avoidance but the main new measures in that paper, and the measures that we have described in the piece immediately below, target tax evasion.

Tackling tax evasion and avoidance
The paper Tackling tax evasion and avoidance pubished on 19 March 2015 sets plans for further action to tackle tax evasion.

In chapter 3 ‘Next steps on tax evasion and avoidance’ the paper calls on the regulatory bodies which police professional standards, which includes ICAEW, to “take a greater lead and responsibility in setting and enforcing clear professional standards around the facilitation and promotion of avoidance” (paragraph 3.3) and it uses the same quote in paragraph 3.19 in the section on domestic avoidance but carries on to say “….enforcing clear professional standards around the facilitation and promotion of avoidance to protect the reputation of the tax and accountancy profession and to act for the greater public good.”

ICAEW issued a Press Notice in response to the proposals in the paper:

> “The public is rightly concerned about tax evasion, and we support efforts to tackle it. Over the last few years the government has introduced measures to reduce evasion and aggressive avoidance, including the GAAR, and it would be more prudent to see the effect these have first before introducing the raft of new laws that they have proposed.
>
> “ICAEW already has a Professional Code of Conduct in relation to tax advice, which is revisited and updated on a regular basis. We are keen to work with Government to ensure that the code continues to be fit for purpose and retains public and political confidence.”

It would be fair to say that the government’s paper seems to have been drafted in haste; it is not clearly laid out and while the Chief Secretary to the Treasury in his announcement in the House set out five distinct areas where changes are going to be considered, there is no clear listing in the document itself. The HM Treasury news story New criminal offences in clampdown on tax evasion does, however, clearly list the five areas.

The paper also states in several places that “the government today announces the introduction of ….” It seems clear that these are at the moment proposals on which there is going to be consultation or, in some cases, a continuation of earlier consultations.

ICAEW is fully behind the government’s efforts to tackle tax evasion and we will work with government to help create a more robust system. But any new laws need to build on the measures that are already in place and strengthen them only after consultation has demonstrated that this is necessary.

Strict liability offence for undeclared offshore income
This follows a consultation in 2014. The 19 March document states that at the time of the earlier consultation there were fewer countries which had agreed to exchange information automatically and that any proposals “will take account of this and consider appropriate defences and thresholds”.

We responded to the earlier consultation in November 2014 TAXREP 58/14 Tackling offshore tax evasion: a new criminal offence . In our response we were concerned that HMRC had not properly considered whether existing measures were adequate before consulting on what new measures were to be introduced.

We set out our overall position at the beginning of our response as follows:

> “ICAEW does not condone evasion – it is completely against all our ethical principles and codes. It is right for the Government to address offshore evasion and ICAEW supports reasonable and proportionate measures to tackle those who deliberately evade UK tax. However, as drafted we do not think the measure is reasonable and proportionate, and we are very concerned that individuals who do not and should not fall within the criteria of the new offence will now do so.”

We were also concerned that the new offence would catch taxpayers who had made innocent mistakes or acted carelessly but without fraudulent intent, and said:

> “There is a serious risk that people with no criminal intent will be found guilty of a criminal offence. The Strict Liability offence could apply to those who have made innocent mistakes or acted carelessly but without fraudulent intent. The consequences

of a criminal conviction cannot be underestimated. We do not believe there is justification for removing the requirement to prove *mens rea* in tax fraud cases."

New civil penalty for enablers of tax evasion
The document states that "this will include a new collateral penalty under which enablers will pay a fine equivalent to that paid by the individual that they have helped to evade tax: and public naming of those that enable tax evasion".

A new offence of corporate failure to prevent tax evasion of the facilitation of tax evasion
There is no information on this in the document and it is to be the subject of consultation.

Toughening existing penalties
It is stated that this will be linked to the value of the assets kept in the offshore bank account and there should be an increase in the scope of the power to name those who have evaded tax.

Naming and shaming
As noted above there is a proposal that those who enable tax evasion should be named and an increase in the scope of the power to name those who have evaded tax.

Strengthening sanctions for tax avoidance
Turning to Budget announcements on avoidance as opposed to evasion, new measures targeted at serial users of tax avoidance schemes that fail are to be introduced, alongside specific tax-geared penalties for cases tackled by the general anti-abuse rule (GAAR). This follows a consultation that closed on 12 March 2015 to which Tax Faculty responded in TAXREP 24/15.

Serial avoiders
It has been confirmed that a range of measures are to be introduced targeting those who persistently enter into tax avoidance schemes that fail. Details of how 'serial avoiders' will be defined, and the measures to be introduced, are not yet available. However the measures have been stated to potentially include a special reporting requirement, surcharges, a restriction on access to reliefs for those who have a record of trying to abuse them and the public naming of those who continue to use schemes that fail.

GAAR: penalties
The government has said it is going to introduce specific tax-geared penalties for cases that are tackled by the GAAR. This will be in a later Finance Bill, not the March 2015 Bill.

This was one of the proposals in the consultation which ended in March 2015, to which we responded in TAXREP 24/15. We think it is premature to introduce penalties in respect of a regime which has only just been introduced and for which no cases have been identified for referral to the GAAR Advisory Panel.

We wrote in our TAXREP:

> "The GAAR regime has only been in existence for 18 months and the first tax returns, covering the period to 5 April 2014, would only have been lodged by the end of January 2015. Patrick Mears, the Chair of the Advisory Panel, reported in a press interview in February 2015 that they had so far not looked at any cases and there were none in the pipeline as far as he was aware. It would, therefore, seem to be unreasonably premature to start tinkering with a new system before any cases exist or reliable statistics have become available that would enable that system's impact to be assessed on any reasonable basis."

Promoters of tax avoidance schemes
FB 2015 will include provisions to enable HMRC to issue conduct notices to a broader range of connected persons under the Promoters of Tax Avoidance Schemes regime. The three-year

time limit for issuing conduct notices to promoters who have failed to disclose avoidance schemes to HMRC will now apply from the date when a failure is established.

Improvements to DOTAS
There will be legislation in FB 2015 to improve the information from the Disclosure of Tax Avoidance Schemes (DOTAS) regime. These will include measures to:

- require employers to notify employees of their involvement in avoidance schemes relating to their employment and to provide details of those employees to HMRC;
- provide HMRC with a power to identify users of undisclosed avoidance schemes;
- increase the penalty for users who do not comply with their DOTAS reporting requirements;
- introduce protection for those wishing to voluntarily provide information to HMRC about potential failures to comply with DOTAS;
- require promoters of tax avoidance schemes to notify HMRC of any relevant changes to a disclosed scheme;
- enable HMRC to publish information about promoters and schemes; and
- strengthen the descriptions of schemes which must be disclosed and to expand the coverage of IHT, to include schemes seeking to avoid IHT charges during a person's lifetime and following death.

Administration

Tax returns and digital tax accounts
In his Budget the Chancellor announced "We will abolish the annual tax return". This was something of surprise and has attracted a lot of media attention. So what is proposed and will we really see an end to self assessment tax returns?

There is not a great deal of information available on this at the moment. What there is can be found in the short policy paper Making tax easier: The end of the tax return published with the Budget.

The essence of the proposal is that individuals and businesses will in future be able to manage their tax affairs via a digital tax account. This will be pre-populated with information which HMRC already holds. The aim, as the Chancellor said, is that they will no longer be forced to submit an annual tax return.

The digital account is not a new development – these have already been tested and are being rolled out to many taxpayers from next year. Pre-population of returns is also something that has often been proposed. The new idea is to change the way that people interact with HMRC and avoid the current once-yearly tax return filing rush. The digital tax account will also herald new ways for people to pay the tax, with the option to 'pay as you go'.

It will take time to introduce these digital developments, which are expected to be in place by 2020.

Even if tax accounts are pre-populated with information, taxpayers will still have to check that it is correct and tell HMRC of any errors and of any income or gains that are not included. We assume that taxpayers will have an obligation to do this, and a deadline by which they must do it. So although actual tax returns might be abolished, the idea of providing tax return information for each tax year is not likely to go away.

Taxpayers will be able to appoint agents to manage their digital account. Both taxpayer and agent will see the same picture of the client's tax affairs. The Tax Faculty will be fully involved in consultations about how this could affect our members.

Pre-population of return may be a welcome development for many people. However, it will be crucial that the information HMRC supplies is correct, and that taxpayers are aware that it will be in their interest to check it. Even if HMRC's systems work as intended, a further concern is that the information supplied by third parties might be wrong.

Not everyone is able to use digital services and we understand that there will still be a paper tax return filing option for those who need it. So, perhaps not the demise of the paper return either.

Country by country reporting

Action 13 of the OECD Action Plan, which was one of the Actions adopted at the end of last year, sets out a template of information that companies are required to provide in order for tax administrations to understand better the commercial arrangements in place and to assess to what extent the arrangements risk eroding their domestic tax base.

The OECD Executive Summary from the September 2014 report, which was adopted at the G20 Leaders' Summit in November 2014, stated:

> "The country-by-country report requires multinational enterprises (MNEs) to report annually and for each tax jurisdiction in which they do business the amount of revenue, profit before income tax and income tax paid and accrued. It also requires MNEs to report their total employment, capital, retained earnings and tangible assets in each tax jurisdiction. Finally, it requires MNEs to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of the business activities each entity engages in."

Finance Bill 2015 is going to contain primary legislation to give the government power to implement the OECD reporting framework.

UK's automatic exchange of information agreements: implementation

Regulations will be introduced to create due diligence and reporting obligations for UK financial institutions under the EU Directive (on Administrative Cooperation (Council Directive 2014/107/EU)) (DAC) for EU Countries and under the Common Reporting Standard (CRS) for non-EU countries.

The obligations will require financial institutions to:

- identify accounts maintained for specified persons, that is, account holders who are tax resident in jurisdictions with which the UK has entered into an agreement to exchange information about a wide range of financial accounts and investments to help tackle tax evasion
- collect and report information in a specified manner on specified persons to HMRC.

The latest regulations will also revoke and replace the existing, equivalent, arrangements in place with the US under FATCA (Foreign Account Tax Compliance Act) and will remove holding companies and relevant treasury companies from the definition of reporting financial institutions consistent with the terms of the UK/US Intergovernmental Agreement of September 2012.

The regulations will have effect on and after 1 January 2016 in relation to the DAC and the CRS Competent Authority Agreements, and 21 days from the date these regulations are laid in relation to the FATCA agreement.

Changes to disclosure facilities
HMRC will close its Liechtenstein Disclosure Facility (LDF) and crown dependency disclosure facilities (CDF) early than expected. The LDF and the CDF (which is specific to Isle of Man Jersey and Guernsey) will close on 31 December 2015, instead of 5 April 2016 and 30 September 2016, respectively.

A new limited disclosure facility will operate from 2016 until mid-2017, ahead of the exchange of information via the Common Reporting Standard, which will have less generous terms than the LDF and CDF.

Devolution of taxes

The Chancellor set out the government's commitment to deliver on further devolution for Scotland, Wales and Northern Ireland. It is clear that the tax devolution agenda continues apace but, with each passing day, the UK tax system as a whole will become much more complicated as he constituent countries that make up the UK adopt different approaches to tax devolution.

Northern Ireland
On 17 March 2015 (St Patrick's day), the Corporation Tax (Northern Ireland) Bill was enacted, which grants powers to the Northern Ireland Executive to set its own rate of corporation tax, subject to the finances of the Executive being put onto a sustainable long term footing. It is expected that the Executive will reduce the Northern Ireland rate of corporation tax to equal the 12.5% rate in the Republic of Ireland.

Scotland
In Scotland, land and buildings transactions tax will be introduced with effect from 1 April 2015 and will replace UK SDLT. On 22 January 2015, draft clauses were published to put into effect the recommendations of the Smith Commission on further devolved tax raising powers. It is expected that following publication of the clauses a Bill will be introduced and passed into law early in the next parliament. Under the Smith Commission proposals, the Scottish parliament will have complete power to set income tax rates and bands and also air passenger duty. However, unlike Northern Ireland, it is not proposed to devolve the corporation tax rate.

Wales
Meanwhile on 10 February 2015 the Welsh government published a consultation document on a proposed land transaction tax, which will replace SDLT. It was announced in the Budget that the UK government will also consider the potential devolution of air passenger duty.