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Autumn Statement Newsletter December 2014

The Autumn Statement was the last before the General Election in May 2015 but the next few months will see a lot of "lasts", including the last Budget early next year. Therefore, for those expecting the Chancellor to keep his powder dry until the coming Budget, one of the changes he announced on Wednesday may have come as something of a surprise.

The Chancellor's appeal to middle England was that this was a Budget to encourage saving, working and home ownership. Some welcome changes to the taxation of pensions and ISAs, for example, should help savers and, whilst workers might feel short changed, a major change in the stamp duty regime on buying houses will see many more winners than losers, numerically speaking. This was the real rabbit out of the hat to bring smiles to many, although not all, homebuyers.

However, as could be expected from what appears to be a popularist final Autumn Statement, the tax burden is again tilted towards those who are better off and this was reflected in the stamp duty changes which will hit the upper end of the housing market. Similarly, proposed changes will adversely affect many wealthy non-UK domiciled individuals who are long term residents in the UK. Other popularist measures include more bank-bashing (by restricting their tax losses) and the so-called "Google tax" designed to challenge multi-national companies which seek to artificially shift profits offshore.

A summary of the key proposals affecting private individuals and trustees are as follows.

Non-domiciled individuals

- Broadly speaking, non-UK domiciled individuals who wish to benefit from the remittance basis of taxation currently have to pay a charge of £30,000 per annum for the privilege after they have been UK resident for 7 years and £50,000 per annum after 12 years. With effect from 6 April 2015, the £50,000 charge will rise to £60,000 and a new £90,000 charge will be imposed once such individuals have been resident for 17 years.

- Non-domiciled individuals can currently decide whether or not to pay the remittance basis charge each year but the government plans to consult on making the election apply for a minimum of 3 years.

- It is interesting to note that, following changes to the taxation of non-domiciliaries in 2011, the government promised not to make any further substantive changes during the life of the current Parliament and this commitment extended to the amount of the remittance basis charge.

Inheritance tax changes to trusts

- After considerable consultation, the proposed introduction of a single inheritance tax ("IHT") nil rate band for trusts has been dropped. Instead, a targeted anti-avoidance measure will be introduced to stop planning which made it possible to create multiple trusts each with their own IHT nil rate band. The calculation of IHT charges for trusts is also to be "simplified".

- Along with other professional advisers, we had responded to the government's previous consultation documents on this proposal and, on balance, are happy to see it dropped. However, we will be interested to see what form the replacement measures will take.

Savings and pensions

- Legislation will be introduced so that, on the death of an individual, his or her ISA savings up to the date of death can, in effect, be transferred to a surviving spouse whilst retaining their tax favoured status. This is a welcome change.

- As previously announced, from 6 April 2015, the remaining pension of an individual dying under the age of 75 can be passed on to family members free of the 55% tax which would previously have applied. Various other tweaks to the pensions regulations, many of them pre-announced, are also being made.

Property taxes

- The current "slab" system of stamp duty land tax ("SDLT") on buying residential property is to be replaced by a progressive system. Currently, if the value of a property purchase exceeds a certain threshold, a given rate of SDLT applies to the whole value. Under the new progressive system, only the amount in excess of the thresholds will be subject to increasing rates of SDLT. The new rates and thresholds are 0% tax up to £125,000, 2% on the next £125,000, 5% on the next £675,000, 10% on the next £575,000 and 12% above that. Those buying houses worth less than £937,500 will be better off with those above this level being worse off. The change takes effect from 4 December but, where contacts have been exchanged but not completed prior to that date, the purchaser can effectively pick the rates which give the best result.

- There will be above inflation increases to the rate of the Annual Tax on Enveloped Dwellings ("ATED") and supposed simplification of reporting requirements. This mainly affects high value residential properties held within offshore companies.

- A few days prior to the Autumn Statement, the government also released its response to the consultation process for the new charge to capital gains tax on non-residents disposing of UK residential property. This was originally announced in last year's Autumn Statement and will be brought into effect on 6 April 2015. Broadly speaking, non-resident companies (excluding institutional investors) will pay tax at 20% on such gains whilst non-resident individuals will pay tax at 18% or 28% (as for UK residents) and non-resident trustees at 28%. There will be some consequential amendment to the principal private residence ("PPR") exemption which will affect both non-UK and UK residents and there will be a rebasing election of some form so that only post April 2015 gains will be taxable.

Anti-avoidance measures

- Draft legislation has been released to block with immediate effect a commonly used planning arrangement whereby business partnerships could be sold to a related company in a very tax efficient manner. Future profits of the company could be used to pay for the business "goodwill" which had been taxed at only 10% on the sale to the company and hence provide a tax efficient profit extraction mechanism. In certain circumstances, the company could also claim tax relief for the goodwill it had effectively purchased. From now on, the 10% rate of tax will be denied (meaning that the standard rates of capital gains tax will apply) and the company's tax relief will also be restricted.

- Abuse of the "miscellaneous loss" rules to shelter income from tax will also be blocked by new anti-avoidance legislation. This is likely to target promoted schemes which would have been reportable to HMRC in any case.

If you would like to discuss any of these changes, please get in touch with your usual contact at Meridian.