PINI FRANCO LLP

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UK Finance Update 2014

A round-up of the background to the latest UK finance changes

SUMMARY

1, BACKGROUND

The UK Government's 2014 Budget had the aim of protecting the emerging economic recovery that is taking hold within the UK.

Since 2013 UK economic growth has exceeded forecasts and inflation is below target. The Office of Budget Responsibility (`OBR') forecasts that business investment activity is likely to gather pace this year and has revised up its forecast for business investment growth in the UK from 5.1% to 8.0% this year. Exports of goods from the UK to countries outside the EU have risen by 23% in 2010 and exports of goods to the EU by 8%. There is continued focus on improving export performance to aid recovery.

In the past year employment in the UK has grown faster than in France, Germany, Italy, Japan and the averages for the EU and G7 countries (OECD figures March 2014). Employment at the end of 2014 has surpassed 30 million and the employment rate in the UK is higher than the US for the first time since 1978. The UK unemployment rate was 7.2% in the three months to December 2013, the lowest rate for nearly 5 years.

2. GROSS DOMESTIC PRODUCT (GDP) GROWTH

GDP growth in the UK has been revised upwards from 2.4% to 2.7% in 2014 and from 2.2% to 2.3% in 2015, 2.6% in 2016 and 2017 and 2.5% in 2018. It is anticipated that UK GDP will return to the pre-crisis peak in the third quarter of 2014. Household consumption accounts for around 2/3rds of UK GDP.

3. INFLATION

The expectation is that Consumer Prices Inflation (`CPI') will remain below target at 1.9% in 2014. It is then anticipated to stay below 2% for the foreseeable future.

4. PROPERTY SECTOR

- **Residential Enveloped Dwellings**

In 2013 the government introduced measures to discourage placing residential property in corporate envelopes (`enveloped properties') to avoid stamp duty land tax (`SDLT') and Inheritance Tax (`IHT'). These measures comprise an Annual Tax on Enveloped Residential Dwellings (`ATED') and a capital gains tax charge on any gains on disposal of such enveloped properties above £2million from 2013.

From April 2014 there will be **two new bands for ATED** to bring properties worth £500,000 to £1,000,000 and £1,000,000 to £2,000,000 within the charge. The charge for the former will be £3,500 per annum and for the latter £7,000 per annum and subject to annual inflationary increase.

The structure of ATED will be staggered with the introduction of the new ATED bands with the £1m - £2m band coming into effect from April 2015 and the £500,000 TO £1 m band from April 2016.

5. ATED RELIEFS

Annual chargeable amount	Taxable value of the interest on the relevant day
£3,500.00 (from 1 April 2016)	Over £500,000 up to £1million
£7,000.00 (from 1 April 2015)	Over £1million up to £2million
£15,000 (£15,400 from 1 April 2014)	Over £2million up to £5million
£35,000 (£35,900 from 1	Over £5million up to
£70,000 (£71,850 from 1 April 2014)	Over £10million up to £20million
£140,000 (£143,750 from 1 April 2014)	Over £20million

Table—Annual tax on enveloped residential dwellings

There are a number of reliefs that are available in respect of ATED. The most relevant for offshore investors are the following:

- **Property rental business relief**, which is available if the single-dwelling interest is held for the purposes of a property rental business run on a commercial basis.

- **Property rental business (special) relief**, which is available if the single-dwelling interest has been held for the purposes of the property rental business, but is unoccupied pending sale, demolition or conversion.

6. STAMP DUTY AND CAPITAL GAINS TAX ON ENVELOPED RESIDENTIAL PROPERTIES

- The 15% SDLT rate is extended to apply to all such enveloped residential properties over £500,000.00 with effect from **20th March 2014.**

- Capital Gains Tax on disposals of properties liable to ATED will be extended to residential properties worth over £1million and up to £2million from **6th April 2015** and for residential properties worth over £500,000 and up to £1million with effect from **6th April 2016**.

7. CAPITAL GAINS TAX (`CGT')

The government will introduce CGT on future gains made by non-residents disposing of UK residential property from April 2015. The mechanism for change is currently being reviewed.

- **Flooding**

Funding is to be increased by £140million over 2014/15 and 2015/16 to repair and maintain flood defences.

8. PERSONAL WEALTH

- **Individual Savings Accounts (ISAs)** **ISAs** will be permitted for up to £15,000 tax free in cash, stocks or equities from 1st July 2014.

- **Inheritance Tax (`IHT')** The government has extended the freeze on the IHT taxation threshold of £325,000 until 2017/18. Any assets held by a deceased above this amount will be chargeable at 40%.

- **Capital Gains Tax (`CGT')** The individual annual exemption will rise to £11,000 in 2014/15 and £11,100 in 2015/16.

9. TAXATION

- **Personal Allowances**

The tax free **personal allowance** is increased from £10,000 to £10,500 per year for all tax payers. Consultation is to take place on whether this can be restricted to UK residents and those living overseas who have strong economic connections with the UK.

The higher rate tax threshold (40%) is to be increased to £41,865.00 and the basic rate (20%) is to be set at £31,785.00

The transferable **tax allowance for married couples and civil partners** is now set at 10% of the personal allowance (this means it will be £1050 in 2015/16).

- **Tax Avoidance**

Tax avoidance scheme promoters must give HM Revenue & Customs information about schemes they promote under the **Disclosure of Tax Avoidance Scheme (`DOTAS') rules.** Anyone using such a scheme must declare this to HMRC and taxpayers must pay upfront the tax associated with such schemes where the avoidance scheme being used has been defeated in another party's litigation through the UK courts.

- **International Tax Avoidance**

The UK government is working with G20 and OECD partners to prevent multinational companies from engaging in aggressive tax planning with the aim of producing a **country-by-country template to give tax authorities worldwide a clear picture of where multinationals generate profits and pay tax.** The government has announced action to block arrangements involving payments between companies within a group which transfer profits to avoid tax. Companies will be required to pay tax on profits generated within the UK.

10. CORPORATE INVESTMENT

- The main rate of **corporation tax** has been reduced to 21% from April 2014 and will fall to 20% from April 2015

- Legislation has been introduced, taking effect from April 2014, to counter the disguising of employment relationships within **limited liability partnerships.**

- **The Seed Enterprise Investment Scheme (SEIS)** designed to help small, early-stage companies to raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares in those companies has been made permanent. This provides relief on half the chargeable gains that individuals reinvest in SEIS companies in 2014/15 or subsequent years.

- The annual investment allowance (`AIA') has been doubled to £500,000 from April 2014 until the end of 2015. This will benefit small and medium firms. It means that qualifying firms will receive 100% up front relief on their qualifying investment in plant and machinery.

11. INFRASTURCTURE

Carbon Price Floor

The government has introduced measures to limit the disparity between the UK and the EU on carbon price floor (`CPF'). The carbon price floor (CPF) is a tax on fossil fuels used to generate electricity. It came into effect on 1 April 2013. It changed the Climate Change Levy (CCL) regime, by applying carbon price support (CPS) rates of CCL to gas, solid fuels and liquefied petroleum gas (LPG) used in electricity generation. The CPF therefore informs the tax paid by electricity generators and the cost of producing electricity. The aim of the CPF is to encourage investment in low carbon infrastructure. However, the view is that the cost of producing UK energy is eroding competitiveness. The government has therefore capped the Carbon Price Support Rate at £18.00 per tonne from 2015/17. At the same time it has introduced a compensation scheme to help energy intensive industries with higher energy costs resulting from the Carbon Renewal Cost.

Fuel used in combined heat and power plants for electricity generated to supply manufacturing firms will now be exempted from the CPF.

The sum of £60 million has been provided to support low-carbon innovation technologies that show significant potential to reduce the cost of low-carbon generation in the UK.

Oil and Gas Projects

The government is to consult on a new allowance to support investment in ultra high pressure, high temperature oil and gas projects. The allowance would exempt a proportion of a company's profits from charge. The amount of exemption would equal at least 62.5% of qualifying capital expenditure a company incurs on these projects.

12. CONCLUSION

The government's finance measures are cited as protecting and entrenching the UK economic recovery that has been achieved thus far. However the fiscal tools that have been implemented may impact on investors who are unable to take advantage of the reliefs available. Addressing tax avoidance is a high priority currently and investors should ensure that they have received appropriate advice before embarking on any UK based tax saving advice in the future.

The acquisition of UK residential property through corporate vehicles has come under further scrutiny by extending the net to include those properties valued at £500,000 and above (other than through commercially operated buy to let investments). Any acquirers of UK residential property through corporate envelopes should therefore seek professional advice to ensure that they are maximising all available exemptions and reliefs and are fully appraised of their tax situation.

Little has been done to address individual property owners' needs and the freezing of the IHT threshold will have a widespread effect. Individual estate planning and professional advice in this area therefore becomes ever more important.

On the other hand, there is renewed focus on seeking to protect and enhance the UK's competitive advantage in manufacturing, construction and production industries by addressing inter alia, the cost of energy production, facilitating corporate investment strategies through more beneficial tax rates and start up schemes and by investing in infrastructure, planning and development measures designed to stimulate, facilitate and promote growth.

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