Autumn Statement 2014

On Wednesday 3 December the Office for Budget Responsibility published its updated forecast for the UK economy. Chancellor George Osborne responded to that forecast in a statement to the House of Commons later on that day.

In the period since the Budget in March a number of consultation papers and discussion documents have been published by HMRC and some of these proposals are summarised here. Draft legislation relating to many of these areas will be published on 10 December and some of the details in this summary may change as a result.

Our summary also provides a reminder of other significant developments which are to take place from April 2015.

The Chancellor's statement
His speech and the subsequent documentation announced tax measures in addition to the normal economic measures.

Our summary concentrates on the tax measures which include:

- improvements to the starting rate of tax for savings income
- new rules for accessing pension funds
- removal of corporation tax relief for goodwill on incorporation
- changes to the Construction Industry Scheme
- the introduction of new CGT rules for non-residents and UK residential property
- changes to the remittance basis charge for resident non-domiciles
- changes to the tax treatment of pensions on death
- changes to the IHT treatment of trusts
- changes to Stamp Duty Land Tax for residential property.

Personal Tax

The personal allowance for 2015/16
For those born after 5 April 1948 the personal allowance will be increased from £10,000 to £10,600.

Comment
The reduction in the personal allowance for those with 'adjusted net income' over £100,000 will continue. The reduction is £1 for every £2 of income above £100,000. So for 2014/15 there is no allowance when adjusted net income exceeds £120,000. In 2015/16 the allowance ceases when adjusted net income exceeds £121,200.

Tax bands and rates for 2015/16
The basic rate of tax is currently 20%. The band of income taxable at this rate is being decreased from £31,865 to £31,785 so that the threshold at which the 40% band applies will rise from £41,865 to £42,385 for those who are entitled to the full basic personal allowance.

The additional rate of tax of 45% is payable on taxable income above £150,000.

Dividend income is taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. Where income exceeds £150,000, dividends are taxed at 37.5%.

Starting rate of tax for savings income

From 6 April 2015, the maximum amount of an eligible individual's savings income that can qualify for the starting rate of tax for savings will be increased to £5,000 from £2,880, and this starting rate will be reduced

from 10% to nil. These rates are not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

Comment
This will increase the number of savers who are not required to pay tax on savings income, such as bank or building society interest. If a saver's taxable non-savings income will be below the total of their personal allowance plus the £5,000 starting rate limit then they can register to receive their interest gross using a form R85.
The increase will also provide a useful tax break for director/shareholders who extract their share of profits from a company by taking a low salary and the balance in dividends. This is because dividends are taxed after savings income and thus are not included in the individual's 'taxable non-savings income'.
Example

Type of income	Amount	Tax rate	Comment on tax rate
Salary	£10,600	Nil	(as covered by personal allowance)
Bank interest	£3,000	Nil	(as salary plus interest is less than £15,600)

Dividend income is then taxed at the appropriate dividend tax rates.

Transferable Tax Allowance for some
From 6 April 2015 married couples and civil partners may be eligible for a new Transferable Tax Allowance.

The Transferable Tax Allowance will enable spouses and civil partners to transfer a fixed amount of their personal allowance to their spouse. The option to transfer is not available to unmarried couples.

The option to transfer will be available to couples where neither pays tax at the higher or additional rate. If eligible, one partner will be able to transfer 10% of their personal allowance to the other partner which means £1,060 for the 2015/16 tax year.

Comment
For those couples where one person does not use all of their personal allowance the benefit will be up to £212 (20% of £1,060).
HMRC will, no doubt, be publicising the availability of the Transferable Tax Allowance in the next few months and details of how couples can opt to transfer allowances.
New Individual Savings Accounts (NISAs)
On 1 July 2014 ISAs were reformed into a simpler product, the NISA, and the overall annual subscription limit for these accounts was increased to £15,000 for 2014/15. From 6 April 2015 the overall NISA savings limit will be increased to £15,240.

The Chancellor has now announced an additional ISA allowance for spouses or civil partners when an ISA saver dies. From 6 April 2015, surviving spouses will be able to invest the inherited funds into their own ISA, on top of their usual allowance. This measure applies for deaths from 3 December 2014.

At Budget 2014, the Chancellor announced that peer-to-peer loans would be eligible for inclusion within NISAs. The government is consulting on the options for changes to the NISA rules to allow peer-to-peer loans to be held within them.

No start date has been announced.

Comment
Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The inclusion of such loans in NISAs will increase choice for investors and encourage the growth of the peer-to-peer sector.

Junior ISA and Child Trust Fund (CTF)
The annual subscription limit for Junior ISA and Child Trust Fund accounts will increase from £4,000 to £4,080.

The government has previously decided that a transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. The government has confirmed the measure will have effect from 6 April 2015.

Bad debt relief on investments made on peer-to-peer lending
The government will introduce a new relief to allow individuals lending through peer-to-peer platforms to offset any losses from loans which go bad against other peer-to-peer income. It will be effective from 6 April 2016 and, through self assessment, will allow individuals to make a claim for relief on losses incurred from 6 April 2015.

Pensions - changes to access of pension funds
In Budget 2014, George Osborne announced 'pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want'. Some of changes have already taken effect but the big changes will come into effect on 6 April 2015 for individuals who have money purchase pension funds.

The tax consequences of the changes are contained in the Taxation of Pensions Bill which is currently going through Parliament.

Under the current system, there is some flexibility in accessing a pension fund from the age of 55:

- tax free lump sum of 25% of fund value
- purchase of an annuity with the remaining fund, or
- income drawdown.

For income drawdown there are limits, in most cases, on how much people can draw each year.

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

From 6 April 2015, the ability to take a tax free lump sum and a lifetime annuity remain but some of the current restrictions on a lifetime annuity will be removed to allow more choice on the type of annuity taken out.

The rules involving drawdown will change. There will be total freedom to access a pension fund from the age of 55.

It is proposed that access to the fund will be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides

- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

  When an allocation of funds into a flexi-access account is made the member typically will take the opportunity of taking a tax free lump sum from the fund (as under current rules).

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% is tax free
- the remainder is taxable as income.

  Comment

  The fundamental tax planning point arising from the changes is self-evident. A person should decide when to access funds depending upon their other income in each tax year.

Pensions - changes to tax relief for pension contributions

The government is alive to the possibility of people taking advantage of the new flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. Without further controls being put into place an individual would obtain tax relief on the pension contributions but only be taxed on 75% of the funds immediately withdrawn.

Currently an 'annual allowance' sets the maximum amount of tax efficient contributions. The annual allowance is £40,000 (but there may be more allowance available if the maximum allowance has not been utilised in the previous years).

Under the proposed rules from 6 April 2015, the annual allowance for contributions to money purchase schemes will be reduced to £10,000 in certain scenarios. There will be no carry forward of any of the £10,000 to a later year if it is not used in the year.

The main scenarios in which the reduced annual allowance is triggered is if:

- any income is taken from a flexi-access drawdown account, or
- an uncrystallised funds pension lump sum is received.

  However just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the £10,000 rule.

Taxation of resident non-domiciles

The Chancellor has announced an increase in the annual charge paid by non-domiciled individuals resident in the UK who wish to retain access to the remittance basis of taxation.

The charge paid by people who have been UK resident for seven out of the last nine years will remain at £30,000. The charge paid by people who have been UK resident for 12 out of the last 14 years will increase from £50,000 to £60,000. A new charge of £90,000 will be introduced for people who have been UK resident for 17 of the last 20 years. The government will also consult on making the election apply for a minimum of three years.

Business Tax

Corporation tax rates

From 1 April 2015 the main rate of corporation tax, currently 21%, will be reduced to 20%.

As the small profits rate is already 20%, the need for this separate code of taxation disappears. The small profits rate will therefore be unified with the main rate.

Research and Development (R&D) tax credits

The government will increase the rate of the 'above the line' credit from 10% to 11% and will increase the rate of the SME scheme from 225% to 230% from 1 April 2015.

It is proposed to restrict qualifying expenditure for R&D tax credits from 1 April 2015 so that the costs of materials incorporated in products that are sold are not eligible. There will be a package of measures to streamline the application process for smaller companies investing in R&D.

Construction Industry Scheme (CIS) improvements

In Budget 2014 the government announced that it would consult on options to improve the operation of the scheme for smaller businesses and to introduce mandatory online CIS filing for contractors. The consultation has now taken place.

A key reform concerns changes to the requirements for subcontractors to achieve and retain gross payment status. There are proposals for simplifying and improving the compliance and turnover tests which will enable more subcontractors to access gross payment status. There is no intention to change the £30,000 turnover test for sole traders, but the government proposes lowering the threshold for the upper limit of the turnover test to help more established businesses with multiple partners or directors qualify for gross payment status. The current upper threshold of £200,000 could fall to as little as £100,000.

Some compliance tests would be relaxed so that it would be easier for subcontractors to retain their gross payment status.

For contractors the government is proposing mandatory online filing of monthly CIS returns. Improvements will be made to the IT systems to provide a better CIS online service. These will include the online system for verification of subcontractors by contractors.

Comment

About two thirds of CIS contractors are also employers who therefore file Real Time Information PAYE returns online. It is no surprise that the government wants to extend the scope of mandatory online filing. The improvements to the online verification process would be welcome but the government is also proposing to remove the option of verifying subcontractors by telephone.

Class 2 National Insurance contributions (NIC)

From 6 April 2015 liability to pay Class 2 NIC will arise at the end of each year. Currently a liability to Class 2 NIC arises on a weekly basis.

The amount of Class 2 NIC due will still be calculated based on the number of weeks of self-employment in the year, but will be determined when the individual completes their self assessment return. It will therefore be paid alongside their income tax and Class 4 NIC. For those that wish to spread the cost of their Class 2 NIC, HMRC will retain a facility for them to make regular payments throughout the year. The current six monthly billing system will cease from 6 April 2015.

Those with profits below a threshold will no longer have to apply in advance for an exception from paying Class 2 NIC. Instead they will have the option to pay Class 2 NIC voluntarily at the end of the year so that they may protect their benefit rights.

Corporation tax relief for goodwill on incorporation
Corporation tax relief is given to companies when goodwill and intangible assets are recognised in the financial accounts. Relief is normally given on the cost of the asset as the expenditure is written off in accordance with Generally Accepted Accounting Practice or at a fixed 4% rate, following an election.

An anti-avoidance measure has been announced to restrict corporation tax relief where a company acquires internally-generated goodwill and certain other intangible assets from related individuals on the incorporation of a business.

In addition, individuals will be prevented from claiming Entrepreneurs' Relief on disposals of goodwill when they transfer the business to a related company. Capital gains tax will be payable on the gain at the normal rates of 18% or 28% rather than 10%.

These measures will apply to all transfers on or after 3 December 2014 unless made pursuant to an unconditional obligation entered into before that date.

Comment
Prior to this announcement it was possible, for example, on incorporation of a sole trader's business to a company which is owned by the sole trader, for the company to obtain corporation tax relief on the market value of goodwill at the time of incorporation. The disposal by the sole trader would qualify for a low rate of capital gains tax.
The government considers this is unfair to a business that has always operated as a company.
Corporation tax reliefs - creative sector
Two new reliefs and a change to an existing relief are proposed:

- **Children's television tax relief** - The government will introduce a new tax relief for the production of children's television programmes from 1 April 2015. The relief will be available at a rate of 25% on qualifying production expenditure.
- **Orchestra tax relief -** The government will consult on the introduction of an orchestra tax relief from 1 April 2016.
- **High-end television tax relief** - The government will explore with the industry whether to reduce the minimum UK expenditure for high-end TV relief from 25% to 10% and modernise the cultural test, to bring the relief in line with film tax relief.

Overarching contracts of employment and temporary workers
The government will review the increasing use of overarching contracts of employment by employment intermediaries such as 'umbrella companies'. These arrangements enable workers to obtain tax relief for home to work travel that would not ordinarily be available. The government will publish a discussion paper shortly which may result in new measures at Budget 2015.

Banks - loss relief restriction
The government will restrict the amount of a bank's annual profit that can be offset by the carry forward of losses to 50% from 1 April 2015. The restriction will apply to losses accruing up to 1 April 2015 and will include an exemption for losses incurred in the first five years of a bank's authorisation.

Diverted profits tax
A new tax to counter the use of aggressive tax planning techniques by multinational enterprises to divert profits from the UK will be introduced. The Diverted Profits Tax will be applied using a rate of 25% from 1 April 2015.

Employment Taxes
Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Most cars are taxed by reference to bands of CO_2 emissions. The percentage applied to each band has typically gone up by 1% each year with an overriding maximum charge of 35% of the list price of the car. From 6 April 2015, the percentage applied by each band goes up by 2% and the maximum charge is increased to 37%.

Comment

These increases have the perverse effect of discouraging retention of the same car. New cars will often have lower CO_2 emissions than the equivalent model purchased by the employer, say three years ago.

Employer National Insurance contributions (NIC) for the under 21s

From 6 April 2015 employer NIC for those under the age of 21 will be reduced from the normal rate of 13.8% to 0%. For the 0% rate to apply the employee will need to be under 21 when the earnings are paid.

This exemption will not apply to earnings above the Upper Secondary Threshold (UST) in a pay period. The weekly UST is £815 for 2015/16 which is equivalent to £42,385 per annum. Employers will be liable to 13.8% NIC beyond this limit.

Comment

The UST is a new term for this new NIC exemption. It is set at the same amount as the Upper Earnings Limit, which is the amount at which employees' NIC fall from 12% to 2%.

NIC for apprentices under 25

The government will abolish employer NIC up to the upper earnings limit for apprentices aged under 25. This will come into effect from 6 April 2016.

NIC Employment Allowance

The Employment Allowance was introduced from 6 April 2014. It is an annual allowance of up to £2,000 which is available to many employers and can be offset against their employer NIC liability.

The government will extend the annual £2,000 Employment Allowance for employer NIC to care and support workers. This will come into effect from 6 April 2015.

Review of employee benefits

The Office of Tax Simplification has published a number of detailed recommendations on the tax treatment of employee benefits in kind and expenses. In response the government launched:

- a package of four related consultations on employee benefits in kind and expenses
- a longer term review of the tax treatment of travel and subsistence expenses
- a call for evidence on modern remuneration practices.

The government has now announced:

- From 6 April 2015 there will be a statutory exemption for trivial benefits in kind costing less than £50.
- From 6 April 2016, the £8,500 threshold below which employees do not pay income tax on certain benefits in kind will be removed.This threshold adds unnecessary complexity to the tax system. There will be new exemptions for carers and ministers of religion.
- There will be an exemption for certain reimbursed expenses which will replace the current system where employers apply for a dispensation to avoid having to report non-taxable expenses. The new exemption for reimbursed expenses will not be available if used in conjunction with salary sacrifice.
- The introduction of a statutory framework for voluntary payrolling benefits in kind. Payrolling benefits instead of submitting forms P11D can offer substantial administrative savings for some employers.

Capital Taxes

Capital gains tax (CGT) rates

The current rates of CGT are 18% to the extent that any income tax basic rate band is available and 28% thereafter. The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual.

CGT - Entrepreneurs' Relief (ER)

The government will allow gains which are eligible for ER, but which are instead deferred into investments which qualify for the Enterprise Investment Scheme or Social Investment Tax Relief to remain eligible for ER when the gain is realised. This will benefit qualifying gains on disposals that would be eligible for ER but are deferred into either scheme on or after 3 December 2014.

CGT - non-residents and UK residential property

At present a non-resident individual or company is not liable to CGT on residential property even though it is located in the UK. This is in marked contrast to many other countries that charge a capital gains tax on the basis of the location of a property rather than on the location of the vendor.

Therefore from 6 April 2015 a CGT charge will be introduced on gains made by non-residents disposing of UK residential property. The rate of tax for non-resident individuals will be the same as the CGT rates for UK individuals. Non-resident individuals will have access to the CGT annual exemption.

The rate of tax for companies will mirror the UK corporation tax rate.

The charge will not apply to the amount of the gain relating to periods prior to 6 April 2015. The government will allow either rebasing to a 5 April 2015 value or a time-apportionment of the whole gain, in most cases.

The government has decided that some changes are required to the rules determining the circumstances when a property can benefit from Private Residence Relief (PRR). The changes will apply to both a UK resident disposing of a residence in another country and a non-resident disposing of a UK residence.

From 6 April 2015 a person's residence will not be eligible for PRR for a tax year unless either:

- the person making the disposal was resident in the same country as the property for that tax year, or
- the person spent at least 90 midnights in that property.

Comment

The main point of the changes to the PRR rules is to remove the ability of an individual who is resident in, say, France with a property in the UK as well as France to nominate the UK property as having the benefit of PRR. Any gain on the French property is not subject to UK tax anyway and, without changes to the PRR rules, the gain on the UK property could be removed by making a PRR election.

The good news is that the latest proposals retain the ability of a UK resident with two UK residences to nominate which of those properties have the benefit of PRR.

Changes to the tax treatment of pensions on death

IHT and pension funds

If an individual has not bought an annuity, a defined contribution pension fund remains available to pass on to selected beneficiaries. Inheritance tax (IHT) can be avoided by making a 'letter of wishes' to the pension provider suggesting to whom the funds should be paid. If an individual's intention has not been expressed the funds may be paid to the individual's estate resulting in a potential IHT liability.

Other tax charges on pension funds - current law

There are other tax charges to reflect the principle that income tax relief would have been given on contributions into the pension fund and therefore some tax should be payable when the fund is paid out. For example:

- if the fund is paid as a lump sum to a beneficiary, tax at 55% of the fund value is payable

- if the fund is placed in a drawdown account to provide income to a 'dependant' (for example a spouse), the income drawn down is taxed at the dependant's marginal rate of income tax.
  There are some exceptions from the 55% charge. It is possible to pass on a pension fund as a tax free lump sum where the individual has not taken any tax free cash or income from the fund and they die under the age of 75.

Other tax charges on pension funds - changes

The government has decided to introduce significant exceptions from the tax charges.

Under the new system, anyone who dies under the age of 75 will be able to give their remaining defined contribution pension fund to anyone completely tax free, whether it is in a drawdown account or untouched.

The fund can be paid out as a lump sum to a beneficiary or taken out by the beneficiary through a 'flexi access drawdown account' (see the personal tax section of this summary for an explanation of this term).

Those aged 75 or over when they die will be able to pass their defined contribution pension fund to any beneficiary who will then be able to draw down on it as income at their marginal rate of income tax. Beneficiaries will also have the option of receiving the pension as a lump sum payment, subject to a tax charge of 45%.

The proposed changes take effect for payments made from 6 April 2015.

Tax treatment of inherited annuities

The Chancellor has announced further changes to the pension tax regime. From 6 April 2015 beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax free. The tax rules will also be changed to allow joint life annuities to be passed on to any beneficiary.

Comment

Without this change in tax treatment of inherited annuities, individuals had a potential prospective tax advantage in choosing not to purchase an annuity. If an individual died relatively early, their fund would pass tax free to beneficiaries. If the individual would prefer the financial comfort of a guaranteed payment of income, beneficiaries would be taxed on the income at their marginal rate of income tax under current rules. From 6 April 2015, the beneficiaries will be able to receive any future payments from such policies tax free.

Changes to the trust IHT regime

Certain trusts, known as 'relevant property trusts', provide a mechanism to allow assets to be held outside of an individual's estate thus avoiding a 40% IHT liability on the death of an individual. The downside is that there are three potential points of IHT charge on relevant property trusts:

- a transfer of assets into the trust is a chargeable transfer in both lifetime and on death
- a charge has to be calculated on the value of the assets in the trust on each ten-year anniversary of the creation of the trust
- an exit charge arises when assets are effectively transferred out of the trust.
  The calculation of the latter two charges is currently a complex process which can take a significant amount of time to compute for very little tax yield.

A third consultation on proposed changes was issued in June 2014. It proposed that an individual would have a 'settlement nil rate band' which would be unconnected to their personal nil rate band.

The government has now announced that a single settlement nil rate band will not be introduced. The government will introduce new rules to target avoidance through the use of multiple trusts. It will also simplify the calculation of trust rules.

IHT - exemption for emergency services personnel and humanitarian aid workers
Following consultation since Budget 2014, the government will extend the existing IHT exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services and humanitarian aid workers responding to emergency circumstances. It will have effect for deaths on or after 19 March 2014.

Stamp Duty Land Tax (SDLT)
The Chancellor has announced a major reform to SDLT on residential property transactions. SDLT is charged at a single percentage of the price paid for the property, depending on the rate band within which the purchase price falls. From 4 December 2014 each new SDLT rate will only be payable on the portion of the property value which falls within each band. This will remove the distortion created by the existing system, where the amount of tax due jumps at the thresholds.

Where contracts have been exchanged but not completed on or before 3 December 2014, purchasers will have a choice of whether the old or new structure and rates apply. This measure will apply in Scotland until 1 April 2015 when SDLT is devolved to the Scottish Parliament.

The new rates and thresholds are:

Purchase price of property	New rates paid on the part of the property price within each tax band
£0 - £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and above	12%

Comment
Purchasers of residential property valued at £937,500 or less will pay the same or in most cases less tax than they would have paid under the old rules.
Annual Tax on Enveloped Dwellings (ATED)
The ATED is payable by those purchasing and holding their homes through corporate envelopes, such as companies. The government introduced a package of measures in 2012 and 2013 to tackle this tax avoidance. One of the measures was the ATED.

The government has now announced an increase in the rates of ATED by 50% above inflation. From 1 April 2015, the charge on residential properties owned through a company and worth:

- more than £2 million but less than £5 million will be £23,350
- more than £5 million but less than £10 million will be £54,450
- more than £10 million but less than £20 million will be £109,050
- more than £20 million will be £218,200.

Other matters
Devolved tax powers to Scottish Parliament
Following the referendum on Scottish independence, the main political parties in Scotland have agreed on new devolved powers. The UK government will publish draft clauses in January 2015 for the implementation of these powers.

For income tax:

- the Scottish Parliament will have the power to set income tax rates and the thresholds at which these are paid for the non-savings and non-dividend income of Scottish taxpayers
- all other aspects of income tax will remain reserved to the UK Parliament, including the imposition of the annual charge to income tax, the personal allowance, the taxation of savings and dividend income, the ability to introduce and amend tax reliefs and the definition of income
- HMRC will continue to collect and administer income tax across the UK.

For other taxes:

- **VAT -** Receipts raised in Scotland by the first 10 percentage points of the standard rate of VAT will be assigned to the Scottish government's budget. All other aspects of VAT will remain reserved to the UK Parliament.
- **Air passenger duty -** The power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament, with freedom to make arrangements with regard to the design and collection of any replacement tax.
- **Aggregates levy -** The power to charge tax on the commercial exploitation of aggregate in Scotland will be devolved to the Scottish Parliament, once the current European legal challenges are resolved.

Devolution to Northern Ireland

The government recognises the strongly held arguments for devolving corporation tax rate-setting powers to Northern Ireland. HMRC and HM Treasury have concluded that this proposal could be implemented provided that the Northern Ireland Executive is able to manage the financial implications.

The parties in the Northern Ireland Executive are currently taking part in talks aimed at resolving a number of issues. The government will introduce legislation in this Parliament subject to satisfactory progress on these issues in the cross-party talks.

Devolution of non-domestic rates to Wales

Agreement has been reached with the Welsh government on full devolution of non-domestic (business) rates policy. The fully devolved regime will be operational by April 2015.

Offshore tax evasion

In 2014, the government announced its intention to introduce a new strict liability criminal offence of failing to declare taxable offshore income and gains. This means that HMRC would need only demonstrate that a person failed to correctly declare the income or gains, and not that they did so with the intention of defrauding the Exchequer. This will complement existing offences, such as the common law offence of cheating the public revenue, with less serious sanctions than existing criminal offences.

The government is consulting on the design of the new offence.

The government considers the majority of cases are still likely to be investigated and settled through civil means. Another consultation is seeking views on strengthening the existing civil penalty regime on offshore evasion.

The offshore penalties regime has applied to liabilities arising from 6 April 2011. The level of penalty is based on the type of behaviour that leads to the understatement of tax, and is linked to the tax transparency of the territory in which the income or gain arises. The underlying premise is that where it is harder for HMRC to get information from another territory, the more difficult it is to detect and remedy non-compliance and therefore the penalties for failing to declare income and gains arising in that territory will be higher.

Direct Recovery of Debts (DRD)

At Budget 2014, the Chancellor announced HMRC would be given the power to recover tax and tax credit debts directly from the bank and building society accounts (including NISAs) of debtors. A consultation on DRD set out the process and safeguards but many commentators considered the safeguards were not robust enough. In response to concerns about the risk of DRD being used in error and the potential impact on vulnerable individuals, the government will introduce further safeguards.

It is now proposed the main features of the DRD process will be:

- only debts of £1,000 or more will be eligible for recovery through DRD
- HMRC will always leave £5,000 across a debtor's accounts, as a minimum, once the debt has been held
- guaranteeing every debtor will receive a face-to-face visit from HMRC agents, before their debts are considered for recovery through DRD
- extending the window to 30 calendar days, from the start of the DRD being initiated to the earliest point at which funds could be transferred to HMRC
- an option for debtors to appeal against HMRC's decision to a County Court on specified grounds, including hardship and third party right.

Scotland will be removed from the scope of DRD as HMRC already has summary warrant powers in Scotland to recover debts in a similar, though not identical, manner to DRD.

In order to allow for an extended period of scrutiny, the government intends to legislate in 2015, during the next Parliament.

Comment
HMRC state that the vast majority of people pay their taxes in full and on time and DRD will only affect individuals and businesses who are making an active decision not to pay. HMRC also state they will use the power in a very small minority of cases.
Last year, HMRC collected £505.8 billion from about 35 million taxpayers. About 90% was paid on time but around £50 billion was not, and became a debt. They made around 16 million contacts with debtors by letter, phone, text message or other means to collect the debt. This included making more than 900,000 visits to follow up on around 400,000 debt cases. HMRC estimate they will use DRD 17,000 times a year.

Air Passenger Duty (APD)

The Chancellor announced an exemption from reduced rate APD from 1 May 2015 for children under 12 and from 1 March 2016 for children under 16. The government has reviewed how to improve tax transparency in ticket prices and will consult on whether the APD needs to be displayed on airline tickets.