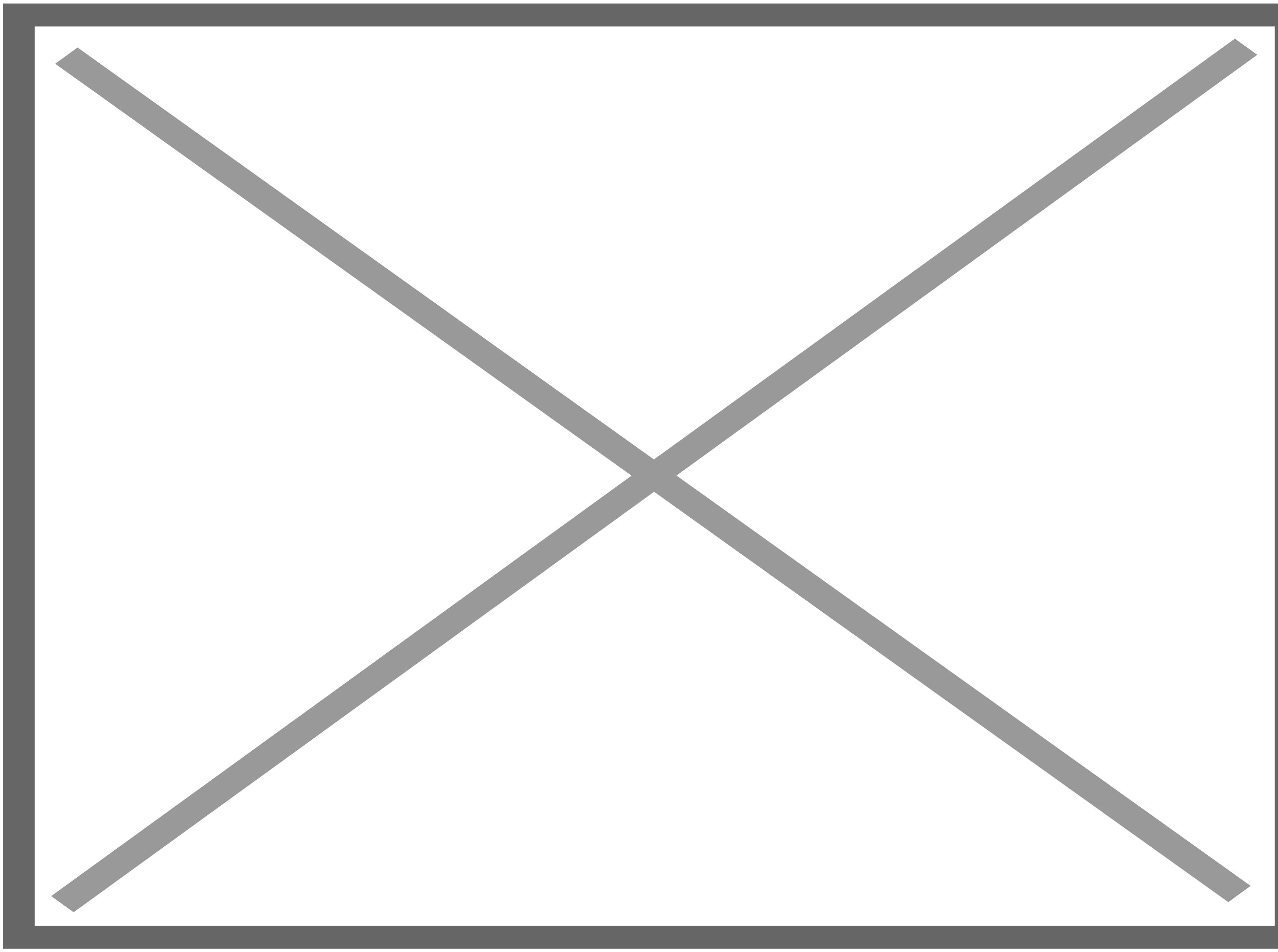
A focus on saving

Large Corporate OMB Personal tax General Features



01 April 2015

Bill Dodwell reflects on the 2015 Budget and considers the highlights of Finance (No 2) Bill

The final Budget of any parliament is always a political occasion, when chancellors set out some of the issues they wish to put in front of the electorate. This Budget showed more progress in one of the coalition's more interesting areas of reform: savings.

Personal savings allowance

One of the continuing impacts of the financial crash is the lowest level of interest rates any of us can recall. This low level of return has meant that the cost to the Exchequer of introducing a personal savings allowance from April 2016 is manageable. The allowance will be £1,000 for a basic rate taxpayer, £500 for a higher rate taxpayer and nothing for an additional rate taxpayer. The first year cost is thought to be £1 billion, but the annual cost then comes in at £500–600 million. This measure isn't in the pre-election Finance Act but will appear in future legislation. Shadow Chancellor Ed Balls has said that a future Labour Government would support this reform. The coalition estimates that 17 million people will no longer pay income tax on their savings – an incredible number.

The only way that this reform can be introduced, though, is by abolishing the requirement for banks and building societies to withhold basic rate income tax from interest payments – which will go from April 2016. Without this change, the cost to HMRC of handling small refunds, or to banks in dealing with millions more tax exemption certificates, would have been prohibitive. The change will also help those who benefit from the £5,000 zero rate for savings, which starts this April.

This does mean that arrangements will need to be put in place to collect tax from those who have interest in excess of the allowance. The Red Book notes that 'HMRC will introduce automated coding out of savings income that remains taxable through the Pay As You Earn system from 2017/18, with pilots starting in autumn 2015'. This sounds an interesting challenge from a systems perspective, as I'm not sure that banks currently provide HMRC with information in a sufficiently automated way to make this easy. Perhaps the banking sector might need to enhance its processes for dealing with UK customers after new systems are introduced to provide automatic information exchange for income earned by non-residents.

One interesting ramification of the abolition of the 20% withholding of tax on interest is that it would in future be easier to devolve the tax rates and thresholds for savings income to Scotland and Wales – alongside the control of rates and thresholds for earned income.

We can also see that good data on investment income will be an important part of the forthcoming digital tax account.

The digital tax account

The idea is that HMRC will be able to offer taxpayers pre-populated information for their review. Billing this new system as the abolition of self-assessment tax returns isn't really a fair way to think about an online account. It's pretty clear that it will still be necessary for taxpayers to provide HMRC with information and to check and confirm the accuracy of data presented to them by HMRC.

Research by Deloitte and YouGov indicates that individuals are keen to do more online with government services, although the security of personal information remains an important concern. There was a useful booklet about digital tax accounts published by HMRC which highlights ambition and the likely five-year delivery period. It will surely be necessary for HMRC to require that more businesses provide data in a form that can be easily assimilated into the online systems. Will this mean that banks, letting agents, charities and the like will need to collect our National Insurance numbers or unique taxpayer reference numbers so they can provide easily usable data? One of the other tricky issues is that we shall all need a new digital ID from the government to access tax and other services.

Tax agents will also be interested to learn how they will access the digital accounts of their clients so they can see what has been pre-populated and upload additional information. HMRC are just about to launch a private beta test of agent access to PAYE, but this is small-scale and the timescale for rolling out this type of system more widely is unknown. It is clear, though, that increasing digitisation will lead to change in the types of services provided by agents and present new opportunities for those best able to act digitally.

Pension lifetime allowance

The final change to the taxation of savings concerns pensions. The lifetime allowance will be cut to just £1 million from April 2016, although it will then start to be indexed using CPI from April 2018. The coalition left in place the annual allowance of £40,000 – although both Labour and the Lib Dems have indicated they would cut this to £30,000. Just cutting the lifetime allowance brings in £300–600 million a year. It also presents higher rate taxpayers with a savings dilemma because excess pension savings still attract a penal 55% charge – but who can reasonably foresee how a pension fund will grow? Although a £1 million fund sounds high, annuity rates suggest it would pay pension income of only some £25,000 a year.

The lifetime allowance made sense when the annual contribution limit was at an insane £255,000 level. Surely it is now time to abolish the lifetime limit and move back to annual limits with an element of carry-forward to regulate how much pension tax relief should be offered. Current annuitants will be offered the opportunity from April 2016 to trade in annuities for a lump sum, taxed at marginal income tax rates, or place them in a new fund. Some people have small annuities from several pensions accrued as they moved jobs; it's easy to see that this might make sense for those who value a lump sum. However, there must be concern that this could turn out to be a market in which professional investors do rather better than pensioners.

The banks

The unlucky parties to the Budget turned out to be banks – again. Bank levy rises for the eighth time and – quite unhelpfully – compensation payments for misselling will no longer be deductible. This rather ignores the point that the income was taxed in earlier years. When the restrictions on bank losses are taken into account, the banking sector is being asked to contribute an extra £2 billion a year. Some have started to question whether increases of this magnitude put at risk London's status as a global banking sector. The last sector to be clobbered in this way was oil and gas – and the government has had to back-pedal since.

Finance (No 2) Bill

The Finance (No 2) Bill was introduced into the House of Commons on 23 March and will be Finance Act 2015 by the time you read this. The Bill is a modest 349 pages and, according to the Chancellor, doesn't infringe our human rights.

Diverted profits tax

Diverted profits tax has been re-written and is easier to read and slightly more targeted. The notification requirement has been reduced significantly, which is helpful. However, there will still be a debate between companies within the ambit of the tax and HMRC over the level of profit that has been diverted through a foreign company avoiding having a taxable presence here. There is greater clarity on the recharacterisation charge, though. It is now clearer that operations properly run outside the UK – even if moved from here – won't be taxed as long as they have the proper resources to run their business in the new location and that the UK also receives a fair profit. This tax will take up substantial resources at HMRC and companies to work out potential liabilities.

Non-resident capital gains on UK residential property

The other significant change – and the longest bit of drafting – is the introduction of a new capital gains charge on non-residents disposing of UK residential property. This has necessitated a change to the principal private residence election for individuals who own two or more homes.

From April 2015, a home in a country where the individual is not resident may only be the subject of a claim for PPR relief if it is occupied by the taxpayer or spouse for 90 days. Well, it should have said 90 days, but the law comes with an implausible information requirement of the individual being in the house at the end of each day or being there for part of each day and staying overnight on the next day. One wonders whether the draftsman has ever lived in a house.

The clauses that didn’t make it

Since this act isn’t debated in the normal manner, its progress relied on the opposition agreeing to the measures. The clauses left out include the tax exemption for travel expenses of members of local authorities; and the new statutory exemption from income tax for trivial benefits in kind and measures on link company requirements for consortium claims required by the CJEU. Oh, and there won’t be a separate rate of excise duty for aqua methanol.

We will no doubt look forward to another Finance Bill in June and perhaps a second one in the autumn.