THE PORK BARREL*

A Trotman Taxation periodical helping internationally mobile people stay informed about key U.S. and U.K. taxation matters.

* The term "pork barrel" seems originally to have appeared in the early 20th century as a measure of present and future prosperity ("*I hold a family to be in a desperate way, when the mother can see the bottom of the pork barrel*" as one mid-century author wrote). In contemporary political terms it has negative connotations – "pork barrel" legislation refers to the allocation of government money to projects in the legislator's own constituency. At Trotman Taxation Services we have no comment to make on the allocation of tax funds – however, we are committed to ensuring that each of our clients pays the minimum legal amount of tax and that the bottom of the pork barrel is far from the reach of the tax man.

Highlights

- Dual contracts under scrutiny (again)
- Change to NIC's on share awards of internationally mobile employees
- Increase in personal allowance and consultation on availability to non-residents
- Married couples / civil partners tax break
- Non-residents owning UK property to be subject to capital gains tax
- Correction to defect on split-year rules
- Anti-tax avoidance measures
- Direct debt recovery
- NIC simplification for self-employed
- IHT and foreign currency bank accounts
- Increased pension flexibility
- Salaried members in LLPs treated as employees
- ISA consolidation and new thresholds
- Increased tax burden on non-natural persons owning residential UK property

UK TAXATION – BUDGET 2014

On 19 March 2014 the Chancellor of the Exchequer, George Osborne, delivered his 5th Budget to Parliament. Here we summarise some of the highlights of his speech.

Dual contracts and non-domiciled taxpayers

This measure was announced in the Autumn Statement 2013 to target the use of dual contracts by non-domiciled individuals to artificially split the income from a single employment between a UK and on overseas contract. Where the overseas employment income is not subject to tax at rates broadly comparable to UK tax rates the remittance basis ill no longer be available. The comparative tax rate threshold is to be set at 65% of the UK additional tax rate.

NIC on share awards of internationally mobile employees

New legislation is being introduced to simplify the taxation of share based awards for internationally mobile employees. It is proposed that the charge to tax will be calculated by reference to the proportion of the total gain that was accrued while the employee was working in the UK. These rules will apply to taxable events (vesting of share awards or exercise of options) on or after 06 April 2015 regardless of the date on which the shares / options were awarded or granted.

Employee benefits and expenses

The Government is planning to consult on four simplifications to the tax treatment of employee benefits and expenses following recommendations in an Office for Tax Simplification report. It has also confirmed that it will review the tax treatment of employment related travel and subsistence expenses.

Personal allowance and annual exemption

The personal allowance for those born after 05 April 1948 is going to increase to £10,000 for 2014/2015. From 06 April 2015 the personal income tax allowance will increase to £10,500 and the basic rate limit will be reduced from £31,865 to £31,785. Additionally, as announced in the Autumn Statement 2013, the higher rate threshold will increase by 1% in the 2014/2015 tax year (from £41,450 to £41,865) and will increase by an additional 1% after 05 April 2015 to £42,285.

From 06 April 2015 starting rate the savings income will be reduced from 10% to 0% and the threshold will increase from £2,880 to £5,000.

Personal allowances for non-residents

The government intends to consult on whether the personal allowance could be restricted only to UK residents and those living overseas who have strong economic connections to the UK. Currently, non-residents who can claim personal allowances include, amongst others, EEA nationals, British citizens and individuals benefitting from a double taxation treaty with the UK.

Married couples/civil partners tax break

With effect from 06 April 2015, a new tax break will enable married couples and civil partners to transfer up to £1,050 of their income tax personal allowance between themselves. This will be mostly beneficial for basic rate taxpayers whose spouses/civil partners have little or no income. This will not apply if either individual is a higher or additional rate taxpayer.

Capital gains tax on sales of UK residential properties by non-residents

Legislation will be introduced to charge capital gains tax (CGT) on future gains made by non-residents disposing of UK residential property. Currently UK taxpayers who are non-resident are generally not subject to CGT on the disposal of UK property (unless caught under the rules regarding temporary non-residence). A consultation on how best to produce the charge is to be published shortly after the Budget with a view to taking effect from April 2015.

Remittance basis

To correct a defect in the split year rules in Schedule 45 of to Finance Act 2013, legislation will be introduced in the Finance Bill 2014 to ensure capital gains made by remittance basis users in the overseas part of the split year of residence are not charged to tax even if remitted to the UK after establishing the tax residence.

Tax avoidance

The government will continue to tighten measures on tax avoidance, tax evasion, fraud and error. The "Accelerated Payments" provision is to enter into law in Finance Bill 2014 and will require taxpayers to pay any disputed tax relating to the Disclosure of Tax Avoidance Schemes (DOTA's) upfront. This means that where HMRC have successfully won litigation against one taxpayer on a particular form of tax planning they may issue a "follower notice" demanding a payment of tax in dispute from all the taxpayers who have implemented the particular type of planning, even if their cases have not been settled.

Direct debt recovery

Legislation will be introduced in Finance Bill 2015 to allow HMRC to recover tax and tax credit debts of £1,000 or more directly from taxpayers' accounts (subject to rigorous safeguards). This extraordinary power will be used when the taxpayer has the means to pay and has been approached by HMRC for payment several times. It is not known if this power will be used in conjunction with follower notices.

NIC simplification for self-employed

The government will introduce legislation to collect Class 2 National Insurance contributions (NIC's) alongside income tax and Class 4 NIC's via Self Assessment Tax Returns with effect from April 2016.

Inheritance tax and foreign currency bank accounts

New measures are being introduced to ensure that funds held in a foreign currency account in a UK bank are given similar treatment to "excluded property" for inheritance tax (IHT) purposes. The consequence is that such funds cannot reduce the value of an estate where borrowed funds have been deposited into a foreign currency bank account to avoid an IHT charge.

Increased pension flexibility

A number of changes are to be introduced in the future that will affect the benefits that can be taken from a registered defined contribution pension scheme. From April 2015 the requirement to buy an annuity will be removed. The 25% tax free lump sum will be still available. Taxpayers will be taxed at their marginal tax rates instead of the current 55% on their pension savings withdrawals.

Salaried members of LLPs

From 06 April 2014 individuals who are salaried members of limited liability partnerships (LLP's) are to be treated for income tax and NIC purposes as being employees and subject to PAYE and NIC. These rules would not affect limited partnerships formed under the Limited Partnerships Act of 1907 and LLP's created under foreign laws.

Individual Savings Accounts

From 01 July 2014 all cash and stocks and shares Individual Savings Accounts (ISA's) will be consolidated into one "New" ISA (NISA). The annual subscription limit for these accounts will be increased to £15,000 for 2014/2015. The amount of subscription to a child's Junior ISA will also be increased from £3,840 to £4,000 for 2014/2015.

Residential UK Property held by non-natural persons

UK residential property owned by companies and partnerships with company members which purchase, own or dispose of residential property worth between £500,000 and £2,000,000 are going to be charged stamp duty land tax (SDLT) at 15% on acquisition, an annual tax on enveloped dwellings (ATED) and Capital gains tax (CGT) at 28% on any gain on disposal.

TROTMAN
TAXATION

Trotman Taxation's mission is to deliver a personal and integrated tax service to the internationally mobile community.

Whether you are a UK individual trying to navigate your way around the tax system of a foreign country or a US citizen seeking help with the growing tax reporting complexities that come from living outside the US, click our tax services for individuals to find out how we can help you.

If you are a senior executive looking for tax planning advice, a small business looking to fully understand the implications of expanding overseas or an established company moving increasing numbers of employees across borders, click our tax services for organisations and we will use our expertise to deliver the right solution for you.

Feel free to contact Emily Repp or Greg Trotman today to discuss your tax affairs on +44(0)1865 784419 or contact us on contact@trotmantaxationservices.com