

PwC Hotline

Hot topics for Japanese Companies in the UK

6 December 2013

Autumn Statement 2013

In his Autumn Statement, the Chancellor of the Exchequer, George Osborne's, focus was on growth and managing debt whilst maintaining the "Britain open for business" policy. The overall aim was to secure the economy for the long term and to "fix the roof when the sun is shining". A number of announcements have been made that may have an impact on you and your business and we wanted to update you on these.

The main announcements we wanted to draw to your attention are:

Income tax and National Insurance contributions

- **Married couples allowance** - From April 2015, an individual who is not liable to income tax or not liable above the basic rate for a tax year will be entitled to transfer £1,000 of their personal allowance to their spouse or civil partner provided that the recipient of the transfer is also not a higher rate income tax payer.
- **Abolition of NICs for under 21s** - From 6 April 2015 employers will no longer be required to pay Class 1 secondary National Insurance Contributions (NICs) on earnings paid up to the upper earnings limit to any employee under the age of 21.
- **Social investment tax relief** – A new tax relief for equity and debt investments in social enterprises will be introduced with effect from April 2014.

Capital gains tax

- **Capital gains tax on UK residential property owned by non-residents** - From April 2015, following consultation, a capital gains tax charge will be introduced on future gains made by non-residents disposing of UK residential property.

- **Principal private residence relief for capital gains relief** - From 6 April 2014 the final period exemption will be halved from 36 months to 18 months. This applies on the disposal of a property that the taxpayer is not living in at the time.

Employee ownership

- Three new tax reliefs are to be introduced to encourage and promote indirect employee ownership: (1) from April 2014, disposals of shares that result in a controlling interest in a company being held by an employee ownership trust will be relieved from CGT; (2) transfers of shares and other assets to employee ownership trusts will also be exempt from IHT providing certain conditions are met; (3) from October 2014, bonus payments made to employees of indirectly employee-owned companies which are controlled by an employee ownership trust will be exempt from income tax up to a cap of £3,600 per annum.

Corporate tax

- **Amending loss relief provisions** – A proposal to ease the rules restricting the availability of relief for trading losses when companies change ownership. It will allow a holding company to be inserted at the top of a group of companies and will amend the definition of 'a significant increase in capital' when a change of ownership occurs in a company with investment business.
- **Bank levy** - The bank levy will be raised to 0.156% from 1 January 2014, and from 2015 the bank levy will have a broader base.

Property tax

- **Business rates** - A number of measure are to be introduced including: capping the Retail Prices Index increase in business rates to 2% in 2014-15; extending the doubling of small business rate relief to April 2015; introduce a discount of up to £1,000 against business rates bills for retail premises with a rateable value of up to £50,000 in 2014-15 and 2015-16; introduce a temporary reoccupation relief, granting a 50% discount from business rates for new occupants of previously empty retail premises for 18 months.

New anti-avoidance rules - There are a number of targeted anti-avoidance rules, to be introduced, affecting:

- **Total return swaps** - The measure stops companies escaping a corporation tax liability by paying their profits to an overseas group member.
- **Debt cap provisions** - Two changes aimed to improve the effectiveness of the world wide debt cap. Firstly, a change to the grouping rules and secondly a change to the regulation-making powers.
- **Double tax relief** - Two measure to reinforces the UK's DTR policy that relief for foreign tax should only be given where income has been doubly taxed, once in the UK and once in a foreign territory.
- **Controlled foreign companies (CFC): profit shifting** - The measure switches off the partial exemption rules for loan relationship credits of a CFC that arise from an arrangement with a main purpose of transferring profits from existing intra group lending out of the UK.
- **Partnerships with mixed membership** - The first element of the measure will affect mixed membership partnerships where partnership profits are allocated to a non-individual partner in circumstances where an individual member may benefit from those profits. The second element will affect cases where partnership losses are allocated to an individual partner,

instead of a non-individual partner, to enable the individual to access certain loss reliefs.

- **Dual contracts** - Finance Bill 2014 will include legislation to prevent a small number of high earning non-domiciled individuals from avoiding tax by creating an artificial division of the duties of one employment between contracts in both the UK and overseas.
- **Compensating adjustments** - as previously announced, acting to prevent partnerships and wealthy individuals investing in private equity from obtaining a tax advantage from the rules on compensating adjustments in the transfer pricing code.
- **Close company loans to participator** - Following HMRC consultation on the structure and operation of the loan to participator regime in s455 CTA 2010, no changes will be made to the current rules. Responses to the consultation were firmly opposed to wholesale changes.
- **Onshore intermediaries – false employment** - aimed at preventing employment intermediaries being used to avoid employment taxes and obligations by disguising employment as self-employment.

General measures to tackle tax avoidance and evasion - A number of measure are to be introduced to tackle perceived avoidance:

- **High risk promoters** - A new information disclosure and penalty regime for high risk promoters of avoidance schemes will be introduced.
- **Users of failed avoidance schemes** - This measure will introduce a new obligation for users of an avoidance scheme that HMRC have defeated in a tribunal or court hearing in another party's litigation, to concede their position to reflect that decision.
- **Accelerated tax payment in avoidance cases** - Legislation will be included in Finance Bill 2014 to require payment of the tax in dispute in a tax avoidance enquiry when an 'avoidance follower penalty notice' is issued.

As always, if you have questions please contact your usual PwC contact.

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