

Guide from accountants2contractors

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A guide to Budget 2013



A SIMPLE GUIDE TO THE BUDGET 2013

This is a basic guide, prepared by ACCA's Technical Advisory team, for members and their colleagues or clients. It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

Access to Finance

The Government acknowledged in the Budget that, following the financial crisis, access to finance remains challenging especially for SMEs.

The Funding for Lending Scheme (FLS) complements the Bank of England's asset purchase programme by delivering support to the economy via the banking system. The scheme is designed to boost lending to households and non-financial businesses by reducing bank funding costs. According to the Government the FLS has been a success, with signs that lower bank funding costs are now being reflected in lower lending rates and increased credit availability.

The Government's strategy on access to finance is going to be extended with the introduction of the Business Bank that is intended to make a significant difference to the level and diversity of finance provision, whilst also improving competition in the market and supporting SME growth.

In the Budget the Government announced that it will:

- publish the Business Bank's first business strategy on 22 March 2013. This will set out an accelerated timetable for how the Business Bank will deploy £1bn of new capital to improve existing access to small and medium-sized enterprise (SME) support schemes and develop a lasting new institution by the end of 2014 that will expand and diversify UK finance markets so that they serve the needs of SMEs
- launch a £300m investment scheme in spring 2013 to help diversify and expand the supply of lending to SMEs and mid-sized businesses
- provide an additional £50m for the Business Angel Co-investment Fund for SMEs
- extend the Enterprise Capital Fund programme to include a £25m venture capital Catalyst Fund for investment in SMEs
- maintain the lenders' guarantee cap at 20% for Enterprise Finance Guarantee loan portfolios for 2013-14.

The Budget also confirmed that £30m of additional funding has been given to expand the Start Up Loans scheme in England together with an increase in the age limit to 30, up from 24.

The Budget includes significant news also in respect of household financing with mortgage support provided via two types of instruments: an equity loan and a mortgage guarantee. In particular from 1 April 2013 a new package of measures, called Help to Buy, will be introduced. The package is aimed at increasing the supply of low-deposit mortgages for credit-worthy households and at improving the supply of new housing.

The new measures will:

- provide an equity loan worth up to 20% of the value of a new build home, repayable once the home is sold
- significantly widen the eligibility criteria to ensure as many people as possible are able to benefit. The maximum home value will be £600,000 and there will be no income cap constraint
- ensure that the scheme is open not only to first-time buyers but also to all those looking to move up the housing ladder.

The equity loan scheme will be open for the next three years and, as well as supporting home buyers, it should also provide a boost to the construction sector.

Additionally the Government will create a new Help to Buy: mortgage guarantee to increase the availability of mortgages on new or existing properties for those with small deposits. The Help to Buy: mortgage guarantee will be a temporary scheme running for three years from January 2014 that will:

- increase the supply of high loan-to-value mortgages by offering a government guarantee to lenders who offer mortgages to people with a deposit of between 5% and 20%;
- be open not only to first-time buyers but also to existing homeowners;
- have no income cap constraint; and
- be available on homes with a value of up to £600,000.

Employee loans

A loan provided by an employer to an employee, that is interest free or low cost, and notional loans arising from the provision of employment related securities are not currently taxed as earnings of employment if they do not exceed £5000. As long as the total outstanding balances on all such loans do not exceed the threshold at any time in a tax year, there is no tax charge. From 6 April 2014, this threshold will be doubled to £10,000.

Child care

Childcare is expensive and for many families it can account for a significant chunks of their income. The news that there would be help for parents with their childcare costs is therefore extremely welcome. The new scheme will provide parents with support towards their childcare, provided that they are not receiving other support through Universal Credits, equal to the greater of:

- 20% of their childcare costs, and
- £1,200.

The above amounts are per child and the new system will be phased in from Autumn 2015 to replace the childcare vouchers scheme.

Employment Allowance of £2,000 for National Insurance

From April 2014, all business and charities will be eligible for a new £2,000 Employment Allowance to set off against their employers' (secondary) national insurance contributions. Up to 1.25m employers will be affected with 450,000 having their employer NIC fully covered by the allowance.

The Employment Allowance will be introduced with effect from 6 April 2014, delivered through standard payroll software and HMRC's real time information (RTI) system. It is intended that the system will be simple to administer with employers notifying their eligibility through normal PAYE processes.

Pensions annual and lifetime allowance

There are no limits to how much can be saved in a registered pension scheme, but there is a limit on the tax relief. The annual allowance, which is the total amount of an individual's tax-relieved annual pension savings, including employer contributions, currently stands at £50,000. From 2014/15 onwards, this will be reduced to £40,000. The lifetime allowance is the overall limit on the total amount of tax relieved pension savings that a person can make in his lifetime. This has been set at £1.5m from 2012/13 onwards, but will be reduced to £1.25m from 2014/15 onwards.

Cash basis for small unincorporated businesses

An unincorporated business with a turnover beneath the VAT registration threshold will be able to start accounting for their income and expenses using a simplified cash-based regime. The government intention is to link the cash accounting regime to the VAT registration threshold and the 'three line account' limit in income tax self-assessment returns.

To be eligible for the scheme total receipts need to be less than the amount of the VAT registration threshold. Cash accounting can be used by individual or partnership that meet the above size criteria and are not excluded person or trade. There are various exclusions to the scheme, most notable Limited Liability Partnerships.

In essence, under the cash basis regime, a business's taxable profits will be the total amount of receipts less the total payments of allowable expenses, subject to adjustments required or authorised by law in calculating profits for income tax purposes. The regime includes a series of flat rate allowances for car expenses, use of home and interest payments.

Seed Enterprise Investment Schemes (SEIS)

The Seed Enterprise Investment Schemes (SEIS) was originally announced in the 2012 Budget and included within the UK tax provisions from 6 April 2012. The scheme offers would-be investors incredibly generous tax breaks for investing in small, start-up type businesses.

Budget 2013 extends the capital gains tax deferral relief provision so that deferral relief is available on 50% of a capital gains realised on the disposal of ANY asset during the year ended 5 April 2014 which is reinvested into an SEIS investment, up to a limit of £50,000.

Also the definition of companies eligible to participate in the scheme will be extended with effect from 6 April 2013. Previously, a company had to be 'independent', i.e. not under the control of another company. The Budget releases the restriction slightly.

Loans to participators

Loans from close companies to participators, specifically in respect of payments made via an intermediary such as a partnership or trust to avoid a tax charge will fall within the new legislation.

The Government has introduced three changes in order to:

- put beyond doubt that loans via various intermediaries are within the scope of the charge
- bring transfers of value other than loans within the scope of the charge when there is a corresponding receipt of value by the participator
- reinforce repayment rules so that only genuine repayments are given relief.

Where there is an extraction of value from a close company and the value is transferred to a participator, there will be a 25% charge on the close company on the amount of the payment. There will be exceptions and relief if the value transferred is later returned to the close company. The new measures will apply to loans, payments, repayments and arrangements made on or after 20 March 2013.

Annual Residential Property Tax (ARPT)

The Annual Residential Property Tax (ARPT) is a tax payable by a company, a partnership or collective investment vehicle (such as a unit trust or an open investment company), on a high value residential property (a 'dwelling'). However, a company that owns property in its capacity as a trustee of a settlement is not included in ARPT although the beneficiary might be. ARPT will start on 1 April 2013 and will be payable each year. ARPT would apply to a property if is:

- a dwelling
- in the UK
- was valued at £2m or more on 1 April 2012, or at acquisition if later
- is owned, completely or partly, by a company, a partnership where one of the partners is a company or a 'collective investment vehicle'

The amount of ARPT is worked out using a banding system based on the value of the property.

- Property value of £2m to £5m an annual tax charge of £15,000
- Property value of £5m to £10m an annual tax charge of £35,000
- Property value of £10m to £20m an annual tax charge of £70,000
- Property value of £20m or over an annual tax charge of £140,000.

Capital gains tax will apply to disposal of high value UK residential property by a non-natural person from 6 April 2013. The rate of the CGT charge on these disposals will be 28%. Where the residential property was purchased before 6 April 2013 but disposed of after that date, the charge will apply only to that part of the gain that is accrued on or after 6 April 2013. The balance of any gain (i.e. the gain accrued before 6 April 2013) will continue to be treated as at present.

Research and development tax credit reform

The 2013 Budget sees the introduction of a 10% above the line tax credit for expenditure incurred by large companies. For R&D purposes, a company is small or medium if it has:

- less than 500 employees; and
- either turnover of less than €100m or a balance sheet total of less than €86m,

otherwise the company is large. The new above the line tax credit is optional and companies may, if they wish, continue to use the existing large company R&D regime until 31 March 2016. From 1 April 2016, the new above the line credit becomes mandatory.

Patent Box Regime

Although introduced by Finance Act 2012, the changes are effective from 1 April 2013, Part 8A, Corporation Tax Act 2010. The aim of the patent Box Regime is to provide an additional incentive for companies to retain and commercialise existing patents and to develop new innovative patented products. The 10% rate will be phased in over five years giving an effective rate of 14% for 2013 and reducing by 1% yearly until 2017 onwards where it will remain at 10%.

Annual Investment Allowance

Introduced April 2011 it has been tweaked a number of times, however since 1 January 2013 the allowance was increased to £250,000. Qualifying plant and machinery expenditure by a qualifying person will effectively obtain 100% allowances up to the £250,000.

The £250,000 threshold is on expenditure between 1 January 2013 and 31 December 2014.

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