Wolters Kluwer

CCH British Tax Guide:
Income Tax

Roger Barnard and Warren Taylor

2014–15

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British Tax Guide: Income Tax 2014–15

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Preface

The *British Tax Guide: Income Tax 2014–15* is the ninth edition of this work in its current format. Its aim, as before, is to provide clear, practical and accessible commentary on the tax issues likely to be of widespread interest to the vast majority of tax advisers in dealing with their clients' income tax affairs for 2014–15. To achieve that coverage, some less mainstream topics have been omitted or have been dealt with in summary form. The editor welcomes comments from readers on the scope and depth of the coverage.

The books in this series aim to provide clear, uncluttered, easy to read commentary on the main taxes rather than heavy reproduction of source material. Useful cross references are included and are generally provided in separate footnotes rather than in the body of the text. In the CD and online versions of this work, those references are live links to relevant annotated legislation, cases, HMRC Manuals and other reference materials. The full references to CCH's main tax databases also make these books an ideal desktop companion to those services.

Finance Act 2014 is another long and occasionally complex Act. In addition to the inevitable tweaking of existing legislation, possibly the most fundamental change is in the introduction of very significant HM Revenue and Customs powers to address perceived aggressive tax avoidance. The simultaneous introduction of Accelerated Payment provisions and Follower Notices combined with the fifty new sections and an entire schedule targeting the activities of promoters of tax avoidance schemes are very major additions to existing HM Revenue and Customs powers. The wide reaching nature of these changes and perceived lack of checks and balances have been the focus of a great deal of professional comment. It is certain that their progress and implementation will be closely scrutinised.

At a more targeted level, the changes to the taxation of Salaried Members, Mixed Corporate and Individual Members of Limited Liability Partnerships must be an important consideration whenever the operating structure of a business is being considered.

The tax credits chapter was updated by Victoria Todd.

The *What's new* section lists the key developments over the past year.

Roger Barnard and Warren Taylor

August 2014

What's new?

There follows a series of summaries highlighting the main changes and developments relevant to inheritance tax that have occurred since the last edition of *British Tax Guide: Income Tax*.

32-400	Transferable personal allowances from April 2015.
35-250	Relief for interest paid on loans to acquire an interest in an Employee-controlled company.
63-750	Follower Notices and Accelerated Payments.
69-200	Anti-avoidance provisions aimed at the promoters of tax avoidance schemes.
74-000	Reduced annual and lifetime pension allowances.
74-700	Increase in limit on pension trivial commutation lump sum.
74-890	New rules on flexible drawdown.
77-000	VCT restriction where investments are recycled.
85-000	New section: relief for Social Investment.
102-730	Restriction of loss relief where there has been an excess loss allocation.
103-050	New rules deeming certain salaried partners of LLPs to be employees for tax purposes.
103-100	Prevention of excess profit allocation to corporate, etc. partners.
103-690	Special provisions for Alternative Investment Managers partnerships.
111-875	Temporary increase in Annual Investment Allowance.
111-880	AIA transitional measures April 2014.
120-000	Amendment to the Business Premises Renovation Allowance.
120-100	Restrictions to Business Premises Renovations Allowances where these are also subject to State Aid.
131-820	New rules for agency workers including imposing personal liability on directors of agency companies.
132-310	Introduction of requirement that employee contributions for the use of a company provided vehicle must be made in the tax year of claim.
132-340	Removal of supplemental charge for the provision of diesel company cars .
133-560	Income tax exemption for Recommended Medical Treatment.
132-870	Increased threshold for exempt employment related loans.
143-875	Income tax exemption on bonuses up to £3,600 per year for employees of companies controlled by employee-ownership trusts.

147-010	Implementation date for Employee Shareholder Status.
147-150	Employment-related Securities and internationally mobile employees.
148-025	Notification deadline for CSOP schemes.
148-050	Notification deadline for Savings Related Share Options.
148-100	Increase in maximum Free Shares and employee contributions to Approve Share Incentive Plans.
148-100	Notification deadline for Share Incentive Plans.
148-125	Requirement to give electronic notification of EMI share option grant.

Warren Taylor

August 2014

Key Data: Income Tax

Principles of income tax

1-006 Income tax rates: 2014–15

(FA 2014, s. 1; ITA 2007, s. 6–15)

2014–15

	Taxable income band £	Tax rate %	Tax on band £
Basic rate	1–31,865	20	6,373
Higher rate	31,866–150,000	40	47,254
Additional rate	Over 150,000	45	

Rate on non-dividend savings income	10% up to £2,880 [1]20% up to basic rate limit 40% up to higher rate limit 45% thereafter
Dividend ordinary rate (effective rate with tax credit)	10% up to basic rate limit (0%)
Dividend higher rate (effective rate with tax credit)	32.5% up to higher rate limit (25%)
Dividend additional rate (effective rate with tax credit)	37.5% above higher rate limit (30.6%)
Trust rate	45% [2]
Dividend trust rate	37.5% [2]

[1] A 10 per cent starting rate applies to the first £2,880 of non-dividend savings income. The starting rate does not apply if non-savings income exceeds the personal allowance plus £2,880.

[2] The special trust rates do not apply to the first £1,000 slice of the 'trust rate income'. Instead, the normal income tax rates (currently the basic rate and dividend ordinary rate) apply as appropriate (ITA 2007, s. 491(1)–(3)).

1-008 Income tax rates: 2013–14

(FA 2012, Ch. 1)

(Tax Reporter: ¶148-075ff.)

2013–14

	Taxable income band (£)	Tax rate (%)	Tax on band (£)
Basic rate	1–32,010	20	6,402
Higher rate	32,011–150,000	40	47,196
Additional rate	Over 150,000	45	

Rate on non-dividend savings income	10% up to £2,790 20% up to basic rate limit [1] 40% up to higher rate limit 45% thereafter
Dividend ordinary rate	10% up to basic rate limit
(effective rate with tax credit)	(0%)
Dividend higher rate	32.5% up to higher rate limit
(effective rate with tax credit)	(25%)
Dividend additional rate	37.5% above higher rate limit
(effective rate with tax credit)	(30.6%)
Trust rate	45%[2]
Dividend trust rate	37.5%[2]

[1] A 10% starting rate applies to the first £2,790 of non-dividend savings income. The starting rate does not apply if non-savings income exceeds the personal allowance plus £2,790.

[2] The special trust rates do not apply to the first £1,000 slice of the 'trust rate income'. Instead, the normal income tax rates (currently the basic rate and dividend ordinary rate) apply as appropriate (ITA 2007, s. 491(1)–(3)).

1-009 Income tax rates: 2012–13

(ITA 2007, s. 6–15)

(Tax Reporter: ¶148-075ff.)

2012–13

	Taxable income band (£)	Tax rate (%)	Tax on band (£)
Basic rate	1–34,370	20	6,874
Higher rate	34,371–150,000	40	46,252
Additional rate	Over 150,000	50	

Rate on non-dividend savings income	10% up to £2,710 20% up to basic rate limit[1] 40% up to higher rate limit 50% thereafter
Dividend ordinary rate (effective rate with tax credit)	10% up to basic rate limit (0%)
Dividend higher rate (effective rate with tax credit)	32.5% up to higher rate limit (25%)
Dividend additional rate (effective rate with tax credit)	42.5% above higher rate limit (36.1%
Trust rate	50%[2]
Dividend trust rate	42.5%[2]

[1] A 10 per cent starting rate applies to the first £2,710 of non-dividend savings income. The starting rate does not apply if non-savings income exceeds the personal allowance plus £2,710.

[2] The special trust rates do not apply to the first £1,000 slice of the 'trust rate income'. Instead, the normal income tax rates (currently the basic rate and dividend ordinary rate) apply as appropriate (ITA 2007, s. 491(1)–(3)).

1-010 Income tax rates: 2011–12

(ITA 2007, s. 6–15)

(Tax Reporter: ¶148-075ff.)

2011–12

	Taxable income band (£)	Tax rate (%)	Tax on band (£)
Basic rate	1–35,000	20	7,000
Higher rate	35,001–150,000	40	46,000
Additional rate	Over 150,000	50	

Rate on non-dividend savings income	10% up to £2,560 20% up to basic rate limit [1] 40% up to higher rate limit 50% thereafter
Dividend ordinary rate (effective rate with tax credit)	10% up to basic rate limit (0%)
Dividend higher rate (effective rate with tax credit)	32.5% up to higher rate limit (25%)
Dividend additional rate (effective rate with tax credit)	42.5% above higher rate limit (36.1%)
Trust rate	50%[2]
Dividend trust rate	42.5%[2]

[1] A 10 per cent starting rate applies to the first £2,560 of non-dividend savings income. The starting rate does not apply if non-savings income exceeds the personal allowance plus £2,560.

[2] The special trust rates do not apply to the first £1,000 slice of the 'trust rate income'. Instead, the normal income tax rates (currently the basic rate and dividend ordinary rate) apply as appropriate (ITA 2007, s. 491(1)–(3)).

1-100 Personal allowances and reliefs

(ITA 2007, s. 35–46)

(Tax Reporter: ¶155-000ff.)

Finance Act 2012 made changes to the main income tax personal allowances. From 2013–14, there are still three main personal allowances, but availability is by reference to date of birth rather than age in the tax year (as it was for years up to and including 2012–13). The higher allowances for those born before 6 April 1948 have not been increased since the 2012–13 rates and will be removed from the statute book when the personal allowance for those born after 5 April 1948 catches up.

Existing legislation within ITA 2007 requires the Government to increase personal allowances and rate limits (except the £150,000 higher rate limit, the £100,000 personal allowance income limit and since 2013–14 the personal allowances for people born before 6 April 1948) by the annual percentage increase in the Retail Prices Index (RPI) for the year to September preceding the new tax year (indexation).

Finance Act 2014 sets for 2015–16 the personal allowance for those born after 5 April 1948 at £10,500 and the basic rate limit at £31,785. Prospective amendments have also been made by Finance Bill 2014 to remove references to the personal allowance for those born after 5 April 1938 and before 6 April 1948 with effect from 2015–16 as the two levels of the personal allowance will be the same.

At Budget 2011, the Government announced its intention to move the underlying indexation assumption for all direct taxes to the Consumer Price Index (CPI). This transition began in April 2012 and *Finance Act* 2014 makes prospective amends to ITA 2007 to give effect to the change to CPI for income tax allowances and limits, with effect for the tax year 2015–16 and subsequent tax years.

Transferable tax allowances for married couples

(ITA 2007, s. 55A–55E)

(Tax Reporter: ¶156-725)

Legislation introduced in *Finance Act* 2014 provides that from the 2015–16 tax year, a spouse or civil partner who is not liable to income tax because their income is below their personal allowance or who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will be able to elect to transfer £1,050 of their personal allowance to their spouse or civil partner.

There will be a corresponding reduction to the transferring spouse's personal allowance. A spouse or civil partner who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will receive the transferred personal allowance. The transferred allowance will be given effect as a reduction to the recipient's income tax liability at the basic rate of tax. From 2016–17, the transferable amount will be ten per cent of the basic personal allowance. Married couples or civil partners entitled to claim the married couple's allowance will not be entitled to make a transfer.

Type of relief	2014–15 £	2013–14 £	2012–13 £	2011–12 £
Personal allowance[3]				
Born after 5 April 1948	10,000	9,440	8,105[1]	7,475[1]
Born after 5 April 1938 but before 6 April 1948	10,500	10,500	10,500[2]	9,940[2]
Born before 6 April 1938	10,660	10,660	10,660[2]	10,090[2]
Married couple's allowance[4][5]				
Born before 6 April 1935; Age up to 74	–[5]	–[5]	–[5]	–[5]
Born before 6 April 1935; Age 75 & over	8,165	7,915	7,705	7,295
Minimum amount of allowance	3,140	3,040	2,960	2,800
Maximum income before abatement of:				
Personal allowance	100,000	100,000	100,000	100,000
Reliefs for older taxpayers	27,000	26,100	25,400	24,000
Abatement income ceilings Personal allowance:				
Born after 5 April 1948	120,000	118,880	116,210	114,950
Born after 5 April 1938 but before 6 April 1948	28,000	28,220	30,190[2]	28,930[2]
Born before 6 April 1938	28,320	28,540	30,510[2]	29,230[2]
Married couples allowance				
Entitlement partner born before 6 April 1935;				
Relevant partner born after 5 April 1948	37,050	35,850	34,890[6]	32,990[6]
Relevant partner born after 5 April 1938 but before 6 April 1948	38,050	37,970	39,680[7]	37,920[7]
Relevant partner born before 6 April 1938	38,370	38,290	40,000[8]	38,220[8]

Type of relief	2014–15 £	2013–14 £	2012–13 £	2011–12 £
Blind person's allowance	2,230	2,160	2,100	1,980
Life assurance relief (policies issued before 14 March 1984)[9]	12.5% of premiums	12.5% of premiums	12.5% of premiums	12.5% of premiums
'Rent-a-room' limit	4,250	4,250	4,250	4,250

Notes

(1) For 2012–13 and earlier years, entitlement to the basic personal allowance was by reference to age under 65 in the tax year. Individuals born after 5 April 1948 were aged under 65 on 5 April 2013 and remain entitled to only the basic allowance from 2013–14 onwards.

(2) For 2012–13 and earlier years, entitlement to higher age related personal allowances was based on attaining age 65-74, or age 75 and over, in the tax year. Individuals born before 6 April 1948 but after 5 April 1938 attained age 65–74 during 2012–13 and individuals born before 6 April 1938 attained age 75 or over during 2012–13. Entitlement to either the age 65–74 or 75 and over higher personal allowance continues (but the amounts are frozen) for those individuals so entitled at 5 April 2013.

(3) From April 2010, the personal allowance is gradually withdrawn for income over £100,000 at a rate of £1 of allowance lost for every £2 over £100,000 until it is completely removed (ITA 2007, s. 35).

(4) Relief is given as a tax reduction at a rate of 10 per cent.

(5) The married couple's allowance is available only where at least one partner reached the age of 65 before 6 April 2000, i.e. was born before 6 April 1935. That partner will have become 75 at some point during 2009–10 and therefore will be entitled to the higher amount of the allowance for that tax year and subsequent tax years, i.e. for those aged 75 or over.

(6) Relevant partner aged under 65 in the tax year.

(7) Relevant partner aged 65-74 in the tax year.

(8) Relevant partner aged 75 or over in the tax year.

(9) By relief at source. Abolished for payments becoming due and payable on or after 6 April 2015, and payments becoming due and payable before 6 April 2015 but actually paid on or after 6 July 2015 (FA 2012, s. 227 and Sch. 39, para. 23).

1-110 High income child benefit charge

(ITEPA 2003, s. 681B-H)

(Tax Reporter: ¶490-075)

The high income child benefit charge applies from 7 January 2013 to individuals whose income exceeds £50,000 who are themselves, or whose partner is, in receipt of child benefit. The charge is levied on the partner with the highest income, irrespective of which partner claims the child benefit. The charge is calculated as the 'appropriate percentage' of child benefit payments received during the tax year (but for 2012–13 restricted to amounts received after 7 January 2013 only) which equates to one per cent of the amount of child benefit received for every £100 of income over £50,000. From 2013–14, coding out of the charge is possible.

Adjusted Net Income	Appropriate percentage
£60,000 and over £60,000 and over	100%
£50,001–£59,999	ANI–L %
	X
Below £50,000	Nil

Where:

ANI = Adjusted Net Income

L = £50,000

X = £100

Adjusted Net Income is calculated as:

- net income (total income charged to income tax less income tax reliefs);
- less grossed up (at basic rate) gift aid donations;
- less gross pension contributions (before deduction of basic rate tax);
- add back any relief for payments to trade unions or police organisations (ITEPA 2003, s. 457 or ITEPA 2003, s. 458) deducted in calculating net income.

Child benefit[(1)]	**2014–15 £/week**	**2013–14 £/week**	**2012–13 £/week**
Eldest qualifying child	20.50	20.30	20.30
Each other child	13.55	13.40	13.40

Note

(1) Individuals who elected not to continue to receive child benefit before 7 January 2013 were not liable for the charge for 2012–13 and individuals who opted out by 28 March 2013 were not liable for the charge for 2013–14. For 2014–15, individuals who opt out and whose payments stopped before the beginning of the tax year will not be liable for the charge and will otherwise be liable only for the period until payments stop.

1-120 Cap on income tax relief

(ITA 2007, s. 24A)

(Tax Reporter: ¶148-450)

From 6 April 2013, a limit applies to the amount of certain income tax reliefs that may be deducted from income under *Income Tax Act* 2007, s. 24. The limit does not apply to charitable reliefs.

From	Amount of cap
6 April 2013	greater of;
	—£50,000, or
	—25% of income

Note

[1] The limit applies for the tax year 2013–14 and subsequent tax years, and additionally, where loss relief is claimed for a tax year before 2013–14 in relation to losses made in 2013–14 or a later year. However, the limit does not apply in relation to property loss relief arising from a loss made in 2012–13 where the loss is claimed for relief against general income in the tax year 2013–14.

Limited reliefs	Legislation
Trade loss relief against general income (excluding relief for losses attributable to overlap relief and Business Premises Renovation Allowances (BPRA)) [and excluding deductions so far as made from profits of the trade or business to which the relief relates – see next table]	ITA 2007, s. 64
Early trade loss relief (first four years of trade, profession or vocation; excluding relief for losses attributable to overlap relief and BPRA) [and excluding deductions so far as made from profits of the trade or business to which the relief relates – see table below]	ITA 2007, s. 72
Post-cessation trade relief (qualifying payments or qualifying events within seven years of the permanent cessation of the trade) [and excluding deductions so far as made from profits of the trade or business to which the relief relates – see table below]	ITA 2007, s. 96
Property loss relief against general income (property business losses arising from capital allowances or agricultural expenses; excluding relief for losses attributable to BPRA) [and excluding deductions so far as made from profits of the trade or business to which the relief relates – see table below]	ITA 2007, s. 120
Post-cessation property relief (qualifying payments or qualifying events within seven years of the permanent cessation of the UK property business) [and excluding deductions so far as made from profits of the trade or business to which the relief relates – see table below]	ITA 2007, s. 125
Employment loss relief against general income (certain circumstances where losses or liabilities arise from employment)	ITA 2007, s. 128
Former employees deductions for liabilities (payment made by former employees for which they are entitled to claim a deduction from their general income in the year in which the payment is made)	ITEPA 2003, s. 555
Share loss relief on non EIS/SEIS shares (capital losses on the disposal, or deemed disposal, of certain qualifying shares)	ITA 2007, Pt. 4, Ch. 6

Losses on deeply discounted securities (losses on gilt strips and on listed securities held since at least 26 March 2003)	ITTOIA 2005, s. 446, ITTOIA 2005, s. 454(4)
Qualifying loan interest (interest paid on certain loans including loans to buy an interest in certain types of company or to invest in a partnership)	ITA 2007, Pt. 8, Ch. 1
Excluded reliefs	**Legislation**
Deductions attributable to business premises renovation allowances	CAA 2001, Pt. 3A
Deductions so far as made from profits of the trade or business to which the relief relates in respect of;	
• trade loss relief	ITA 2007, s. 64
• early trade loss relief	ITA 2007, s. 72
• post-cessation trade relief	ITA 2007, s. 96
• property loss relief	ITA 2007, s. 120
• post-cessation property relief	ITA 2007, s. 125
Deductions so far as attributable to a deduction for overlap relief profit in final tax year or on change of accounting date (allowed under s. 205 or 220 of ITTOIA 2005) in respect of;	
• trade loss relief	ITA 2007, s. 64
• early trade loss relief	ITA 2007, s. 72
Deductions for amounts of relief for share losses;	ITA 2007, Pt. 4, Ch. 6
• where the shares in question are qualifying shares to which EIS relief is attributable	ITA 2007, s. 13(2)(a)
• where SEIS relief is attributable to the shares in question	ITA 2007, Pt. 5A
• where SITR relief is attributable to the shares in question	ITA 2007, Pt. 5B

1-150 Gifts of assets

Nature of asset	Legislation	Effect of relief
Stock manufactured or sold by trader that is given to charity, etc. (Tax Reporter: ¶226-650)	CTA 2009, s. 105; ITTOIA 2005, s. 108	No amount is brought into account as trading receipt as result of the donation
Plant and machinery used by trader given to a charity, etc. (Tax Reporter: ¶238-235)	CAA 2001, s. 63	Disposal value is nil for capital allowances purposes