HMRC overview

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This overview highlights some of the key announcements made by the Chancellor in his Summer budget speech which will affect HMRC`s customers. It is not a comprehensive summary of every proposal and you should refer to Chapter 2 of the main Budget Report and other supporting documents for full details. The relevant Chapter 2 paragraph references are included with each heading.

Tax lock

2.53 Tax lock – The government will legislate to set a ceiling for the main rates of income tax, the standard and reduced rates of VAT, and employer and employee (Class 1) NICs rates, ensuring that they cannot rise above their current (2015-16) levels. The tax lock will also ensure that the NICs Upper Earnings Limit cannot rise above the income tax higher rate threshold; and will prevent the relevant statutory provisions being used to remove any items from the zero rate of VAT and reduced rate of VAT for the duration of this Parliament.

Personal tax and welfare

Income tax and National Insurance contributions

2.54 Personal allowance increase – The government will increase the income tax personal allowance from £10,600 in 2015-16 to £11,000 in 2016-17. It will increase to £11,200 from 2017-18.

2.56 Higher rate threshold increase – The government will increase the higher rate threshold from £42,385 in 2015-16 to £43,000 in 2016-17 and to £43,600 in 2017-18. The NICs Upper Earnings Limit will also increase to remain aligned with the higher rate threshold.

2.57 Dividend taxation – The government will abolish the Dividend Tax Credit from April 2016 and introduce a new Dividend Tax Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

2.58 Reform of the Wear and Tear Allowance – From April 2016, the government will replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets. The government will publish a technical consultation before the summer.

2.59 Restricting finance cost relief for landlords – The government will restrict the relief on finance costs that individual landlords of residential property can get to the basic rate of tax. The restriction will be phased in over 4 years, starting from April 2017.

2.60 Increasing the level of the Rent-a-Room relief – The government will increase the level of Rent-a-Room relief from £4,250 to £7,500 from April 2016.

2.61 Increasing the employer National Insurance contributions Employment Allowance by £1,000 – The government will increase the annual Employment Allowance from £2,000 to £3,000. This will come into effect from April 2016.

2.63 Abolishing non-domicile status for long domicile residents – The government will legislate so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for tax purposes. A detailed note explaining these proposals has been published alongside the Summer Budget. A technical consultation will be published later in the year.

2.64 Eligibility of non-domicile status for UK born individuals – From April 2017, individuals who are born in the UK to parents who are domiciled here, will no longer be able to claim non-domicile status whilst they are resident in the UK.

Savings and pensions

2.81 Secondary market for annuities – Following consultation, the government has decided to delay implementation of this measure until 2017, in order to ensure there is a robust package to support consumers in making their decision. It will set out further plans for introducing this measure in the autumn.

2.82 Lifetime Allowance for pension contributions – The government will reduce the Lifetime Allowance for pension contributions from £1.25 million to £1 million from 6 April 2016. Transitional protection for pension rights already over £1 million will be introduced alongside this reduction to ensure the change is not retrospective. The Lifetime Allowance will be indexed annually in line with CPI from 6 April 2018.

2.83 Pensions: reduced Annual Allowance for top earners – The government will restrict the benefits of pensions tax relief for those with incomes, including pension contributions, above £150,000 by tapering away their Annual Allowance to a minimum of £10,000. This policy will come into effect from April 2016.

2.84 Pensions tax relief – The government will consult on whether and how to undertake a wider reform of pensions tax relief.

Inheritance tax

2.88 Inheritance tax and the main residence nil-rate band – The government will introduce an additional nil-rate band when a residence is passed on death to direct descendants. This will be £100,000 in 2017-18,

£125,000 in 2018-19, £150,000 in 2019-20, and £175,000 in 2020-21. It will then increase in line with CPI from 2021-22 onwards. Any unused nil-rate band will be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants. This element will be the subject of a technical consultation. There will also be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

2.89 Inheritance tax and the nil-rate band – The inheritance tax nil-rate band is currently frozen at £325,000 until April 2018. The government will continue to freeze the nil-rate band at £325,000 until April 2021.

2.90 Inheritance tax on UK residential property of non-domiciles, including non-domiciles who are not UK resident – The government will legislate to ensure that, from April 2017, inheritance tax is payable on all UK residential property owned by non-domiciles, regardless of their residence status for tax purposes, including property held indirectly through an offshore structure. A more detailed note setting out the scope of this proposals has been published alongside the Summer Budget. A full detailed consultation will follow later this year.

2.91 Inheritance tax and non-domiciles – The government will bring forward the point at which an individual who is classed as a non-domicile is deemed domiciled for inheritance tax purposes to 15 out of 20 years. It will also treat individuals who were born in the UK to parents who are domiciled here, as UK domiciled whilst they are in the UK. This aligns inheritance with the changes to the income tax and capital gains tax regime. This will take effect from April 2017.

Welfare

2.100 Tax credit debt recovery – The government will make the tax credits system fairer, by improving the powers it has to recover tax credit debts, including by:

••making the recovery of tax credits debt more efficient; HMRC will recover overpayments of Working Tax Credit from payments of Child Tax Credit, and recover overpayments of Child Tax Credit from payments of Working Tax Credit

••expanding the enforcement of tax credits debt. HMRC will extend the use of the private sector to improve the collection of tax credit debt; this will target tax credit debt in excess of £3,000 that has already passed the Extending Tax Credits debt collection process

2.101 Changes to taper rates in tax credits – From April 2016 the taper rate in tax credits will be increased from 41% to 48% of gross income. Once claimants earn above the income threshold in tax credits, their award will be withdrawn at a rate of 48 pence for every extra pound earned.

2.102 Changes to tax credits income thresholds and Universal Credit work allowances – From April 2016 the income threshold in tax credits will be reduced from £6,420 to £3,850 per year. Work allowances in Universal Credit will be abolished for non-disabled childless claimants, and reduced to £192 per month for those with housing costs and £397 per month for those without housing costs. Claimants earning below these amounts will retain their maximum award.

2.103 Limit Child Element in tax credits and Universal Credit – The Child Element of tax credits and Universal Credit will no longer be awarded for third and subsequent children born after 6 April 2017. This will also apply to families claiming Universal Credit for the first time after April 2017. Households who have been in receipt of tax credits or Universal Credit, with an interruption of less than 6 months, will be protected. Furthermore, children with disabilities will continue to receive the Disabled Child Element or Severely Disabled Child Element in tax credits and the equivalent in Universal Credit. Multiple births will be protected in both systems. The Department for Work and Pensions and HMRC will develop protections for women who have a third child as the result of rape, or other exceptional circumstances. Consequential changes will be made in Housing Benefit from April 2017.

2.104 Income rise disregard in tax credits – From April 2016 the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted (the income rise disregard) will be reduced from £5,000 to £2,500.

2.107 Removing the Family Element in tax credits, the first child premium in Universal Credit and the Family Premium in Housing Benefit – From April 2017, the Family Element in tax credits and the equivalent in Universal Credit will no longer be awarded when a first child is born. This will also apply for families with children making their first claim to Universal Credit. Households who have been in receipt of tax credits or Universal Credit with an interruption of less than 6 months will be protected. Furthermore, children with disabilities will continue to receive the Disabled Child Element or Severely Disabled Child Element in tax credits and the equivalent in Universal Credit. In Housing Benefit, the family premium will be removed for new claims and new births from April 2016.

2.115 Benefits uprating – Most working-age benefits will be frozen for 4 years from April 2016. This will apply to Jobseekers' Allowance; Employment and Support Allowance; Income Support; Child Benefit; applicable amounts for Housing Benefit; and Local Housing Allowance rates, with provision for high rent areas. This excludes Maternity Allowance; Statutory Sick Pay; Statutory Maternity Pay; Statutory Paternity Pay; Statutory Shared Parental Pay; and Statutory Adoption Pay; disability, carers and pensioners' premia in the frozen benefits; the Employment and Support Allowance Support Group component; and other disability, carer and pensioner benefits, which will continue to be uprated in relation to prices or earnings as applicable.

2.116 Tax credits uprating – The uprating freeze will extend to the Child Tax Credit and Working Tax Credit (excluding disability elements). All disability elements will continue to be uprated by prices each year.

Corporate tax

2.117 Corporation tax rates – The government will reduce the corporation tax rate from 20% to 19% in 2017 and 18% in 2020.

2.118 Corporation tax payment dates – The government will introduce new payment dates for companies with annual taxable profits of £20 million or more. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group. Affected companies will be required to pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period. The measure will apply to accounting periods starting on or after 1 April 2017. The government will publish legislation in draft in the autumn.

2.120 Capital allowances: Annual Investment Allowance (AIA) – The government will increase the permanent level of the AIA from £25,000 to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

2.121 Research and development (R&D) tax credits: universities and charities – The government will correct an anomaly in the R&D tax credits legislation so that universities and charities are unable to claim the R&D Expenditure Credit (RDEC), in line with the original intention of the policy. This will apply to expenditure from 1 August 2015.

2.124 Restriction of corporation tax relief for business goodwill amortisation – The government will restrict the corporation tax relief a company may obtain for the cost of 'goodwill' (the reputation and customer relationships associated with a business). This will affect all acquisitions and disposals on or after 8 July 2015.

2.125 Business tax roadmap – The government will publish a Business tax roadmap by April 2016, setting out its plans for business taxes over the rest of the Parliament.

2.126 Bank corporation tax surcharge – The government will introduce a supplementary tax on banking sector profit of 8% from 1 January 2016. The tax will apply to banks' corporation tax profit before the use of any existing carried-forward losses. The tax will not apply to the first £25 million of profit within a group.

2.127 Bank levy reform – The government will reduce the full bank levy rate from 0.21% to 0.18% in 2016, 0.17% in 2017, 0.16% in 2018, 0.15% in 2019, 0.14% in 2020 and 0.10% in 2021. The government will also legislate in this Parliament to change the tax base to UK operations from 1 January 2021.

Indirect taxes

2.133 Insurance premium tax standard rate – From 1 November 2015, the standard rate of insurance premium tax (IPT) will be increased by 3.5 percentage points to 9.5%. From this date all premiums received by insurers using the IPT cash accounting scheme will be charged at 9.5%. For insurers using the special accounting scheme, there will be a 4 month concessionary period that will begin on 1 November 2015 and end on 29 February 2016, during which premiums received that relate to policies entered into before 1 November 2015 will continue to be liable to IPT at 6%. From 1 March 2016 all premiums received by insurers will be taxed at the new rate of 9.5%, regardless of when the policy was entered into.

2.138 Tobacco levy – Following a period of consultation, the government will not proceed with a tobacco levy as the impacts on the tobacco market would be the same as a duty rise but with added complexity, costs and delay.

2.140 Tackling illicit tobacco abroad – The government will expand its Fiscal Crime Liaison Officer network and the supporting UK intelligence staff in order to reduce the supply of illicit tobacco from Europe, enhance our overseas footprint and further develop international collaboration and partnerships.

2.141 Tackling illicit tobacco – As part of the refreshed tobacco strategy the government will expand the number of criminal investigation teams in HMRC working on tobacco fraud by 50% and recruit additional Crown Prosecution Service staff to manage additional prosecutions.

2.142 Tackling illicit alcohol – The government will set up a new national alcohol control room and introduce a mobile taskforce in order to tackle alcohol fraud.

Environment and energy taxes

2.150 Climate Change Levy (CCL) – The government will remove the Climate Change Levy exemption for renewably sourced electricity from 1 August 2015. There will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date. The government will discuss the details of this transitional period with stakeholders over the summer and autumn, to determine an appropriate length for it.

2.166 Making tax easier – The government will publish a roadmap by the end of the year showing how it will transform tax administration for individuals and small businesses over this Parliament. Over the summer, HMRC will begin discussing the policy choices underpinning this roadmap with key stakeholders and delivery partners, including small businesses and customer representatives.

HMRC debtor and creditor interest rate

2.167 Simplification of HMRC debtor and creditor interest rate – The government will set the rate of interest which applies on taxation-related debts payable under a court judgment or order by HMRC to a rate equal to the Bank of England base rate plus 2%. The government will also apply the late payment interest rate of 3% to taxation-related debts owed to HMRC under a court judgment or order. These changes will apply to new and pre-existing judgments and orders in respect of interest accruing on and after 8 July 2015.

Tax avoidance and tax planning, evasion and compliance

Tax evasion, fraud and compliance

2.168 Financial Intermediaries writing to their customers in advance of receipt of data under the Common Reporting Standard – The government will legislate to require financial intermediaries (including tax advisers) to notify their customers about the Common Reporting Standard, the penalties for evasion and the opportunities to disclose.

2.170 Direct recovery of debts – This government will introduce legislation to modernise and strengthen HMRC's powers to recover tax and tax credit debts directly from debtors' bank and building society accounts, including funds held in cash ISAs. Having widely consulted.This measure will be subject to robust safeguards including a county court appeal process and a face-to-face visit to every debtor before they are considered for debt recovery through this measure.

2.171 Criminal investigations – The government will increase funding to HMRC by a total of over £60 million by 2020-21 to allow HMRC to step up criminal investigations into serious and complex tax crime particularly focusing on wealthy individuals and corporates, with the aim of raising £600 million by the end of the Parliament.

2.172 Tackling the hidden economy – The government will extend HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. We will legislate at Finance Bill 2016 to achieve this, following a consultation on the detail. We will invest in new HMRC investigators from 2016 to exploit this data. The government will also create a digital disclosure channel which makes it simple for taxpayers to disclose unpaid tax liabilities.

2.173 Additional compliance resource: local compliance – The government will invest around £300 million over 5 years from 2016 to tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals. This measure will result in additional tax receipts of over £2 billion by 2020-21.

Business tax

2.176 Large business tax compliance – The government will invest additional resources in large business compliance work to further extend our efforts to tackle evasion, avoidance and aggressive tax planning by large businesses. The government will also consult on new measures to increase compliance and tax transparency in relation to large business tax strategies. These will include the introduction of a 'special measures' regime to tackle businesses that persistently adopt highly aggressive behaviours including around tax planning, and a voluntary Code of Practice defining the standards HMRC expects large businesses to meet in their relationship with HMRC.

2.177 Controlled Foreign Companies (CFC) loss relief restriction – The government will remove the ability for companies to use UK losses and reliefs against a CFC charge from 8 July 2015. This will improve the effectiveness of the CFC regime in both deterring the diversion of profits and in taxing any profits that are diverted.

2.179 Taxation of carried interest: Base cost shifting and cherry picking – The government will introduce legislation, effective from 8 July 2015, to ensure that sums which arise to investment fund managers by way of carried interest will be charged to the full rate of capital gains tax, with only limited deductions being permitted. The government will also launch a consultation to better understand the activities of collective investment schemes, to determine under what circumstances performance returns should be taxed as a capital gain. It is not anticipated this will alter the tax treatment of carried interest.

Personal tax

2.180 Additional resource to target non-compliance by wealthy individuals – The government will provide additional resource to HMRC to allow it to identify and tackle tax evasion and other non-compliance among wealthy individuals by extending HMRC’s Customer Relationship Model to individuals with net wealth between £10-20 million, and to pursue more criminal investigations against wealthy individuals evading tax. The government will also consult on enhancing the information reported to HMRC by wealthy individuals and trustees.

2.181 Additional specialist personal tax (SPT) resource – The government will invest an additional £36 million over 5 years from 2016 to tackle serious non-compliance by trusts, pension schemes and non-domiciled individuals.