Deloitte.

International Tax

United Kingdom Tax Alert

18 March 2015

Budget 2015 announced

Contacts

Bill Dodwell
bdodwell@deloitte.co.uk

Christie Buck
cbuck@deloitte.co.uk

The UK chancellor announced his final budget of this parliament on 18 March 2015. The chancellor had the advantage of making the announcement off the back of a range of positive economic indicators—record low inflation, record high employment numbers and very strong growth forecasts. However, this has to be balanced against a national deficit that has fallen slower than expected and, at the heart of the budget, is a renewed focus on eradicating this deficit. A general election will be held on 7 May 2015, and in advance of that election, the chancellor's emphasis in this budget is on the importance of responsible borrowing against the backdrop of the deficit. That said, the budget continues the reform of the taxation of savings, building on prior year announcements, by introducing new tax exemptions. The key budget measures affecting foreign multinational groups are summarized below.

For detailed coverage and comment on the budget, visit Deloitte's dedicated website at www.ukbudget.com.

Business tax

Diverted profits tax (DPT): The chancellor announced that the draft DPT legislation published in December 2014 has been revised and he reconfirmed that the new law will come into force on 1 April 2015. The announcements indicate that the notification requirement has been narrowed, with some additional revisions to clarify the position for the granting of credit where overseas tax is paid, the operation of the conditions under which a charge can arise, specific exclusions and the application of DPT in the context of companies within the oil and gas regime.

The revised draft legislation is expected on 24 March 2015 with updated guidance to be issued in the following week. The law will be enacted for UK GAAP, US GAAP and IFRS purposes before 31 March 2015. Consideration, therefore, should be given to the extent to which DPT should be taken into account for provision purposes.

***OECD Base Erosion and Profits Shifting (BEPS) initiative*:** There were no new announcements with regard to BEPS other than to confirm that authority will be given to introduce country-by-country reporting in Finance Act 2015. The expected start date continues to be 1 January 2016, as set out by the G20/OECD. There was no update on the introduction of legislation in respect of hybrid mismatches, with the commencement date for the new legislation still expected to be 1 January 2017.

Corporation tax rate: The chancellor confirmed that the headline UK tax rate will reduce from 21% to 20% on 1 April 2015 and reiterated his commitment to maintaining this rate. This reduction has been enacted and, therefore, already should have been reflected for financial statement purposes.

Capital allowances: The annual investment annual allowance was scheduled to reduce to GBP 25,000 (from the current GBP 500,000) with effect from 1 January 2016. The chancellor has not confirmed what the rate will be from 1 January 2016, but has confirmed that the allowance will be greater than GPB 25,000. More details are expected in the Autumn Statement later this year.

Industry-specific measures: The chancellor made a number of announcements intended to generate investment across the UK:

- *Oil and gas relief* – A range of measures were announced aimed at supporting the UK oil and gas sector by reducing the rate of petroleum revenue tax from 50% to 35% and the supplementary charge from 30% to 20%. The consolidation of existing and further tax incentives will generate further investment in this sector. More details are expected on 19 March 2015.
- *Creative sector relief* – The creative sector relief will be extended to the existing reliefs for high-end television, and film tax, along with the introduction of the new orchestra relief and children's television relief.
- *Banking sector* – Conversely, the Chancellor announced plans to introduce legislation under which banks will not be allowed to deduct the compensation their pay customers for missold products. There also will be an increase to the bank levy from 0.156% to 0.21% for short-term chargeable liabilities, and an increase from 0.078% to 0.105% in respect of chargeable equity and long-term chargeable liabilities. These measures follow on from the Autumn Statement, which included a restriction to 50% of the annual taxable profits of a bank that can be sheltered by brought forward losses.

Anti-avoidance

The chancellor announced that he is expecting to raise GBP 5 billion by 2017/2018 by renewing the government's focus on combatting tax avoidance, evasion and aggressive tax planning. A broad range of measures announced in the 2014 Autumn Statement are supplemented by the following:

- A series of measures aimed at tackling offshore tax evasion, including steps to implement the UK's automatic exchange of information with overseas authorities under which specified financial institutions are required to provide information on account holders to the UK authorities;
- Further tightening of the disclosure of tax avoidance scheme provisions;
- Legislation specifically targeting those who repeatedly enter into tax avoidance schemes; and
- Strengthening the general anti-abuse rule (GAAR) by the addition of a tax-geared penalty aimed at cases dealt with under the terms of the GAAR.

In addition, the following business tax-focused announcements were made:

Prevention of loss refresh: Legislation will be included in Finance Bill 2015 to address perceived avoidance under which companies obtain a tax advantage by entering into artificial arrangements that convert brought forward trading losses, management expenses or nontrade deficits on loan relationships into more flexible current year losses. If the conditions stipulated by the legislation are satisfied, the losses will not be available to shelter current year profits. This measure has effect from 18 March 2015.

Capital allowances for plant and machinery: New legislation will be introduced aimed at perceived avoidance to ensure that capital allowances are available only where capital expenditure is incurred. The types of transaction that are identified as being within the scope of this new law are connected party transactions, sale and leaseback transactions, and transfer and subsequent hire purchase/long-funding leaseback transactions, including transactions with overseas connected parties. This measure has effect from 26 February 2015.

Compliance

The chancellor announced the following measures with the aim of improving compliance:

- The paper personal tax return is to be replaced by an online digital tax account. Further details will be released later in 2015.
- The government is considering responses to the recently closed consultation process regarding the management of tax audits by the UK tax authorities. Proposals were announced in the Autumn Statement that would allow for certain elements of the audit to be agreed and closed, whilst other elements remained open.