SQUIRE SANDERS

# THE PRIVATE CLIENT PERSPECTIVE

## Some Christmas cheer from the chancellor.

Well, it looked like a Budget and sounded like a Budget – and we even have a draft Finance Bill next week – so I guess it was a Budget. George made it sound so good that you could almost believe everything is OK – and the dark looks from Vince Cable made it even more plausible. It is a pity we only have this theatre twice a year. The chancellor obviously wanted to be helpful but it shows how desperate he must be when he makes a big deal about increasing the inheritance tax nil rate band from £325,000 to £329,000 – from 2015. My heart rather sank at this point.

However, it was not all doom and gloom. The reduction in the pension tax relief to £40,000 (in 2014) was not as bad as expected although he did reduce the lifetime cap to £1.25 million.

The increase in the personal allowance and the CGT exemption are all welcome – but the higher rate tax threshold is going down next year by £2,300. I could have sworn that he said that it was going up –and when I checked I find that he did. Just at the point where he said 'I want to be completely clear with people' he said that 'the higher rate threshold will be increased ... so the income at which people start paying the 40% rate will go up to £41,865'. However, this figure (of course) includes the personal allowance so what he means is that the higher rate tax threshold will be reduced in 2013.

Mr Osborne has clearly taken on board that high tax rates generate lower tax revenues (HMRC have given him the figures for last year just to prove the point)and he gave the merest hint that maybe the reduction in the top tax rate of 50% to 45% is only the beginning– but perhaps I am clutching at straws.

He has some tax loopholes in his sights and a handful will be closed immediately such as income tax relief for non trade patent royalties. HMRC are investigating the abusive use of partnerships,but no further details are available. There will be an improved DOTAS regime and lots more tax officers will be engaged on the detection of tax evasion. HMRC will be publishing their strategy for offshore evasion in Spring 2013 which goes along with their proposal to look more closely at offshore employment intermediaries.

The general anti-abuse rule is to be enacted next year (with appropriate amendments to the 'double reasonableness test') and it remains to be seen whether this will help or hinder the proper application of the tax rules.

And of course there is Switzerland and the Swiss Cooperation Agreement which is coming into force on 1 January. There are great hopes for an increase in tax yield. I am sure this will be true – if only from the tax on the increased profits made by tax advisers for the thousands of disclosure forms which are being submitted on behalf of clients.

It is however, helpfully confirmed that any funds received by HMRC under the Swiss agreement will not be treated as taxable remittances where they are made in respect of foreign domiciled individuals.

We have to wait until next week to see what is happening with the proposals for UK residential property worth more than £2m held by non natural persons. Any thoughts that the annual charge might have been withdrawn were soon dispelled. It is definitely being introduced. It is true that the annual charge will be a completely new tax, and it will be on property, and it is also true that in his speech the chancellor said 'we won't introduce a new tax on property'. (I think he was wanting to be completely clear). What he meant is that he will be introducing a new tax on property. It won't be a 'mansion tax' charging a new tax on expensive property; it will be an 'annual charge' – a new tax on expensive property. Any resemblance to a mansion tax is entirely coincidental.

The Statement did contain one really chilling statistic. The top 5% of earners pay 50% of the total income tax receipts. I hope this worries Mr Osborne – because it looks incredibly dangerous to me.

## Contact

**Peter Vaines**
Barrister
T +44 20 7655 1780
E peter.vaines@squiresanders.com