2014 Finance Act – Quick round up of the most important changes

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The changes announced by the Chancellor in this year's Budget have now been incorporated into the 2014 Finance Act.

Below are some of the changes which will affect companies and individuals:

Key changes for companies

1. Reduction to corporation tax
The main rate of corporation tax (CT) has been reduced to 21% for the financial year commencing on 1st April 2014 and will be further reduced to 20% with effect from 1st April 2015. This will bring it into line with the small companies' rate of 20% so that SMEs and large companies will all pay the same rate of corporation tax.

2. Enhancement to R&D tax credits
With effect from 1st April 2014 the rate of the R&D tax credit claimable by SMEs has been increased from 11% to 14.5% of the surrenderable loss. According to HMRC's definition, a SME for this purpose is a company or organisation with fewer than 500 employees, and either and annual turnover not exceeding €100 million, or a balance sheet total not exceeding €86 million.

If you are an innovative company undertaking projects to develop new services or products, you may be eligible for R&D tax relief. Find out if you could benefit by taking our quick R&D tax credits qualifier on our website

3. Temporary increase to the annual investment allowance (AIA)
A temporary increase to the AIA, to £500,000, came into effect from 1st April 2014. Caution is needed when claiming this relief because for many companies the increase will straddle an accounting period, meaning the amount of AIA available will be apportioned. The apportionment calculation can be complex so it is worth checking the amount of the relief available in your accounting period.

4. Extension to business premises renovation allowances (BPRA)
The rules governing renovation of business premises have been revised and it is now possible to reclaim 100% of any expenditure incurred in order to return business premises that were previously vacant into usable commercial space. BPRA is a potentially valuable allowance in the right circumstances and is one of the few tax reliefs not affected by the income tax relief capping measures introduced last year. However, BPRA is particularly aimed at helping to regenerate deprived areas and expenditure only qualifies if the building is situated in a disadvantaged area; has been unused for a year immediately before the conversion or renovation begins; and has not previously been used as a dwelling.

Key changes for individuals

1. Reduction to private residence relief period for capital gains tax
Gains made when selling a property that has been your principal private residence (PPR) continue to be exempt from capital

gains tax. Where the property ceases to be your PPR the final 36 months of ownership have also historically qualified for the PPR exemption. With effect from 6th April 2014 this exemption period has been reduced to 18 months. Any periods of ownership falling outside the main PPR exemption and the extended 18 month exemption period are chargeable to capital gains tax at either 18% or 28% depending on your income levels. If a property has been both your PPR and has been let, you will also qualify for 'lettings relief' and should take advice on the amount that can be claimed.

The 36-month final period of ownership remains exempt if the property title-holder is a disabled person or living in a care home at the time of the disposal. Remember that you are also entitled to claim the annual capital gains tax exemption, which is increased to £11,000 for 2014/15 and £11,100 for 2015/16.

2. Seed Enterprise Investment Scheme is extended
The availability of tax relief under the Seed Enterprise Investment Scheme (SEIS) has been extended indefinitely. Investors can claim income tax relief of 50% on an investment of up to £100,000 in a qualifying startup company. Gains on sales of other assets that are realised and invested in SEIS shares qualify for 50% exemption. And there is no capital gains tax liability on gains on the disposal of shares which have been held for at least 3 years in SEIS qualifying companies.

There are complicated qualifying conditions associated with SEIS (and with EIS) investments to ensure investors can actually benefit from the tax relief expected, which we have blogged about in the past.

If you would like to discuss any of the changes to the tax legislation or your own tax planning in detail please contact Lesley Stalker.