FINANCE (No. 2) BILL

EXPLANATORY NOTES

Explanatory notes

Introduction

1. These explanatory notes relate to the Finance (No. 2) Bill as introduced into Parliament on 14 March 2023 (Bill 179). They have been prepared jointly by HM Revenue and Customs and HM Treasury in order to assist the reader in understanding the Bill. They do not form part of the Bill and have not been endorsed by Parliament.

2. The notes need to be read in conjunction with the Bill. They are not, and are not meant to be, a comprehensive description of the Bill. So, where a section or part of a section does not seem to require any explanation or comment, none is given.

3. In the view of HM Government, there are only six clauses of Finance (No. 2) Bill that do not apply to the whole of the UK. The clauses that do not apply to the whole of the United Kingdom relate to Income Tax (clauses 2-3) and Stamp Duty Land Tax (clauses 7-10).

4. The Chancellor is of the view that the Bill as introduced into the House of Commons does not contain provision which, if enacted, would affect trade between Northern Ireland and the rest of the United Kingdom. Accordingly, no statement under section 13C of the European Union (Withdrawal) Act 2018 has been made.

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Clause 1: Income tax charge for tax year 2024-25

Summary

1. This clause imposes a charge to income tax for the year 2024-25.

Details of the clause

2. Clause 1 introduces a charge to income tax for the tax year 2024-25.

Background note

3. Income tax is an annual tax. It is for Parliament to impose income tax for a tax year.

Clause 2: Main rates of income tax for tax year 2024-25

Summary

1. This clause sets the main rates of income tax for the tax year 2024-25.

Details of the clause

2. Clause 2 sets the basic, higher, and additional rates of income tax for 2024-25.
3. This clause provides that the main rates of income tax for 2024-25 are: the 20% basic rate, the 40% higher rate and the 45% additional rate.

Background note

4. Income tax is an annual tax. It is for Parliament to impose income tax for a tax year.
5. This clause sets the main rates, which will apply to non-savings, non-dividend income of taxpayers in England and Northern Ireland. Income tax rates on non-savings, non-dividend income for Welsh taxpayers are set by the Welsh Parliament. The UK main rates of income tax are reduced for Welsh taxpayers by ten pence in the pound on this income, and the Welsh Parliament sets the Welsh rates of Income Tax, which are added to the reduced UK rates. Income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers are set by the Scottish Parliament.

Clause 3: Default and savings rates of income tax for tax year 2024-25

Summary

1. This clause sets the default rates and savings rates of income tax for the tax year 2024-25.

Details of the clause

2. Subsection (1) provides the default rates of income tax for 2024-25: the 20% default basic rate, the 40% default higher rate, and the 45% default additional rate.
3. Subsection (2) provides the savings rates of income tax for 2024-25: the 20% savings basic rate, the 40% savings higher rate, and the 45% savings additional rate.

Background note

4. Income tax is an annual tax. It is for Parliament to impose income tax for a tax year.
5. This clause sets the default rates which will apply to non-savings, non-dividend income of taxpayers who are not subject to the main rates of income tax, Welsh rates of income tax, or Scottish income tax. It also sets the savings rates which will apply to savings income of all UK taxpayers.
6. Income tax rates on non-savings, non-dividend income for Welsh taxpayers are set by the Welsh Parliament.
7. Income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers are set by the Scottish Parliament.

Clause 4: Freezing starting rate limit for savings for tax year 2024-25

Summary

1. This clause sets the starting rate limit for savings for 2024-25 tax year.

Details of the clause

2. Clause 4 provides that for the tax year 2024-25 section 21 of the Income Tax Act 2007 (ITA 2007) (indexation) does not apply in relation to the starting rate limit for savings set out in section 12(3) of the ITA 2007. The starting rate limit for savings for the tax year 2024-25 therefore remains at £5,000.

Background note

3. The starting rate for savings can apply to an individual's taxable savings income (such as interest on bank or building society deposits). The extent to which an individual's savings income is liable to tax at the starting rate for savings, rather than the basic rate of income tax, depends upon the total of their 'non-savings' income (including income from employment, profits from self-employment and pensions income). If an individual's non-savings income is more than their personal allowance plus the starting rate limit for savings, the starting rate is not available for that tax year. Where an individual's non-savings income in a tax year is less than the personal allowance plus the starting rate limit, their savings income is taxable at the starting rate up to the starting rate limit.

4. Savings income tax is charged at the 0% starting rate for savings, rather than the basic rate of income tax, up to the starting rate limit.

5. This clause sets the starting rate limit for savings for 2024-25 at £5,000. This clause does not override section 21 of the Income Tax Act (ITA) 2007 in relation to the starting rate limit for savings for 2025-26 and subsequently.

6. The starting rate of income tax and the starting rate limit are not devolved matters.

Clause 5: Increase in thresholds to £60,000 and £80,000

Summary

1. This clause increases the adjusted net income threshold for the high income child benefit charge to £60,000, with effect from the 2024-25 tax year. The clause also amends the rate at which the high income child benefit charge applies for individuals with adjusted net incomes between £60,000 to £80,000 in a tax year.

Details of the clause

2. Subsection (1)(a) amends section 681B(1)(a) of Income Tax (Earnings and Pensions) Act (ITEPA) 2003, by increasing the adjusted net income threshold where a person becomes liable to the high income child benefit charge to £60,000.
3. Subsection (1)(b) provides that the amount of the charge by reference to the appropriate percentage formula in section 681C(2)(b) applies to adjusted net incomes above £60,000.
4. Subsection (2) amends section 681C(2)(b), the calculation of the appropriate percentage, by increasing it to £200 so that the charge increases one per cent for every £200 above £60,000.
5. Subsection (3) provides for these changes having effect from the 2024/25 tax year.
6. Subsection (4) treats any Child Benefit claim made on or after 6 April 2024 but before 8 July 2024, and where payments are backdated into the 2023/24 tax year, as entitlement in the 2024/25 tax year.
7. Subsections (5)(a) provides that subsection (4) will not apply if an individual has no liability to the high income child benefit charge in the 2023/24 tax year.
8. Subsection (5)(b) provides that subsection (4) does not apply if the taxpayer so elects.
9. Subsection (6) provides that an individual may make an election only if, in the absence of an election, their liability to the high income child benefit charge in the 2024/25 tax year would exceed their liability for the 2023/24 tax year.
10. Subsection (7) provides that the interpretation provision in section 681H(3) of ITEPA 2003 applies to this section in the same way as it does for the purposes of Chapter 8 of Part 10 of ITEPA 2003 which imposes the high income child benefit charge .

Background note

11. This clause makes amendments to the high income child benefit charge, introduced by Finance Act 2012, and will come into effect from 6 April 2024, for 2024/25 and subsequent tax years.

12. The high income child benefit adjusted net income threshold is increased to £60,000.
13. For individuals with income above £80,000, the amount of the tax charge will equal the amount of the child benefit received.
14. For individuals with income between £60,000 and £80,000, the amount of the charge will equal one per cent of the Child Benefit received in that year, for every £200 of income that exceeds £60,000.
15. Where child benefit claims made between 6 April and 8 July 2024 are backdated into the 2023/24 tax year, the entitlement to Child Benefit will be treated as if the payments were made in the 2024/25 tax year, if the backdating would otherwise create a high income child benefit charge in the 2023/24 tax year.
16. Where an individual's liability in the 2024/25 tax year would exceed their liability in the 2023/24 tax year as a result of deeming the backdated 2023/24 entitlement as being paid in 2024/25, they can elect for this not to apply.

Clause 6: Reduction in higher CGT rate for residential property gains to 24%

Summary

1. This clause applies to residential property gains made by individuals, trustees and personal representatives. It reduces the higher rate of capital gains tax (CGT) that applies to such gains from 28% to 24%. The new rate will apply to disposals made on or after 6 April 2024. The lower rate will remain at 18%. The CGT rates that apply to carried interest gains remain unchanged.

Details of the clause

2. Subsection (1) makes changes to Section 1H of the Taxation of Chargeable Gains Act 1992 (TCGA), which sets out the main rates of CGT.
3. Subsection (1)(a) inserts a new subsection (1A). This provides that the higher rate of CGT for residential property gains made by individuals is 24% and the lower rate 18%.
4. Subsection (1)(c) inserts a new subsection (4A). This provides that the rate of CGT that applies to residential property gains made by personal representatives is 24%.
5. Subsections (1)(b) and (d) omit various references to the previous rates of CGT for residential property gains.
6. Subsection (1)(e) provides that the rate of CGT that applies to residential property gains made by trustees of a settlement is 24%.
7. Subsection (2) makes various changes to Section 1I of the TCGA, which explains how an individual's unused income tax basic rate band is applied to chargeable gains accruing in the same year. The effect of these changes is to make clear that the higher rate of CGT that applies to residential property gains is 24%.
8. The changes to Sections 1H and 1I retain the 18% and 28% CGT rates for carried interest gains.
9. Subsection (3) explains that these changes apply to disposals made on or after 6 April 2024.

Background note

10. Since April 2016 CGT has been charged at the following rates:

- 10% to the extent that the chargeable gains qualify for entrepreneurs' relief or investors' relief.
- For assets other than residential property and carried interest:

    - 10% where a person's gains are within their basic rate band.
    - 20% to the extent that the individual is a higher rate taxpayer or their gains exceed the unused part of their basic rate band
    - 20% for trustees and personal representatives
- For residential property and carried interest:
    - 18% where a person's gains are within their basic rate band.
    - 28% to the extent that the individual is a higher rate taxpayer or the gains exceed the unused part of their basic rate band
    - 28% for trustees and personal representatives

11. To encourage residential property disposals the higher rate of CGT of 28% that applies to such disposals when made by individuals, trustees and personal representatives is being reduced to 24% which will apply to disposals made on or after 6 April 2024. The lower rate will remain at 18%. The rates of CGT that apply to carried interest remain unchanged.

Clause 7: Abolition of multiple dwellings relief for SDLT

Summary

1. This clause abolishes multiple dwellings relief (MDR), a relief from Stamp Duty Land Tax (SDLT) available on the purchase of two or more residential properties in a single or linked transactions. This change will apply to purchases of dwellings in England and Northern Ireland which have an effective date of transaction on or after 1 June 2024.

Details of the clause

2. Subsection (1) repeals the MDR provisions at section 58D and Schedule 6B to the Finance Act (FA) 2003.
3. Subsection (2) makes consequential changes needed because of the abolition of MDR.
4. Subsection (3) provides that the amendments made by this clause apply to land transactions with an effective date which falls on or after 1 June 2024.
5. Subsection (4) provides that MDR can still be claimed for a land transaction if -
    - the contract is substantially performed before 1 June 2024. (Substantial performance occurs when the purchaser takes possession of the whole, or substantially the whole, of the subject matter of the contract, or a substantial amount of the consideration is paid.), or
    - contracts were exchanged on or before 6 March 2024.
6. Subsection (5) excludes from the exceptions at subsection (4) situations where after 6 March 2024 –
    - there is a variation of the contract, or assignment of rights under the contract;
    - the transaction is effected as a consequence of the exercise of any option, right of pre-emption or similar right;
    - there is an assignment, sub sale or other transaction relating to the whole or part of the subject matter of the contract as a result of which a person, other than the purchaser under the contract, becomes entitled to call for conveyance.

    Where any of the above exclusions apply, the transaction must complete before 1 June 2024 to qualify for MDR.
7. Subsection (6) to (8) deal with linked transactions (those which form part of the same

scheme, arrangement or series of transactions between the same vendor and purchaser or persons connected with them). Under existing SDLT rules, any transaction linked to an earlier transaction or transactions can impact the SDLT payable in respect of each of those linked transactions. This subsection has the effect that where tax was calculated using the MDR rules in relation to linked transactions which occurred before the effective date of this clause, later transactions cannot be treated as being linked to those earlier transactions.

8. Subsections (9) and (10) provide that the Treasury may make regulations, no later than 1 February 2025, to the effect that the amendments made by this clause do not apply to land transactions which occur on or after 1 June 2024 if they are of a type specified in those regulations. The regulations would be subject to the negative resolution procedure.

Background note

9. SDLT is a tax on the purchase of land or property in England and Northern Ireland. Ordinarily the amount of tax chargeable is calculated on the basis of the total amount paid (the consideration given) for the land and property in question.

10. MDR was introduced in 2011 to reduce a barrier to investment in residential property and promote private rented sector housing supply. MDR allows the purchaser to reduce their SDLT when purchasing more than one residential property ('dwelling') in the same transaction or in related 'linked transactions'. This is done by calculating the SDLT based on the average value of each dwelling as opposed to their combined value. The effect is that the SDLT payable is similar to the amount payable had those dwellings been purchased in separate transactions from different vendors.

11. A stage 1 consultation was published on 30 November 2021 on options to tackle the abuse of MDR. Subsequent to that consultation, the government commissioned an external evaluation of MDR as part of HMRC's Tax Reliefs Evaluation Programme. The evaluation found little evidence that the relief achieves its original policy aims in a cost-effective way.

12. This clause abolishes MDR for land transactions which complete, or which substantially perform, on or after 1 June 2024. Special transitional rules apply to protect purchasers who exchanged contracts on or before 6 March 2024, regardless of when completion of the purchase takes place. This is subject to various exclusions, for example that there is no variation of the contract after that date. Special transitional rules also apply to linked transactions so that transactions occurring after abolition of MDR cannot be treated as linked to earlier transactions where tax was calculated in line with the MDR rules.

13. This clause also provides that the Treasury may make regulations, but not later than 1 February 2025, to specify that certain land transactions are not affected by the abolition of MDR.

Clause 8: First-Time buyers' relief from SDLT: acquisition of new lease on bare trust

Summary

1. This clause makes changes to the rules for claiming First-time Buyers' Relief from Stamp Duty Land Tax (SDLT) in cases where the purchaser is buying a new lease via a bare trust or nominee. It applies to purchases of dwellings in England and Northern Ireland with an effective date on or after 6 March 2024.

Details of the clause

2. Subsection (2) inserts new paragraph 3A into Schedule 6ZA to the Finance Act (FA) 2003. This provides for the conditions for claiming First-time Buyers' Relief to be applied to the purchaser of the lease and not to the nominee/trustee.
3. Subsection (3) inserts new subparagraph 6(3) into Schedule 6ZA FA 2003, which amends the definition of "first-time buyer". Under the new definition, individuals who have previously purchased a new residential lease using a bare trust or nominee arrangement will be unable to claim First-time Buyers' Relief.
4. Subsection (4) explains that the changes made by subsection (2) apply to land transactions with an effective date on or after 6 March 2024.
5. Subsection (5) explains that the changes made by subsection (3) apply to land transactions with an effective date on or after 6 March 2024, unless the contract for the transaction is agreed on or before 6 March 2024, and not excluded.
6. Subsection (6) defines the exclusions relating to subsection (5). These are where after 6 March 2024:
    a. there is a variation of the contract, or assignment of rights under the contract;
    b. the transaction is effected as a consequence of the exercise of any option, right of pre-emption or similar right;
    c. there is an assignment, sub-sale or other transaction relating to the whole or part of the subject matter of the contract as a result of which a person, other than the purchaser under the contract, becomes entitled to call for conveyance

Background note

7. SDLT is a tax on purchases of land in England and Northern Ireland. Purchasers are charged at a percentage of the consideration they pay for an interest in land (e.g., the price paid for the property).
8. The legislation relating to SDLT is set out in Part 4 of the Finance Act 2003 with the

rules relating to First-time Buyers' Relief at section 57B and Schedule 6ZA to the Act.

9. First-time Buyers' Relief was introduced in 2017 for transactions with an effective date on or after 22 November 2017. The relief means that reduced rates of tax are paid by first-time buyers purchasing a home they intend to use as their main or only residence.

10. Under special rules introduced in 2005, where a person purchases a new lease over a residential property and uses a nominee or bare trust arrangement to make their purchase, the nominee or trustee is treated as the purchaser for SDLT. This applies to grants of leases only – purchases of freeholds and of existing leases are unaffected.

11. As a result of those special rules, the purchaser of the new lease is unable to claim First-time Buyers' Relief on their purchase. The changes made by this clause mean that relief can be claimed if the purchaser of the lease meets the conditions for relief. The clause also makes changes to the definition of first-time buyer for the purposes of the relief, so that individuals who have used such nominee or bare trust arrangements previously are no longer considered to be first-time buyers.

12. The clause applies to land transactions which complete or are substantially performed on or after 6 March 2024. Special transitional rules apply to the changes to the definition of "first-time buyer" where contracts have been exchanged on or before 6 March 2024.

Clause 9: Exemption from SDLT: registered providers of social housing etc

Summary

1. This clause amends out of date references and definitions used in legislation relating to the Stamp Duty Land Tax (SDLT) exemption for registered providers of social housing. This ensures that all registered providers of social housing who purchase property with the assistance of a public subsidy are not liable for SDLT. The clause also updates the list of public subsidies to include receipts from the disposal of social housing which have been permitted to be retained and recycled for social housing.

Details of the clause

2. Subsection (1) sets out that section 71 of the Finance Act 2003 is amended.

3. Subsection (2) amends the heading of section 71 of the Finance Act 2003 to replace "registered social landlord" with "registered providers of social housing etc".

4. Subsection (3) replaces "the relevant housing provider is controlled by its tenants" with "the purchaser is a non-profit registered provider of social housing controlled by its tenants" to reflect that this is the only type of registered provider of social housing which can be controlled by its tenants.

5. Subsection (4) amends the definition of "relevant housing provider" to make clear that this includes housing associations registered in the register maintained under Article 14 of the Housing (Northern Ireland) Order 1992 and local authorities in England that are registered providers of social housing.

6. Subsection (5) replaces all references to "relevant housing provider" in subsection (2) of section 71 of the Finance Act 2003 with "non-profit registered provider of social housing".

7. Subsection (6) removes reference to housing action trusts which no longer exist and to bodies in Scotland from the list of qualifying bodies because SDLT does not apply to land transactions in Scotland. It also replaces the reference to "the Department for Social Development in Northern Ireland" with "the Department for Communities in Northern Ireland" to reflect a machinery of government change in Northern Ireland.

8. Subsection (7) amends the definition of "public subsidy" to remove specific references to public subsidy which apply to Scotland and Wales only, reflecting that SDLT does not apply in Scotland or Wales.

9. Subsection (8) amends the definition of "public subsidy" to include receipts from the disposal of social housing, where those receipts are permitted by the purchaser to be used for the provision of social housing. This subsection also removes wording relating to the meaning of "social housing".

10. Subsection (9) inserts new subsection (6) with the meaning of "social housing" and

"English local authority".

11. Subsection (10) removes the definition of "registered social landlord" in section 121 of the Finance Act 2003, which is no longer relevant following these amendments.

12. Subsection (11) removes "registered social landlord" from the index of defined expressions in section 122 of the Finance Act 2003.

13. Subsection (12) provides that the changes made by subsections (2) to (11) apply to land transactions with an effective date on or after 6 March 2024.

14. Subsection (13) makes consequential amendments to section 150 of the Finance Act 2013 (annual tax on enveloped dwellings: relief for providers of social housing etc).

Background note

15. SDLT is a tax on purchases of land in England and Northern Ireland. Purchasers are charged a percentage of the consideration they pay for an interest in land (e.g., the price paid for the property).

16. The legislation relating to SDLT is set out in Part 4 of the Finance Act 2003. Section 71 of the Act provides an exemption from SDLT for certain acquisitions by registered providers of social housing. The purpose of this exemption is to support the provision of social housing by registered providers.

17. This clause ensures that the exemption from SDLT for certain acquisitions by registered providers of social housing is up to date following changes to social housing legislation. This includes updating the definitions of registered providers of social housing to remove uncertainty for some registered providers of social housing (such as local authorities) as to their eligibility for the exemption. It also makes clear that the exemption applies for all registered providers where public subsidy is recycled for the provision of new social housing. This ensures that the exemption continues to operate as intended.

Clause 10: Purchases by public bodies not to be subject to special 15% rate of SDLT

Summary

1. This clause removes public bodies from the Stamp Duty Land Tax (SDLT) 15% higher rate charge that applies to certain transactions.

Details of the clause

2. Subsection (1) amends paragraph 3 of Schedule 4A to the Finance Act 2003 to remove public bodies from the higher rate for certain transactions. It provides that the conditions for applying the higher 15% rate of SDLT are not met where the purchaser is a public body. It provides that the definition at section 66 of the Act is to be used to determine whether a person is a public body.

3. Subsection (2) provides that the changes made by subsection (1) apply to land transactions with an effective date on or after 6 March 2024.

Background note

4. SDLT is a tax on purchases of land in England and Northern Ireland. Purchasers are charged a percentage of the consideration they pay for an interest in land (for example, the price paid for the property).

5. The legislation relating to SDLT is set out in Part 4 of the Finance Act 2003. Schedule 4A to the Act sets out the 15% higher rate that applies to the acquisition of dwellings for more than £500,000 by a 'non-natural person', such as a company. Alongside the Annual Tax on Enveloped Dwellings (ATED), the 15% higher rate is designed to deter the purchase of residential property within a corporate wrapper for no commercial purpose.

6. This clause removes public bodies from the scope of the SDLT 15% higher rate charge. This is consistent with the treatment of public bodies in ATED which does not apply to public bodies.

Clause 11: Treatment of non-UK agricultural property and woodlands for IHT purposes

Summary

1. This clause restricts the scope of agricultural property relief and woodlands relief to property located in the UK only.

Details of the clause

2. Subsection (2) removes references to the Channel Islands and the Isle of Man with regards to the treatment of agricultural tenancies for inheritance tax (IHT) purposes from section 16(1) Inheritance Tax Act (IHTA) 1984.

3. Subsections (3) and (4) make amendments to section 115 IHTA 1984 and section 116 IHTA 1984 respectively. The amendments provide that agricultural relief is only available to UK property.

4. Subsection (5) amends section 125 IHTA 1984. The amendments provide that woodland relief is only available to UK property.

5. Subsection (6) reverses the changes made by section 122 Finance Act 2009.

6. Subsection 7(a) provides that the legislation will have effect on transfers of value made on or after 6 April 2024.

7. Subsection (7)(b) provides that the legislation will have effect in relation to occasions on or after 6 April 2024 on which tax falls to be charged under Chapter 3 of Part 3 of IHTA 1984.

Background note

8. Changes in Finance Act 2009 expanded the scope of agricultural property relief and woodlands relief to property located in the European Economic Area (EEA) to ensure IHT legislation was compatible with EU law. As announced at Spring Budget 2023, now that the UK has left the EU, the government is reversing those changes and restricting the scope of agricultural property relief and woodlands relief from inheritance tax to property in the UK from 6 April 2024. Any lifetime transfers made before 6 April 2024 will continue to benefit from the rules in place at the time the transfer is made.

9. The clause makes a further change to remove the anachronistic expansion of agricultural property relief in 1975 to agricultural property located in the Channel Islands and Isle of Man. This was to reflect changes to the deemed domicile rules in 1974 which meant that those moving from the UK to the Channel Islands and Isle of Man were deemed to be domiciled in the UK and subsequently their worldwide estate would fall within the scope of IHT in the event of their death.

10. The 1974 deemed domicile provisions were later removed in 1984 which meant that the estates of those who had moved from the UK to the Channel Islands and Isle of Man were no longer subject to this tax treatment. The expansion of agricultural property relief to property in these locations is therefore no longer needed. This clause removes this treatment and ensures that agricultural property relief is aligned in geographical scope with woodlands relief.

Clause 12: Charge and main rate for financial year 2025

Summary

1. This clause charges corporation tax (CT) for financial year 2025 (the financial year beginning 1 April 2025). The clause also sets the main rate of CT for financial year 2025.

Details of the clause

2. Subsection (1) charges CT for financial year 2025.

3. Subsection (2) sets the main rate of CT for financial year 2025 at 25%.

Background note

4. Parliament charges CT for each financial year. This clause charges CT for financial year 2025 and sets the main rate of CT for financial year 2025 at 25%.

Clause 13: Standard small profits rate and fraction for financial year 2025

Summary

1. This clause sets the standard small profits rate of corporation tax (CT) for the purposes of Part 3A Corporation Act 2010 (companies with small profits) and also sets the standard marginal relief fraction for financial year 2025 (the financial year beginning 1 April 2025).

Details of the clause

2. Subsection (a) sets the standard small profits rate of CT for financial year 2025 at 19%.
3. Subsection (b) sets the standard marginal relief fraction at 3/200ths for financial year 2025.

Background note

4. The standard small profits rate of tax for non-ring fence profits was introduced in section 7 and Schedule 1 to the Finance Act 2021 and applies from financial year 2023 onwards. The standard small profits rate applies to UK-resident companies (that are not close investment holding companies) with augmented profits not exceeding the lower limit of £50,000. Companies with augmented profits exceeding the upper limit of £250,000 will pay CT at the main rate. Companies with augmented profits exceeding the lower limit but not exceeding the upper limit are chargeable at the main rate but are entitled to a reduction in the CT rate known as 'marginal relief', the calculation for which requires Parliament to set a 'standard marginal relief fraction' for each financial year. The lower and upper limits are proportionately reduced by the total number of associated companies and also for accounting periods that are less than 12 months long.
5. This clause sets the standard small profits rate of CT for financial year 2025 at 19% and sets the standard marginal relief fraction for financial year 2025 at 3/200ths.

Clause 14: Additional relief for low-budget films with specified UK connection

Summary

1. This clause introduces a higher rate of expenditure credit under Part 14A of the Corporation Tax Act (CTA) 2009 for 'independent films', defined as films below a maximum budget that have either a UK director or writer or are an official international co-production. The amount of credit available is capped by reference to relevant global expenditure of £15 million.

Details of the clause

2. Subsections (1) and (2) insert new section 1179DJA in Chapter 4 of Part 14A of CTA 2009, which sets out the requirements for a production to qualify for the new rate of expenditure credit.

3. Subsection (1) of new section 1179DJA sets out that where a film meets the qualifying criteria and a satisfactory application is made to the Secretary of State, a new type of certificate will be granted: a low-budget certificate. For a film to qualify for the new credit, it must meet both the budget condition and the creative connection condition, in addition to being a British film.

4. Subsection (2) of new section 1179DJA states that there will be a maximum budget condition, with details to be set out in regulations.

5. Subsections (3) and (4) of new section 1179DJA set out the creative connection condition. To meet this condition, a film must have a UK director or scriptwriter (or a person in another role as specified in regulations), or the film must be a qualifying co-production. If the company is applying for an interim certificate, the company's proposals must demonstrate that the condition will be met upon completion.

6. Subsection (5) of new section 1179DJA provides for further details to be made via regulations about the particulars of both conditions and how they may be demonstrated to have been met.

7. Subsection (6) of new section 1179DJA allows for persons to appeal to the High Court where they disagree with a decision made by the Secretary of State in relation to low-budget certification.

8. Subsection (7) of new section 1179DJA prevents a film from holding both a low-budget certificate and any other film or television certificate at the same time. However, see subsections (6) and (7) of Clause 15 for an exception that allows for qualifying films to transition into the new regime.

9. Subsection (8) of new section 1179DJA gives production companies the ability to surrender a low-budget certificate, after which the certificate ceases to have effect for all accounting periods. Productions that surrender a low-budget certificate may be re-

certified with a different certificate and claim credit at either the main 34% rate or the uplifted 39% rate as appropriate.

10. Subsection (9) of new section 1179DJA requires a low-budget certificate to be in effect at the end of an accounting period for a film to be considered a 'certified low-budget film' for that period.

11. Subsection (10) of new section 1179DJA defines several of the terms used in the clause, and in particular states that the references to 'regulations' are those made by the Secretary of State with the approval of HM Treasury.

12. Subsection (3) allows for Revenue and Customs officials to disclose information to the Secretary of State where it pertains to the Secretary of State's function of granting low-budget certificates.

13. Subsection (4) caps the amount of relevant global expenditure that can be brought into the credit calculation (at step 1 of section 1179CA(1)), in respect of a low-budget film, at £15 million. Even if a certified low-budget film were to have expenditure in excess of this, the company would receive an amount of credit as if only £15 million had been incurred on the film. When applying the cap, UK expenditure should be included before non-UK expenditure, maximising the amount of credit available to the production company.

14. Subsection (5) sets the rate of expenditure credit for certified low-budget films at 53%.

Background note

15. The Audio-Visual Expenditure Credit (AVEC) was introduced as Part 14A of CTA 2009 by the Finance Act 2024. Additional support for independent films under AVEC was announced at Spring Budget 2024.

16. Commencement and transitional provisions for this clause are set out in Clause 15.

Clause 15: Section 14: commencement and transition

Summary

1. Clause 15 contains commencement and transitional provision for the amendments made by Clause 14: the introduction of a higher rate of expenditure credit for low-budget films with a specified UK connection, also known as 'independent films.'

Details of the clause

2. Subsection (1) sets out that films must start principal photography on or after 1 April 2024 to qualify as an independent film and be eligible for the higher rate of credit.
3. Subsection (2) prohibits companies from making a claim to the new rate of credit until 1 April 2025. Even when a company qualifies in respect of expenditure incurred prior to this date, and the film has been granted a low-budget certificate, the company must wait to make a claim until 1 April 2025. Claims can only be made in a Company Tax Return; however, this can be via an amendment to the return.
4. Subsection (3) sets out that expenditure will only be eligible for the higher rate of credit if it is incurred on or after 1 April 2024.
5. Subsections (4) and (5) set out when a company will be able to make an application for a low-budget certificate, which is required when making a claim. This date, the 'appointed day,' will be set in regulations by the Secretary of State (with HM Treasury's approval) and will be before 1 April 2025.
6. Subsections (6) and (7) introduce an exception for the transitional period to the rule in section 1179DJA(7) that prevents a film from holding both a low-budget certificate and another film or television certificate at the same time. Where the other film or television certificate was granted prior to the appointed day (when low-budget certification first became available), then it is possible for that film to also receive a low-budget certificate, providing that the application is made within 6 months of the appointed day. The original certificate ceases to have effect for future periods.
7. Subsection (8) states that when a low-budget certificate is applied for within 6 months of the appointed day, it can be treated as having been in effect at the end of an accounting period ended on or after 1 April 2024, even where the certificate was granted after that date. This is a transitional rule, as low-budget certification may not have been available by the accounting period end date.

Background note

8. The Audio-Visual Expenditure Credit (AVEC) was introduced as Part 14A of CTA 2009 by the Finance Act 2024. Additional support for independent films under AVEC was announced at Spring Budget 2024.

9. Further details of this support, including qualifying criteria and how the credit is to be calculated, are available in Clause 14.

Clause 16: Increase in theatre tax credit

Summary

1. This clause increases the amount of tax credit to which a company is entitled when it surrenders a loss of a separate theatrical trade, in accordance with section 1217K of Part 15C of the Corporation Tax Act (CTA) 2009.

Details of the clause

2. Subsection (1) amends section 1217K of CTA 2009 to permanently set the rate of credit to 45% for touring theatrical productions and 40% for non-touring theatrical productions.

3. Subsection (2) amends section 17 of the Finance Act (FA) 2022 to remove the taper rates that were due to come into effect from 1 April 2025. It also removes the ability for accounting periods straddling 1 April 2026 to be treated as split periods; because there is no longer a rate change at this date, the ability to split periods is no longer needed.

4. Subsection (3) states that the new rates will have effect for accounting periods beginning on or after 1 April 2025. Accounting periods which straddle 1 April 2025 may apply the split accounting period treatment outlined in section 17(4) of FA 2022.

Background note

5. Credit rates for the cultural reliefs – Theatre Tax Relief, Orchestra Tax Relief and Museums & Galleries Exhibition Tax Relief – were previously set at 20% and 25%. They were temporarily increased from 27 October 2021 to help the sector in its economic recovery from COVID-19. The increase was extended for a further 2 years at Spring Budget 2023. The rates were due to taper to 30% and 35% in April 2025, but will now be set permanently at 40% and 45% from that date. Productions which were unable to claim at the temporarily uplifted rates will be able to claim at the new permanent rates.

Clause 17: Increase in orchestra tax credit

Summary

1. This clause increases the amount of tax credit to which a company is entitled when it surrenders a loss of a separate orchestral trade, in accordance with section 1217RG of Part 15D of the Corporation Tax Act (CTA) 2009.

Details of the clause

2. Subsection (1) amends section 1217RG of CTA 2009 to permanently set the rate of credit to 45%.

3. Subsection (2) amends section 19 of the Finance Act (FA) 2022 to remove the taper rate that was due to come into effect from 1 April 2025. It also removes the ability for accounting periods straddling 1 April 2026 to be treated as split periods; because there is no longer a rate change at this date, the ability to split periods is no longer needed.

4. Subsection (3) states that the new rate will have effect for accounting periods beginning on or after 1 April 2025. Accounting periods which straddle 1 April 2025 may apply the split accounting period treatment outlined in section 19(4) of FA 2022.

Background note

5. Credit rates for the cultural reliefs – Theatre Tax Relief, Orchestra Tax Relief and Museums & Galleries Exhibition Tax Relief – were previously set at 20% and 25%. They were temporarily increased from 27 October 2021 to help the sector in its economic recovery from COVID-19. The increase was extended for a further 2 years at Spring Budget 2023. The rates were due to taper to 30% and 35% in April 2025, but will now be set permanently at 40% and 45% from that date. Productions which were unable to claim at the temporarily uplifted rates will be able to claim at the new permanent rates.

Clause 18: Increase in museums and galleries exhibition tax credit and removal of sunset

Summary

1. This clause increases the amount of tax credit to which a company is entitled when it surrenders a loss of a separate exhibition trade, in accordance with section 1218ZCH of Part 15E of the Corporation Tax Act (CTA) 2009. It also removes the sunset clause which prevented relief being given on expenditure incurred from 1 April 2026.

Details of the clause

2. Subsection (1) amends section 1218ZCG of CTA 2009 to remove the sunset clause which stated that expenditure must be incurred on or before 31 March 2026 to qualify for relief. Museums and Galleries Exhibition Tax Relief will be available on qualifying expenditure indefinitely.

3. Subsection (2) amends section 1218ZCH of CTA 2009 to permanently set the rate of credit to 45% for touring exhibitions and 40% for non-touring exhibitions.

4. Subsection (3) amends section 21 of the Finance Act (FA) 2022 to remove the taper rates that were due to come into effect from 1 April 2025. It also removes the ability for accounting periods straddling 1 April 2026 to be treated as split periods; because there is no longer a rate change at this date, the ability to split periods is no longer needed.

5. Subsection (4) states that the new rates will have effect for accounting periods beginning on or after 1 April 2025. Accounting periods which straddle 1 April 2025 may apply the split accounting period treatment outlined in section 21(4) of FA 2022.

Background note

6. Credit rates for the cultural reliefs – Theatre Tax Relief, Orchestra Tax Relief and Museums & Galleries Exhibition Tax Relief – were previously set at 20% and 25%. They were temporarily increased from 27 October 2021 to help the sector in its economic recovery from COVID-19. The increase was extended for a further 2 years at Spring Budget 2023. The rates were due to taper to 30% and 35% in April 2025, but will now be set permanently at 40% and 45% from that date. Exhibitions which were unable to claim at the temporarily uplifted rates will be able to claim at the new permanent rates.

Clause 19: Energy security investment mechanism

Summary

1. This clause amends the Energy (Oil and Gas) Profits Levy Act 2022 to provide for the Energy Security Investment Mechanism (ESIM). The ESIM ensures the Energy Profits Levy (EPL) ceases if the six-month average prices for both oil and gas are at or below the ESIM threshold prices ($71.40 per barrel for oil and £0.54 per therm for gas for the financial year 2023) prior to the final day of the levy.
2. These threshold prices will be adjusted from 1 April 2024, and annually thereafter for each new financial year, by reference to the preceding December's Consumer Prices Index figure.

Details of the clause

3. Clause 19 inserts new sections 17A and 17B in the EPLA 2022 to provide for the ESIM.
4. New Section 17A provides for the circumstances when the EPL will cease to apply in relation to accounting periods ending on or before the final day of levy due to the ESIM.
5. Subsection (1) of new section 17A provides that the EPL will cease to apply if the average price of oil and the average price of gas over the same reference period are at or below the average of those prices over the 20-year period ended 31 December 2022. The average of those prices over the 20-year period is to be adjusted in accordance with new section 17B.
6. Subsection (2) of new section 17A provides that, where subsection 1 of new section 17A applies, the Treasury must make regulations to replace references to the final day of the levy in sections 1(3)(b), 7(2) and 16 of EPLA 2022 with the final day of the relevant reference period in subsection (1).
7. Subsection (3) of new section 17A specifies that this section must be read with new section 17B.
8. New section 17B makes further provision for the purposes of new section 17A.
9. Subsection (1) of new section 17B specifies that this section applies for the purposes of new section 17A.
10. Subsection (2) of new section 17B defines a reference period as a period of 6 months ending with the final day of each 'levy month'. A 'levy month' means March 2024 and every later month up to and including the month immediately before the month in which the final day of the levy falls.
11. Subsection (3) of new section 17B provides that the average price of oil and the average price of gas over a reference period is to be calculated in accordance with

regulations made by the Treasury.

12. Subsection (4) of new section 17B defines "the threshold prices" for the reference period ending on 31 March 2024 as the average price of oil and the average price of gas over the 20-year period ended 31 December 2022 as

For Oil	$71.40 per barrel
For Gas	£0.54 per therm

13. Subsection (5) of new section 17B defines "the threshold prices" for reference periods ending in the financial year 2024 as

For Oil	$74.21 per barrel
For Gas	£0.57 per therm

14. Subsection (6) of new section 17B provides that the threshold prices for reference periods ending in any other relevant financial year will be the threshold prices as determined in accordance with subsection (7). If subsection (7) requires an adjustment to be made to the threshold prices in any of the relevant financial years, such adjustment is to be made to the threshold prices as they stood for the preceding financial year.

15. Subsection (7) of new section 17B provides for an adjustment to be made to the threshold prices at the start of each relevant financial year by reference to any percentage change between the consumer prices index figure in the December immediately prior to the start of the new financial year and the consumer prices index figure for the preceding December. The adjusted threshold prices will be rounded up to the nearest whole cent or penny.

16. Subsection (8) of new section 17B requires HM Revenue and Customs to publish the threshold prices for each relevant financial year before the start of each financial year in a manner they consider appropriate.

17. Subsection (9) of new section 17B defines the following terms:

    a. "consumer prices index" as the all items consumer prices index published by the Statistics Board.

    b. "final day of the levy" as the last day of what would otherwise be the latest qualifying accounting period.

    c. "relevant financial year" as any financial year after the financial year 2024 other than the one beginning after the final day of the levy.

Background note

18. The EPL was introduced on 26 May 2022 in response to exceptionally high oil and gas prices. The EPL is a temporary 35% levy on the profits arising from the upstream production of oil and gas. It is in addition to the permanent tax regime of Ring Fence Corporation Tax which is charged at 30% and the Supplementary Charge which is charged at 10%.

19. On 9 June 2023 the ESIM was announced to give the oil and gas sector certainty that the EPL will cease to apply if prices return to historically normal levels for a sustained period. On 12 June 2023, Exchequer Secretary to the Treasury Gareth Davies MP laid a Written Ministerial Statement confirming the introduction of the ESIM. On 18 July 2023, the government published a discussion note and sought views from stakeholders on the technical detail and practical application of the ESIM. At Autumn Statement 2023, the government published a Summary of Responses and a Technical Note.

20. The government has been monitoring oil and gas prices for the purposes of the ESIM since 9 June 2023.

21. Following Royal Assent to Spring Finance Bill 2024, the government will make regulations to provide for the detail of how the reference price will be calculated. If the conditions of the ESIM are met, the Treasury will make regulations to end the EPL.

Clause 20: Collective investment schemes: co-ownership schemes

Summary

1. This clause gives the Treasury the power to make regulations providing tax rules for Reserved Investor Funds (Contractual Schemes) (RIFs).

Details of the clause

2. Subsection (1) gives the Treasury the power to introduce by regulations tax rules for a co-ownership scheme which is a RIF. A RIF is defined as a co-ownership scheme which meets specified conditions (including those that the Treasury may introduce by regulations).
3. Subsection (2) makes further provision regarding what those conditions may include.
4. Subsections (3) to (6) contain supplementary provisions and definitions.

Background note

5. At Spring Budget 2020, the government launched a review of the UK funds tax and regulatory regimes. The review has an overarching objective to identify options to make the UK a more attractive location to set up, manage and administer funds, and which would support a wider range of more efficient investments that are better suited to investors' needs.
6. This clause enables the Treasury to introduce tax rules for a new type of investment fund, the RIF, through regulations. The RIF will be designed to complement and enhance the UK's existing funds regimes by meeting industry demand for a UK-based unauthorised contractual scheme with lower costs and more flexibility than the existing authorised contractual scheme.

Clause 21: Economic crime (anti-money laundering) levy

Summary

1. This clause increases the amount of economic crime (anti-money laundering) levy (the levy) due from persons who fall within the very large band of the levy. The very large band includes all persons who carry out a regulated business and have UK revenue of more than £1 billion.

Details of the clause

2. Subsection (1) increases the amount of the levy due from a person whose UK revenue for the financial year is very large (defined as being more than £1 billion) from £250,000 to £500,000.

3. Subsection (2) specifies that the increased amount due will be for the financial year 2024 and subsequent years. This means it will apply to relevant accounting periods that end on or after 1 April 2024.

Background note

4. The levy was first announced at Spring Budget 2020 and legislated in Finance Act 2022. This amendment was announced at Spring Budget 2024.

5. A regulated business means one carried on by a person by virtue of being a relevant person within the meaning of regulation 8(1) of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017/692).

Clause 22: Transfers of assets abroad

Summary

1. This clause introduces a provision to ensure that UK tax cannot be avoided where a UK resident close company, or a non-resident company that would be close if it were UK resident ("a closely-held company"), is used to avoid the transfer of assets abroad (ToAA) provisions. The provision will apply to income arising on or after 6 April 2024.

Details of the clause

2. Subsection (1) sets out that Chapter 2 of Part 13 of Income Tax Act 2007 (ITA07) is amended.
3. Subsection (2) introduces new section 720A. This new section provides that, in situations where a transfer is made by a closely-held company in which an individual has a qualifying interest, then that individual may be subject to a charge under section 720 ITA 07.
4. Subsection (2)(1) explains the purpose of the new section 720A.
5. Subsection (2)(2) provides that the charge will only apply if the individual is involved in the company, and the avoidance condition is met.
6. Subsection (2)(3) defines in what circumstances an individual will have a qualifying interest in a closely-held company for the purposes of this section.
7. Subsection (2)(4) outlines when an individual is to be treated as involved in a company.
8. Subsection (2)(5) explains when the avoidance condition is met in relation to a relevant transfer made by the closely-held company for section 720A to apply. Both parts (a) and (b) of the avoidance condition must be met.
9. Subsection (2)(6) defines "relevant participator" for the purposes of these provisions.
10. Subsection (2)(7) provides that any arrangements set up to ensure a person is not involved in the decision making of a company are to be disregarded if the main purpose, or one of the main purposes, is to not meet the avoidance condition. This ensures that any arrangements are conducted for genuine purposes and not to avoid a liability to taxation.
11. Subsection (2)(8) provides that any arrangements that are set up with the main purpose, or one of the main purposes, of the transfer being to not meet the avoidance condition are to be disregarded. As with subsection (2)(7), the purpose of this subsection is to ensure that any objections or non-awareness of tax avoidance by an individual are genuine.

12. Subsection (2)(9) provides further definitions of "arrangements" and "taxation" for this section.
13. Subsection (3) introduces new section 727A. This new section provides that, in situations where a transfer is made by a closely-held company in which an individual has a qualifying interest, then that individual may be subject to a charge under section 727 ITA 07.
14. Subsection (3)(1) outlines the purpose of the new section 727A.
15. Subsection (3)(2) provides that the charge will only apply if the individual is involved in the company, and the avoidance condition is met.
16. Subsection (3)(3) defines in what circumstances an individual will have a qualifying interest in a closely-held company for the purposes of these provisions.
17. Subsection (3)(4) outlines when an individual is to be treated as involved in a company.
18. Subsection (3)(5) outlines when the avoidance condition is met in relation to a relevant transfer made by the closely-held company for section 727A to apply. All parts (a) and (b) of the avoidance condition must be met.
19. Subsection (3)(6) defines "relevant participator" for the purposes of these provisions.
20. Subsection (3)(7) provides that any arrangements set up where the main purpose, or one of the main purposes, is to ensure that a person is not involved in the decision making of a company are to be disregarded. This ensures that any arrangements are conducted for genuine purposes and not to avoid a liability to taxation.
21. Subsection (3)(8) provides that any arrangements that are set up where the main purpose, or one of the main purposes, is so that the transfer does not meet the avoidance condition are to be disregarded.
22. Subsection (3)(9) provides further definitions of "arrangements" and "taxation" for this section.
23. Subsection (6) introduces new section 719A which provides other definitions in the Chapter.
24. Subsection (7) makes an amendment to section 749 ITA 07, replacing "a body corporate to which subsection (6) applies" with "a closely-held company whose business does not consist wholly or mainly of the carrying on of a trade or trades". This subsection concerns the relevant lawyers in connection with transfers made by UK residents to closely-held companies outside the United Kingdom.
25. Subsection (8) makes an amendment to section 750 ITA 07, substituting "a body corporate to which section 749(6) applies" with "a closely-held company whose business does not consist wholly or mainly of the carrying on of a trade or trades". This subsection concerns the banks acting in connection with transfers made by UK residents to closely-held companies outside the United Kingdom.

26. Subsection (9) allows appeals to be made to a tribunal on decisions by an officer of Revenue and Customs as to whether an individual is treated as involved in closely-held companies.

27. Subsection (10) outlines that these amendments have effect in relation to income arising on or after 6th April 2024.

Background note

28. At Spring Budget 2024, the government announced a change to the ToAA legislation. This clause aims to tackle avoidance arrangements and does so by closing a loophole in the ToAA provisions. This loophole allowed for the use of a company to transfer assets offshore in order to avoid UK tax.

29. The ToAA legislation is a wide-ranging anti-avoidance provision designed to prevent individuals from transferring ownership of income-generating assets to an overseas individual or entity while still being capable of benefitting from the income they generate. The legislation prevents individuals from using closely-held companies to move assets into offshore structures in a way that would remain outside the scope of the ToAA provisions.

30. The ToAA provisions apply to UK resident individuals, and as a result of this measure the tax charge may also arise where an individual has used a closely-held company to make the transfer and other conditions are met.

Clause 23: Minor VAT Amendments

Summary

1. This clause makes provision for 3 minor amendments to Value Added Tax (VAT) legislation.

2. Following the digitisation of the DIY housebuilders’ scheme, as announced at Spring Budget 2023, this clause amends section 35 (refund of VAT to persons constructing certain buildings) of the Value Added Tax Act 1994 (“VATA”). It gives His Majesty’s Revenue and Customs (HMRC) Commissioners a clear power to require further evidential documentation from a person who has submitted a DIY housebuilders' claim. The power will apply to claims made on or after the day this Act is passed.

3. This clause amends section 50 of VATA, which makes provision for modifying the application of VATA for Terminal Markets. This clause will enable the modernisation of the Value Added Tax (Terminal Markets) Order 1973 (SI 1973/173) (TMO). These changes to the power will come into effect at Royal Assent.

4. This clause also amends Part 2 of Schedule 54A to the Finance Act 2009, with effect from 1 January 2023. The amendments deliver two minor changes to the legislation which governs the interaction between late payment interest and repayment interest for VAT. The changes ensure that provisions concerning the recovery of repayment interest and the “common period rules” operate as intended.

Details of the clause

5. Subsection (1) inserts a new power into section 35 of VATA, to permit HMRC Commissioners to require a person who has submitted a DIY housebuilders’ claim to produce further evidential documentation.

6. New subsection (2A) provides that where a person has made a claim for a refund under section 35 VATA, HMRC Commissioners may by notice require the person to produce such further evidence as the Commissioners may reasonably require in connection with the claim.

7. New subsection (2B) states that the notice must specify the time, form and manner in which the further evidence must be produced.

8. New subsection (2C) provides that where the documents are not produced as required, HMRC Commissioners may refuse to refund the amount of VAT (or any part of it) in respect of which the claim was made.

9. Subsection (2) provides that the amendments made by subsection (1) will have effect in relation to claims made on or after the day this Act is passed.

10. Subsection (3) amends section 50 of VATA as follows:

- In subsection 50(1) and 2(b) of VATA, “ordinarily engaged” will be substituted with “involved”.
- Subsection 50(3) of VATA will be amended to make it clear that different provisions can be made in relation to different categories of persons and different categories of commodities, covering both goods and services.

11. Subsection (4) provides for the amendment of Part 2 of Schedule 54A to the Finance Act 2009 which sets out further rules regarding late payment interest and repayment interest for VAT.
    - Subsection (4)(a) removes the definition of “VAT credit” which is no longer required.
    - Subsection (4)(b) replaces the reference to “VAT credit” with a reference to amounts of, or relating to, VAT.
    - Subsection (4)(c) amends the definition of a “common period”. The amended definition is broadened so that the “overdue payments” carrying late payment interest include amounts related to VAT, as well as VAT itself. Similarly, “relevant amount" replaces “VAT credit” to encompass other amounts carrying VAT repayment interest, rather than VAT credits exclusively.
    - Subsection (4)(c) also inserts new sub-paragraph (4) into paragraph 8 of Schedule 54A to the Finance Act 2009 to provide that HMRC may recover, as if it were late payment interest, repayment interest that has been paid but, as a result of the common period rules, ought not to have been paid.
12. Subsection (5) provides that the amendments in subsection (4) have effect from 1 January 2023. This ensures that it is as if Part 2 of Schedule 54A to Finance Act 2009 had been in its amended form for the entire duration of it having been in effect.

Background note

13. Section 35(1) and (1C) of VATA provide HMRC Commissioners with power to refund the VAT chargeable on the costs of goods and services used by DIY housebuilders in the construction of their homes. Under section 35(2), the Commissioners are not required to entertain a DIY claim unless the claim is accompanied by evidence specified in regulations. This clause gives the Commissioners the power to require further evidential documentation after a DIY claim has been submitted to assist them in validating claims and carrying out compliance checks.
14. At the Spring 2023 Tax Administration and Maintenance Day, the Government announced its intention to modernise the TMO. The Government then consulted from the 18 July to 14 September 2023 on the proposed legislative reform of the TMO. This clause takes that commitment forward and will enable the modernisation of the TMO, providing greater clarity and certainty in relation to the VAT treatment of commodity transactions traded on either commodity exchanges or market associations. A summary of responses to the consultation will be published in due course.

15. At Spring Budget 2021, the government announced a new penalty regime for VAT and Income Tax Self-Assessment (ITSA) and, for VAT, changes to the rules on interest. The reforms introduce a common approach to penalties and interest across VAT and ITSA. The new interest rules for VAT commenced on 1 January 2023, by virtue of The Finance Act 2009, Finance (No. 3) Act 2010 and Finance Act 2021 (Value Added Tax) (Interest) (Appointed Days) Regulations 2022 (S.I. 2022/1277). After implementing these changes, minor defects in the legislation were identified, which subsections 4 and 5 of this clause correct.

16. One correction ensures that the “common period rules” apply equally to all late payment interest payable, and all repayment interest paid, in relation to VAT. This prevents the unintended exclusion of cases where interest is payable on VAT penalties, or is paid by HMRC on amounts other than repayment VAT returns.

17. The other correction concerns HMRC’s power to recover repayment interest as if it were late payment interest. It ensures that the power applies equally to all repayment interest paid in relation to VAT, rather than being restricted to amounts paid in respect of repayment VAT returns. It also ensures that repayment interest that has become overpaid as a result of the “common period rules” can be similarly recovered.

Clause 24: Collective money purchase arrangements

Summary

1. This clause amends HM Revenue and Customs' existing regulation making powers to ensure the correct tax treatment for all sums or assets transferred from a collective money purchase (CMP) scheme in the process of winding up can be provided.

Details of the clause

2. Subsection (2) amends section 169 (1F) of the Finance Act 2004. This amendment ensures that the regulation making powers properly cater for the range of situations which may arise where a CMP scheme may be discharging its liabilities and winding up.

3. Subsections (3) to (7) make consequential amendments to Part 4 of FA 2004 following the changes to the regulation making power.

Background note

4. The Pension Schemes Act 2021 introduced legislation to allow CMP pension schemes to operate in the United Kingdom.

5. The Finance Act 2021 introduced the tax legislation to allow this new type of pension scheme to operate as a registered pension scheme to provide its unique benefits, without the tax consequences that arise when a pension scheme is not registered.

6. Additional legislation was introduced in the Finance Act 2023 to clarify the treatment of periodic income paid by a CMP scheme during the process of being wound up and the transfer of the sums and assets used to make these payments. Legislation introduced at Finance Act 2023 also clarified the treatment of death benefits from a member over age 75 when payable to a dependant.

7. This clause will amend the recognised transfer regulation making powers to enable future secondary legislation to make provision for the treatment of funds transferred from a CMP scheme in the process of winding up.

Clause 25: Interpretation

1. This clause provides for the use of abbreviations for a variety of Acts. For example, it provides the use of 'CTA 2009' as an abbreviation for the Corporation Tax Act 2009.

Clause 26: Short title

1. This clause provides for the bill to be known as "Finance (No. 2) Act 2024" upon Royal Assent.

FINANCE (NO. 2) BILL

EXPLANATORY NOTES

These Explanatory Notes relate to the Finance (No. 2) Bill as introduced in the House of Commons on 12 March 2024 (Bill 179).

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