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And they're off...

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The next five months will be dominated by the forthcoming General Election in May. The result of this election is likely to have a major impact on tax policy and the way forward for Britain and, indeed, starting with the party conferences in the Autumn, followed by the Autumn Statement, the parties have already started jockeying for position. Tax changes are high on the agenda for all three main political parties and Withers have recently surveyed the views of leading members of the UK's wealth management industry to see what we might expect.

One of the main themes of George Osborne's Autumn Statement (for more details on the Autumn Statement see the Withers' Stop Press) and the one thing the parties agree on, is that income and inheritance taxes are likely to be reformed in the next Parliament, in addition to which a levy on high value residential property may be introduced.

The so-called 'mansion tax' has generated a number of headlines in recent months. The Conservatives nailed their colours to the mast in the Autumn Statement with their reform of SDLT. Although this reduces the tax bill on buying a house for the majority of the population, in many ways this is a mansion tax by the back door, with all properties being bought for more than £937,500 now having a larger SDLT bill than was previously the case.

This approach, i.e. a higher charge on purchase rather than regular charges, is in contrast to both the Liberal Democrats and Labour who have advocated an annual charge. The Liberal Democrats have revised their long-standing policy on mansion tax by calling for increased Council Tax bills on homes worth over £2m.

Labour, on the other hand, would impose a mansion tax on all properties worth over £2m from 'day one' if they win the election, and actually would backdate this to 6 April, the start of the tax year. Ed Balls plans to levy an average annual tax of £12,000 on over 100,000 UK home owners with immediate effect. Concerns have been widely voiced as to the imposition of a significant new tax on those who may not be cash rich, and a number of traditional Labour supporters in London in particular are very uneasy about the proposal.

84% of wealth managers surveyed do not think a mansion tax should be introduced, but notwithstanding this, it is clear that a change will be introduced, be it the changes to SDLT or a more standalone charge. The permutations with potential coalitions make this very hard to call and all owners of valuable properties will be watching the results of the election very carefully.

In general, the blurring of the distinction between tax evasion and avoidance looks set to continue. Under the GAAR, HMRC seek to distinguish between legitimate tax planning and tax arrangements which are contrived for the sole purpose of reducing or eliminating tax liability. We are yet to see the GAAR deployed and it is intended to challenge 'only egregious, or very aggressive, tax avoidance schemes'. Both Labour and the Lib Dems have indicated that they will review the GAAR for effectiveness, with the Lib Dems intending to introduce a new GAAR.

The Chancellor announced further steps to combat tax avoidance in the Autumn Statement, riding on the current climate of public opposition to almost all forms of tax planning. It is clear that now, more than ever, if you enter into a tax avoidance scheme you very much do so at your own risk.

In 2013, more tax was raised from wine drinkers than was paid in inheritance tax ('IHT'). However, with the continued increase in UK property prices, it is predicted that the number of estates that will pay IHT will double by 2019. With this in mind (and bearing in mind the effect such a policy announcement had in 2009), the Conservatives made clear their intention to raise the IHT threshold from £325,000 to £1m if elected this year. The Lib Dems favour changes to IHT on lifetime gifts and have proposed that only gifts made at least fifteen years before a person's death should be IHT free, rather than the current seven year period. A gift tax has been suggested by some for years; however, as with 82.5% of wealth managers surveyed, the majority of the public are against this and we do not expect it to feature in the next parliament.

The Conservatives have declared an intention to raise the threshold for the 40p rate of income tax from £41,000 to £50,000 by the end of the next Government, in addition to raising the tax free allowance from £10,500 to £12,500 by 2020 and merging income tax and National Insurance Contributions. Labour's flagship income tax policy is to restore the 50p rate of tax for those earning over £150,000.

The position may be different in Scotland due to the planned full devolution of income tax to the Scottish Government.

The Lib Dems have led calls to raise capital gains tax (‘CGT') for higher rate taxpayers to between 35% and 40%, while lowering the CGT exemption threshold from £10,900 to £2,500. Labour and the Conservatives have been relatively quiet on this subject. In the event that inflation increases further, the CGT system may come under strain as those holding capital will increasingly feel taxed for illusory gains.

One thing is for sure, that there will be changes and so it is a good time to review your affairs in advance of the election this year to see whether there is anything you could or should be doing.

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